

**Open Joint Stock Company
Russian Helicopters**

Unaudited interim condensed
consolidated financial statements

For the six months ended 30 June 2012

Open Joint Stock Company Russian Helicopters

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2012

Contents

Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements for the six months ended 30 June 2012.....	1
Report on review of interim condensed consolidated financial statements	2
Interim condensed consolidated financial statements for the six months ended 30 June 2012:	
Interim consolidated statement of comprehensive income.....	3
Interim consolidated statement of financial position.....	4
Interim consolidated statement of changes in equity	5
Interim consolidated statement of cash flows	7
Notes to the interim condensed consolidated financial statements	8

Open Joint Stock Company Russian Helicopters

Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements

for the six months ended 30 June 2012

The following statement, which should be read in conjunction with the independent auditor's report set out on page 2, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the interim condensed consolidated financial statements of Open Joint Stock Company Russian Helicopters and its subsidiaries (the "Group").

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the financial position of the Group as at 30 June 2012 and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board.

In preparing the interim condensed 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 IAS 34 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.

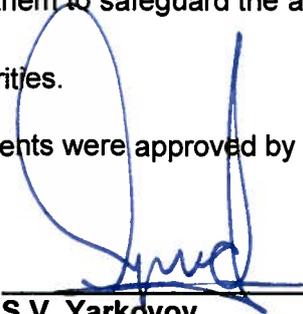
Management is also responsible for:

- ▶ 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;
- ▶ maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- ▶ taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- ▶ preventing and detecting fraud and other irregularities.

These interim condensed consolidated financial statements were approved by management on 28 September 2012:



D.E. Petrov
General Director



S.V. Yarkovoy
Deputy General Director on Finance and
Development

28 September 2012
Moscow, Russia

Report on review of interim condensed consolidated financial statements

To the shareholder of Open Joint Stock Company Russian Helicopters

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Russian Helicopters and its subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of matter

Without further qualifying our conclusion, we draw attention to Note 1 and Note 21 to the accompanying interim condensed consolidated financial statements, which indicate that the Government of the Russian Federation is the ultimate controlling party of the Group and the Group has significant transactions with parties, related by means of common control and ownership by the Government of the Russian Federation. Accordingly, the Government of the Russian Federation exercises direct and indirect influence over financial position of the Group, the results of its financial performance and its cash flows.

Ernst & Young LLC

28 September 2012

Open Joint Stock Company Russian Helicopters
Interim consolidated statement of comprehensive income

In millions of Russian Roubles

	Notes	For the six months ended 30 June 2012 (unaudited)	For the six months ended 30 June 2011 (unaudited)*
Revenue	8	60,292	42,369
Cost of sales		(36,228)	(25,023)
Gross profit		24,064	17,346
Selling, general and administrative expenses		(16,879)	(11,696)
(Impairment)/reversal of impairment of property, plant and equipment	10	(24)	97
Government grants		39	55
Other operating expenses, net		(766)	(343)
Operating profit		6,434	5,459
Finance income		127	131
Finance costs		(2,307)	(2,019)
Share in results of associates		(4)	(208)
Foreign exchange gain, net		401	573
Profit before income tax		4,651	3,936
Income tax expense	9	(1,569)	(1,229)
Profit for the period		3,082	2,707
Attributable to:			
Shareholder of the Company		2,968	1,841
Non-controlling interests		114	866
		3,082	2,707
Other comprehensive loss			
Revaluation of available-for-sale investments		(25)	–
Total comprehensive income for the period net of tax		3,057	2,707
Attributable to:			
Shareholder of the Company		2,945	1,841
Non-controlling interests		112	866
		3,057	2,707
Earnings per share			
Weighted average number of ordinary shares (including effect of split of the Company's ordinary shares)		94,994,000	94,994,000
Basic and diluted earnings per share		0.00003	0.00003

* The comparative information for the six months ended 30 June 2011 reflects adjustments made in connection with the completion of provisional accounting (refer to Note 7).

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

Open Joint Stock Company Russian Helicopters
Interim consolidated statement of financial position

In millions of Russian Roubles

	Notes	30 June 2012 (unaudited)	31 December 2011 (audited)*
Assets			
Non-current assets			
Property, plant and equipment	10	40,504	38,787
Goodwill	11	1,076	1,076
Other intangible assets	12	6,253	4,797
Investments in associates		32	35
Trade receivables		478	188
Prepayments and other receivables		1,969	2,337
Other financial assets	13	150	150
Available-for-sale securities	14	877	935
Deferred tax assets		294	289
		51,633	48,594
Current assets			
Inventories	15	27,885	25,860
Amounts due from customers under construction contracts		11,406	6,391
Trade receivables		7,937	7,475
Prepayments and other receivables	17	33,969	31,708
Income tax receivable		667	270
Other taxes receivable		8,543	6,949
Other financial assets	13	1,193	872
Cash and cash equivalents	16	10,486	12,036
		102,086	91,561
Total assets		153,719	140,155
Equity and liabilities			
Capital and reserves			
Share capital		95	95
Additional paid-in capital		8,567	8,414
Retained earnings and other reserves		17,181	13,948
Attributable to the shareholder of the Company		25,843	22,457
Non-controlling interests		2,689	2,291
		28,532	24,748
Non-current liabilities			
Loans and borrowings	19	40,069	35,142
Obligations under finance leases		276	348
Retirement benefits liability		413	370
Provisions		182	311
Deferred tax liabilities		2,590	2,400
		43,530	38,571
Current liabilities			
Loans and borrowings	19	22,291	19,318
Obligations under finance leases		247	232
Amounts due under the Military Purchase Program construction contracts	20	15,362	13,795
Amounts due to customers under construction contracts		10,501	10,986
Trade payables		4,962	5,462
Advances received and other payables		25,300	22,950
Income tax payable		896	1,463
Other taxes payable		1,150	1,670
Provisions		948	960
		81,657	76,836
Total liabilities		125,187	115,407
Total equity and liabilities		153,719	140,155

* Certain amounts do not correspond to the consolidated financial statements as at 31 December 2011 and for the year then ended and reflect reclassifications made as detailed in note 3.

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

Open Joint Stock Company Russian Helicopters
Interim consolidated statement of changes in equity

For the six months ended 30 June 2011

In millions of Russian Roubles

	Equity attributable to the shareholder of the Company				Non-controlling interests	Total	
	Notes	Share capital	Additional paid-in capital	Retained earnings			Total
Balance at 31 December 2010		95	8,414	12,084	20,593	9,594	30,187
Profit for the period		–	–	1,841	1,841	866	2,707
Other comprehensive income dividends		–	–	–	–	(426)	(426)
Increase in ownership in subsidiaries:							
OAO Kazan Helicopter Plant		–	–	(1,701)	(1,701)	(2,672)	(4,373)
OAO Rostvertol		–	–	168	168	(1,217)	(1,049)
OAO Arsenyev Aviation Company PROGRESS		–	–	(244)	(244)	388	144
OAO Kamov		–	–	(22)	(22)	22	–
Balance at 30 June 2011 (unaudited)*		95	8,414	12,126	20,635	6,555	27,190

* The comparative information for the six months ended 30 June 2011 reflects adjustments made in connection with the completion of provisional accounting (refer to Note 6).

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

Open Joint Stock Company Russian Helicopters
Interim consolidated statement of changes in equity (continued)

For the six months ended 30 June 2012

In millions of Russian Roubles

	Notes	<u>Equity attributable to the shareholder of the Company</u>					Non-controlling interests	Total
		Share capital	Additional paid-in capital	Retained earnings	Revaluation of available-for-sale investments	Total		
As at 1 January 2012		95	8,414	13,948	–	22,457	2,291	24,748
Profit for the period		–	–	2,968	–	2,968	114	3,082
Other comprehensive loss for the period		–	–	–	(23)	(23)	(2)	(25)
Dividends	18	–	–	(489)	–	(489)	(70)	(559)
Increase in ownership in subsidiaries:	7							
OAO Reductor PM	7	–	–	126	–	126	(171)	(45)
Decrease in ownership in subsidiaries:								
OAO Arsenyev Aviation Company PROGRESS	7	–	–	17	–	17	34	51
OAO Kamov	7	–	–	302	–	302	(166)	136
Assets contributed to the Group's subsidiaries by OAO OPK Oboronprom:								
OAO Kumertau Aviation Production Enterprise	7	–	153	–	–	153	–	153
Unexercised and expired put options granted to the holders of non-controlling interests in:								
OAO Arsenyev Aviation Company PROGRESS	7	–	–	55	–	55	104	159
OAO Kazan Helicopter Plant	7	–	–	277	–	277	555	832
As at 30 June 2012 (unaudited)		95	8,567	17,204	(23)	25,843	2,689	28,532

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

Open Joint Stock Company Russian Helicopters

Consolidated statement of cash flows

In millions of Russian Roubles

	Notes	For the six months ended 30 June 2012 (unaudited)	For the six months ended 30 June 2011 (unaudited)*
Operating activities			
Profit for the period		3,082	2,707
<i>Adjustments for:</i>			
Income tax expense	9	1,569	1,229
Finance income and costs, net		2,180	1,888
Depreciation and amortisation	10,12	2,134	1,411
Impairment/(Reversal) of impairment of property, plant and equipment	10	24	(97)
Foreign exchange gain, net		(401)	(573)
Change in allowance for doubtful accounts receivable		(50)	19
Write-down of inventories		340	–
Movements in retirement obligations		24	(5)
Loss on disposal of property, plant and equipment		565	151
Share in results of associates		4	208
		9,471	6,938
<i>Movements in working capital:</i>			
Increase in inventories		(2,365)	(3,876)
Increase in amounts due from customers under construction contracts		(5,015)	(7,909)
(Increase)/decrease in trade receivables		(113)	3,365
Increase in prepayments and other receivables		(1,887)	(5,901)
Increase in other taxes receivables		(1,594)	(849)
Decrease in trade payables		(771)	(860)
Increase in advances received and other payables		5,514	4,081
Decrease in amounts due to customers under construction contracts		(485)	(1,393)
Increase in amounts due under the Military Purchase Program construction contracts	20	1,567	5,107
Increase in provisions and other employee benefit obligations		322	273
Decrease in other taxes payable		(520)	(551)
Cash generated from operations		4,124	(1,575)
Interest paid		(3,935)	(2,195)
Government grants – compensation of finance costs		2,168	14
Income tax paid		(2,348)	(1,886)
Net cash generated from/(used in) operating activities		9	(5,642)
Investing activities			
Purchases of property, plant and equipment	10	(3,609)	(3,042)
Proceeds from disposal of property, plant and equipment		23	130
Purchases of intangible assets	12	(2,016)	(1,636)
Government grants compensation of capitalised development costs		244	330
Loans provided		(14)	(382)
Loans repaid		6	110
Purchases of other financial assets		(855)	(1,700)
Proceeds from sale of other financial assets		572	–
Interest received		127	131
Net cash used in investing activities		(5,522)	(6,059)
Financing activities			
Proceeds from loans and borrowings		23,215	30,814
Repayments of loans and borrowings		(15,500)	(24,040)
Principal repayments of obligations under finance leases		(323)	(232)
Acquisitions of non-controlling interests in subsidiaries	7	(3,531)	(5,093)
Contribution in share capital of the Group's subsidiaries from OAO OPK Oboronprom		51	–
Dividends paid to non-controlling shareholders	16	–	(204)
Net cash generated by financing activities		3,912	1,245
Net decrease in cash and cash equivalents		(1,601)	(10,456)
Effect of exchange rate changes on balance of cash held in foreign currencies		51	(237)
Cash and cash equivalents at beginning of the year		12,036	17,957
Cash and cash equivalents at 30 June		10,486	7,264

* The comparative information for the six months ended 30 June 2011 reflects adjustments made in connection with the completion of provisional accounting (refer to Note 7) and reclassifications made as detailed in Note 3.

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements

In millions of Russian Roubles, unless otherwise stated

1. General information

Open Joint Stock Company Russian Helicopters (the “Company”) was established on 9 January 2007 as a wholly-owned subsidiary of OAO OPK Oboronprom (“Oboronprom”), a Russian state-controlled aerospace holding company. The Company was founded with the aim to fully consolidate, manage and commercialise the Russian helicopter industry, which had remained fragmented since the disintegration of the Soviet Union. In December 2010, the Company became the legal holding company of all entities as detailed below.

The Group is the producer of civil and military helicopters and military missile systems 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.

The entities included in the Group are as follows:

Entity and its location	Nature of business	Effective ownership interest and voting rights, %			
		30 June 2012		31 December 2011	
		(1)	(2)	(1)	(2)
Group subsidiaries					
OAO Kazan Helicopter Plant (Kazan)	Producer of helicopters: Mi-8, Mi-17, Ansat	81.0	81.3	80.2	80.5
OAO Rostvertol (Rostov-on-Don)	Producer of helicopters: Mi-24, Mi-26, Mi-28, Mi-35	92.1	92.0	92.1	92.0
OAO Ulan-Ude Aviation Plant (Ulan-Ude)	Producer of helicopters: Mi-8, Mi-17	100.0	100.0	84.8	84.8
OAO Kumertau Aviation Production Enterprise (Kumertau)	Producer of helicopters: Ka-28, Ka-31, Ka-32, Ka-226	100.0	100.0	100.0	100.0
OAO Arsenyev Aviation Company PROGRESS (Arseniev)	Producer of helicopters: Ka-50, Ka-52, producer of military missile systems	93.4	93.4	93.1	93.1
OAO MIL Moscow Helicopter Plant (Moscow)	Engineering centre (for helicopters brand Mi)	74.8	80.7	74.8	80.7
OAO KAMOV (Moscow)	Engineering centre (for helicopters brand Ka)	94.5	99.8	99.8	99.8
OAO Stupino Machine Production Plant (Stupino)	Producer of helicopter allied products (for helicopter brands Mi and Ka)	61.1	80.5	61.2	80.5
OAO Reduktor-PM (Perm)	Producer of helicopter allied products (for helicopter brands Mi and Ansat)	88.2	88.2	80.8	80.8
ZAO Ulan-Ude Blade Plant (Ulan-Ude)	Producer of helicopter allied products (for helicopter brand Mi)	100.0	100.0	84.8	84.8
OAO Helicopter Innovation Industrial Company (Ulan-Ude)	Producer of helicopter allied products (for helicopter brand Mi)	100.0	100.0	84.8	84.8
OAO Novosibirsk Aircraft Repair Plant (Novosibirsk)	Helicopter repair and maintenance services (for helicopter brand Mi)	95.1	95.1	95.1	95.1
OAO Helicopter Service Company (Moscow)	Supplier of materials and spare parts	100.0	100.0	100.0	100.0
ZAO Avia Company Rostvertol Avia	Helicopter services supplier	92.1	92.1	92.1	92.1
OOO Purchase and logistic center	Supplier of materials and spare parts	100.0	100.0	–	–
Group associates					
ZAO Aktivnye Operatsyi (Moscow)	Holding company	49.0	49.0	49.0	49.0

(1) Effective ownership interest

(2) Voting rights

Details of changes in ownership are described in Note 6.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

2. Basis of preparation and changes to the Group's accounting policies

Statement of compliance

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

Basis of presentation

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for:

- ▶ Mark-to-market valuation of certain classes of financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the following amendments to IFRSs adopted by the Group, that did not have any significant impact on the accounting policies, financial position or performance of the Group:

IAS 12 – Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

IFRS 7 – Disclosures – Transfers of Financial Assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

2. Basis of preparation and changes to the Group's accounting policies (continued)

IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Restatement of Financial Statements for the year ended 31 December 2011

As described in Note 20 the Group's subsidiaries entered into long-term contracts with the Ministry of Defence to produce and deliver military helicopters. In its consolidated financial statements for the year ended 31 December 2011 the Group presented the outstanding amounts under the related credit line facilities as liabilities secured by the Russian Federation within non-current liabilities, according to their maturity, and amounts of trade receivables and amounts due under construction contracts from the Ministry of Defence within non-current assets.

As the credit line facilities are linked to the helicopters construction contracts and are automatically and not at discretion of the Group, settled as funds are transferred from the Ministry of Defence under construction contracts, the proceeds from such credit lines represent, in substance, advances received.

Therefore, at 30 June 2012, the management of the Group changed its approach to presentation of the outstanding amounts under the credit line facilities secured by the Russian Federation and of trade receivables and amounts under construction contracts due from the Ministry of Defence. The Group included the net balance of the credit lines; trade receivable and the amount due under construction contracts related to Military Purchase Program into current liabilities (refer to note 20). The comparative information as of 31 December 2011 has been revised to reflect the new presentation as follows:

31 December 2011	As previously reported	Restatement	As restated
Trade receivables, non-current	9,763	(9,575)	188
Amounts due from customers under construction contracts, non-current	4,358	(4,358)	–
Total non-current assets	62,527	(13,933)	48,594
Amounts due from customers under construction contracts, current	9,402	(3,011)	6,391
Total current assets	94,572	(3,011)	91,561
Total assets	157,099	(16,944)	140,155
Liabilities secured by the Russian Federation	30,739	(30,739)	–
Total non-current liabilities	69,310	(30,739)	38,571
Amounts due under the Military Purchase Program construction contracts	–	13,795	13,795
Total current liabilities	63,041	13,795	76,836
Total equity and liabilities	157,099	(16,944)	140,155

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

4. 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 judgements, estimates and assumptions applied by the Group in this interim condensed consolidated financial statements are not significantly changed from those applied by the Group in its consolidated financial statements as of and for the year ended 31 December 2011.

The Group performs impairment tests with respect to the non-financial assets of its cash generating unit involved in production of helicopters under Ka brand. The recoverable amount is calculated using the discounted cash flow model which is most sensitive to the the favourable, for the Group, outcome of certain ongoing tendering processes to produce helicopters under Ka brand for local and foreign customers which the management currently estimates to be probable. The negative outcome, if any, of these tenders could affect the recoverable amount of the property, plant and equipment of KUMAP and related intangible assets and result in impairment loss.

5. Currency exchange

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured in that functional currency. 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/(loss).

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

	As at 30 June 2012	As at 31 December 2011
Closing exchange rates at the year end – RUB		
1 U.S. Dollar ("USD")	32.82	32.20
1 Euro	41.32	41.67
Average exchange rates for the period – RUB		
1 USD	30.57	28.63
1 Euro	39.63	40.17

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

6. Segment information

The Group has three reportable segments, the results of which are reported on a quarterly basis and reviewed by the General Director of the Company (the “chief operating decision maker” or “CODM”). These internal reports are prepared on the same basis as the accompanying interim condensed consolidated financial statements.

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 six months ended 30 June 2012 and 2011:

	Six month ended 30 June 2012			Six month ended 30 June 2011		
	Military	Commercial	Total	Military	Commercial	Total
Helicopters	44,353	2,974	47,327	25,374	6,810	32,184
Services and support	5,462	3,839	9,301	3,351	3,244	6,595
Research and development	53	236	289	131	17	148
Other	2,614	761	3,375	2,721	721	3,442
Total	52,482	7,810	60,292	31,577	10,792	42,369

The segment revenue reported above represents revenue generated from external customers only. During the six months ended 30 June 2012 and 2011, inter-segmented sales were RUB 7,386 million and RUB 5,231 million, respectively. 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 CODM 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 amortisation, loss on disposal of property, plant and equipment and loss on/(reversal of) impairment of property, plant and equipment and to include the segment’s share of results of associates. Since adjusted EBITDA is not a standard measure under IFRS, the Group’s definition of adjusted EBITDA may differ from that of other companies.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

6. Segment information (continued)

Segment operating results (continued)

The following represents the analysis of operating results measured by adjusted EBITDA and its reconciliation to the operating profit/(loss) and profit/(loss) before tax for the six months ended 30 June 2012 and 2011:

	Six months ended 30 June 2012	Six months ended 30 June 2011*
Adjusted EBITDA		
Helicopters	7,303	4,332
Services and support	2,490	2,057
Research and development	(863)	(228)
Other	223	555
Total adjusted EBITDA	9,153	6,716
Depreciation and amortisation	(2,134)	(1,411)
Loss on disposal of property, plant and equipment	(565)	(150)
(Impairment)/reversal of impairment of property, plant and equipment	(24)	97
Share of results in associates	4	208
Operating profit per IFRS financial statements	6,434	5,460
Finance income	127	131
Finance costs	(2,307)	(2,019)
Share in results of associates	(4)	(208)
Foreign exchange gain, net	401	573
Profit before income tax per IFRS financial statements	4,651	3,937

* The comparative information for the six months ended 30 June 2011 reflects adjustments made in connection with the completion of provisional accounting (refer to Note 7)

Major customers

During the six months ended 30 June 2012 and 2011, The Group's most significant customers are state-controlled bodies, such as the Ministry of Defence and the Ministry of Emergency Situations of the Russian Federation. The Russian Federation state-controlled entities represent significantly more than 10% of the Group's consolidated revenue for each of the periods presented. Please also refer to Note 8 for further details in regard of other largest customers and countries where they are located.

Other segment information

Substantially all assets and production, management and administrative facilities of the Group are located in the Russian Federation. Geographical asset information is not reported to the CODM and accordingly is not presented as part of segmental information.

Revenue by geographical regions is disclosed in Note 8.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

7. Business combinations and changes in ownership

Increase in ownership during the six months ended 30 June 2012

OAO Reduktor-PM ("Reduktor")

On 23 January 2012, the Company acquired additional 500 ordinary shares of Reduktor for cash consideration of RUB 45 million. As a result of the transaction the Group's effective ownership in Reduktor increased from 80.8% to 88.2%. The excess of the non-controlling interests acquired over the value of the consideration paid was recognised as increase in retained earnings in the amount of RUB 126 million.

OAO Ulan-Ude Aviation Plant ("Ulan-Ude")

On 25 November 2011, in accordance with the Russian Federal Law on Joint Stock Companies the Company made a mandatory offer of RUB 81 per ordinary share to acquire the remaining non-controlling interests in Ulan-Ude. As of 31 December 2011, under the offer the Company recognised a liability in the amount of RUB 3,295 million for buy-out of 40,577,867 ordinary shares of Ulan-Ude. At 30 June 2012 the Company fully acquired the non-controlling interests in Ulan-Ude.

Decrease in ownership during the six months ended 30 June 2012

OAO Arsenyev Aviation Company PROGRESS ("Progress")

On 27 March 2012, Progress completed the issue of additional 11,827 ordinary shares at RUB 4,295 par value which were acquired by Oboronprom for cash consideration of RUB 51 million. As a result of the transaction the Group's effective ownership in Progress decreased from 94.3% to 93.4% and retained earnings increased in the amount of RUB 17 million.

OAO Kamov ("Kamov")

On 26 March 2012, Kamov completed the issue of additional 76,404,515 preference shares at RUB 1.78 par value which were acquired by Oboronprom for cash consideration of RUB 136 million. As a result of the transaction the Group's effective ownership in Kamov decreased from 99.8% to 94.5% and retained earnings increased in the amount of RUB 302 million. On the date of additional issue of the shares accumulated deficit of Kamov was RUB 3,100 million, as result of the transaction non-controlling interest decreased by RUB 166 million.

Assets contributed to the Group's subsidiaries by OAO OPK Oboronprom

OAO Kumertau Aviation Production Enterprise ("KUMAP")

On 29 March 2012, KUMAP completed the issue of additional 46,340 ordinary shares at RUB 3,301 par value which were acquired by Oboronprom for cash consideration of RUB 153 million. At 26 June 2012 Oboronprom and the Company signed a legally binding agreement that the acquired shares of KUMAP will be contributed to the Group in exchange of additional 279,116 Company's ordinary shares. Consideration of RUB 153 million paid by Oboronprom for the ordinary shares of KUMAP was reflected as an increase in additional paid-in capital during the six months ended 30 June 2012. The legal procedure of increase of share capital was completed in September 2012.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

7. Business combinations and changes in ownership (continued)

Unexercised and expired put options granted to the holders of non-controlling interests

ОАО Арсеньев Авиакомпания PROGRESS ("Progress")

On 18 October 2011, in accordance with the Russian Federal Law on Joint Stock Companies, the Company made a mandatory offer of RUB 4,770 per ordinary share to acquire the remaining non-controlling interests in Progress, effective for the period 18 October 2011 – 26 June 2012. As of 31 December 2011, under the terms of the mandatory offer the Company recognised a liability in the amount of RUB 226 million for buy-out of 47,548 ordinary shares of Progress.

On 30 March 2012, under the mandatory offer the Company acquired additional 13,038 ordinary shares of Progress for consideration of RUB 67 million. As a result of the transaction the Group's effective ownership in Progress increased from 93.1% to 94.2%. As of 30 June 2012 the remaining liability of RUB 159 million related to unexercised and expired portion of mandatory offer (put option) was derecognized; the excess of RUB 55 million of the derecognised liability over the re-instated non-controlling interests of RUB 104 million increased the Company's retained earnings.

ОАО Казанский вертолётный завод ("KHP")

On 26 December 2011, in accordance with the Russian Federal Law on Joint Stock Companies, the Company made a mandatory offer of RUB 108 per ordinary share to acquire the remaining non-controlling interests in KHP, effective for the period 26 December 2011 – 20 March 2012. As of 31 December 2011, under the terms of the offer the Company recognised a liability in the amount of RUB 3,246 million for buy-out of 30,000,002 ordinary shares of KHP.

On 20 March 2012, under the mandatory offer the Company acquired additional 1,144,684 ordinary shares of KHP for cash consideration of RUB 124 million. As a result of the transaction the Group's effective ownership in KHP increased from 80.2% to 81.0%.

On 17 April 2012, in accordance with the Russian Federal Law on Joint Stock Companies, the Company made a mandatory offer of RUB 108 per ordinary share to acquire the remaining non-controlling interests in KHP, effective for the period 17 April 2011 – 26 June 2012.

As of 26 June 2012, under the mandatory offer, the Company entered into legally binding agreements to acquire 21,168,293 ordinary shares of KHP for RUB 2,290 million. The transfers of voting rights and consideration under the agreements were finalized on 17 July 2012. As of 30 June 2012 the liability of RUB 832 million related to unexercised and expired portion of mandatory offer (put option) was derecognised; the excess of RUB 277 million of the derecognised liability over the re-instated amount of non-controlling interests of RUB 555 million increased the Company's retained earnings.

Acquisition of subsidiaries for six months 2011

ОАО Роствертол ("Rostvertol")

Rostvertol operates in the manufacturing of helicopters, with the production facilities located in Rostov-on-Don, Russian Federation. On 10 and 11 December 2010, the Company acquired an additional 52.3% interest in Rostvertol, formerly an associate of the Group, for cash consideration of RUB 3,230 million, increasing its ownership to 75.1%. Following this acquisition the Group obtained control over Rostvertol. The purpose of this acquisition was to obtain control over the last independent helicopter producer in the Russian Federation and complete full consolidation of the industry in Russia.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

7. Business combinations and changes in ownership (continued)

Acquisition of subsidiaries for six months 2011 (continued)

This acquisition was accounted for using the acquisition method. The remaining non-controlling interests of 24.9% and the previously held equity interest of 22.8% in Rostvertol were both measured at fair value determined by independent appraiser at the date of acquisition.

In the consolidated financial statements for the year ended 31 December 2010, the acquisition of Rostvertol was accounted for using provisional values, and during 2011, the Group finalised the assessment of fair value. The provisional values previously presented for six months ended 30 June 2011 have been restated in the comparative information presented in the interim condensed consolidated financial statements to reflect the changes from the finalised valuation as follows:

	Six months ended 30 June 2011 as restated	Six months ended 30 June 2011 as previously reported	Adjustments
Consolidated statements of comprehensive income			
Selling, general and administrative expenses	(11,696)	(11,568)	128
Income tax expense	1,229	1,255	(26)
Profit and total comprehensive income for the period	2,707	2,809	102
Attributable to:			
Shareholder of the Company	1,841	1,935	94
Earnings per share	0.00003	0.00003	–

8. Revenue

By customer destination	Six months ended 30 June 2012	Six months ended 30 June 2011
Russian Federation	28,822	20,034
Asia	15,178	11,367
Other CIS countries	6,480	5,579
America	6,038	3,259
Europe	138	1,514
Africa	3,628	585
Other	8	31
Total	60,292	42,369

9. Income tax expense/(benefit)

	Six months ended 30 June 2012	Six months ended 30 June 2011
Current income tax expense	1,413	1,477
Adjustment to income tax of prior periods	(29)	(17)
Total current income tax expense	1,384	1,460
Accrued income tax on dividends	–	160
Deferred tax expense/(benefit)	185	(391)
Total deferred tax expense/(benefit)	185	(231)
Total income tax expense	1,569	1,229

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

9. Income tax expense/(benefit) (continued)

The corporate income tax rate in the Russian Federation, the primary location of the Group's production entities, for the six months ended 30 June 2012 was 20.0% (15.5% in the Perm region where Reduktor-PM is located).

10. Property, plant and equipment

	Land and buildings	Machinery and equipment	Transport	Other	Construction- in-progress	Total
Cost						
At 1 January 2012	21,170	14,305	2,553	4,261	6,845	49,134
Additions	290	950	39	165	2,703	4,147
Transfers	1,181	1,220	16	89	(2,506)	–
Acquisitions of subsidiaries	–	–	–	–	–	–
Disposals	(51)	(126)	(14)	(438)	(242)	(871)
At 30 June 2012	22,590	16,349	2,594	4,077	6,800	52,410
Accumulated depreciation and impairment						
At 1 January 2012	(5,225)	(3,102)	(574)	(1,446)	–	(10,347)
Depreciation charge	(436)	(872)	(87)	(423)	–	(1,818)
Disposals	8	73	9	193	–	283
Impairment	(24)	–	–	–	–	(24)
At 30 June 2012	(5,677)	(3,901)	(652)	(1,676)	–	(11,906)
Carrying value						
At 1 January 2012	15,945	11,203	1,979	2,815	6,845	38,787
At 30 June 2012	16,913	12,448	1,942	2,401	6,800	40,504

The Group leases machinery and equipment and transport under a number of finance lease agreements. At the end of the lease term the Group takes 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.

	30 June 2012	31 December 2011
Carrying value of leased property, plant and equipment	1,210	1,788

11. Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate the carrying value may be impaired. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual financial statements for the year ended 31 December 2011. The Company did not identify any impairment indicators as for 30 June 2012.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

12. Other intangible assets

	Capitalised development costs	Purchased software and other	Total
Cost			
At 1 January 2012	5,078	750	5,828
Additions	1,968	138	2,106
Government grants received	(244)	–	(244)
Disposals	(91)	(9)	(100)
At 30 June 2012	6,711	879	7,590
Accumulated amortisation			
At 1 January 2012	(811)	(220)	(1,031)
Amortisation charge	(189)	(127)	(316)
Disposals	6	4	10
At 30 June 2012	(994)	(343)	(1,337)
Carrying value			
At 1 January 2012	4,267	530	4,797
At 30 June 2012	5,717	536	6,253

13. Other financial assets

	30 June 2012	31 December 2011
Bank deposits	1,037	604
Loans issued	306	298
Promissory notes	–	116
Other	–	4
Total	1,343	1,022
Total non-current other financial assets	150	150
Total current other financial assets	1,193	872

Bank deposits

Bank name	Currency	30 June 2012	31 December 2011
OAO AKB Donkombank	RUB	150	150
OAO AKB Zarechye	RUB	505	454
OAO AKB UralFD	RUB	200	–
OAO VTB, a related party of the Group	USD	32	–
OAO Bank Saint Petersburg	RUB	150	–
Total		1,037	604

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

14. Available-for-sale securities

The Group's available-for-sale investments represent investments in listed and unlisted equity securities. These shares are not held for trading purposes and are accordingly classified as available-for-sale.

	Ownership, %	30 June 2012	31 December 2011
OAo TVTz Rostvertol	25.0	359	359
OAo OPK Oboronprom	0.62	231	231
OAo AKB Zarechie	15.5	168	168
OAo AKB Donkombank	15.0	71	96
OAo AKB MMB Bank of Moscow	0.03	19	18
NPF KVZ	–	–	32
Other	various	29	31
Total		877	935

15. Inventories

	30 June 2012	31 December 2011
Raw materials (at cost or net realisable value)	21,445	19,947
Work-in-progress (at cost or net realisable value)	5,670	4,996
Finished goods (at cost or net realisable value)	770	917
Total inventories at the lower of cost and net realisable value	27,885	25,860

16. Cash and cash equivalents

	30 June 2012	31 December 2011
Current bank accounts, including:		
RUB-denominated	6,469	5,431
USD-denominated	1,574	1,676
Euro-denominated	465	487
Bank deposits, including:		
RUB-denominated	806	4,365
USD-denominated	1,149	32
Other cash and cash equivalents	23	45
	10,486	12,036

Bank deposits

Bank name	Currency	30 June 2012	31 December 2011
		Balance	Balance
OAo Bank VTB	RUB	114	33
OAo Bank VTB	USD	657	32
OAo Sberbank of Russia	RUB	–	680
OAo AKB Zarechye	RUB	400	530
OAo Bank Saint Petersburg	USD	492	–
OAo AKB Tatfondbank	RUB	150	–
ZAO AKB Novikombank	RUB	–	101
OAo Gazprombank	RUB	–	2,500
OAo Rosselhozbank	RUB	–	300
Other	RUB	142	221
Total		1,955	4,397

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

16. Cash and cash equivalents (continued)

All bank deposits classified as cash and cash equivalents have an original maturity of less than three months. The interest rates range between 0.3% and 8.5%.

17. Prepayments and other receivables

	30 June 2012	31 December 2011
Non-financial assets		
Advances paid to suppliers of inventory and services	32,076	30,521
Prepaid commission fee	2,210	2,553
Total non-financial assets	34,286	33,074
Financial assets		
Other receivables	1,959	1,280
Less: allowance for doubtful other receivables	(307)	(309)
Total financial assets	1,652	971
Total non-current prepayments	1,969	2,337
Total current prepayments and other receivables	33,969	31,708

18. Dividends

During the six month ended 30 June 2012 the Group entities declared the following dividends attributable to non-controlling interests:

	Six months ended 30 June 2012	Six months ended 30 June 2011
OAo Ulan-Ude Aviation Plant	–	282
OAo Kazan Helicopter Plant	309	123
OAo Stupino Machine Production Plant	19	12
OAo Reduktor-PM	10	6
OAo Rostvertol	40	–
OAo AAC PROGRESS		3
Total	378	426

During six months ended 30 June 2012 the amounts of dividends of RUB 308 million related to the shares subject to the mandatory offers for buy-out are recognised as interest expense (six months ended 30 June 2011: 0).

The Group declared dividends attributable to the shareholder of the Company in the amount of RUB 489 million (six months ended 30 June 2011: 0).

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

19. Loans and borrowings

	Interest rate	30 June 2012		31 December 2011	
		Rate, %	Balance	Rate, %	Balance
Secured bank loans, including:					
RUB-denominated					
OAo Sberbank, related party	Fixed	5-11%	19,198	5-10%	14,455
OAo Alfa Bank	Fixed	9-10%	3,830	9-10%	3,830
OAo AKB Rosbank	Fixed	9-11%	2,313	9-12%	3,500
OAo Gazprombank, related party	Fixed	9%	2,459	9%	1,143
ZAO AKB Novikombank	Fixed	10-12%	2,508	10-12%	2,388
OAo Bank VTB, related party	Fixed	7-10%	3,864	7-9%	4,816
ZAO KB Nats Invest Prom Bank	Fixed	–	–	10%	50
OAo AKB Ural FD	Fixed	10%	200	10%	200
OAo AKB Zarechye, related party	Fixed	9%	235	9%	235
Vnesheconombank, related party	Fixed	9-12%	2,381	9-12%	2,381
Other	Various	9-10%	2,394	9-13%	1,873
USD-denominated					
OAo Sberbank, related party	Fixed	8%	1,532	8-9%	4,862
OAo Promsvyazbank	Fixed	9%	197	7-10%	493
OAo Bank Saint Petersburg	Fixed	–	–	8%	1,610
Other	Various	5-6%	523	5-7%	532
EURO-denominated					
OAo Bank Saint-Petersburg	Fixed	8%	2,314	8-9%	1,875
OAo AKB Rosbank	Fixed	7%	1,653	7%	1,402
OAo Gazprombank, related party	Fixed	7%	879	4-7%	762
OAo Sberbank, related party	Fixed	3-8%	212	3-8%	313
Other	Fixed	7-8%	677	7-8%	407
Unsecured loans and borrowings, including:					
RUB-denominated					
OAo Bank VTB, related party	Fixed	0-10%	622	0-8%	486
OAo Sberbank, related party	Fixed	7-10%	5,341	7-8%	2,518
Mustoe limited, related party	Fixed	9%	310	9%	500
Oboronprom, related party	Fixed	0-7%	259	0-7%	184
OAo Metkombank	Fixed	8%	150	8%	150
Other	Fixed	0-9%	487	0-12%	422
USD-denominated					
OAo Bank VTB, related party	Fixed	6%	7,384	6%	2,576
Mustoe limited, related party	Fixed	7%	184	7%	181
Accrued interest			254		316
Total			62,360		54,460
Long-term portion of loans and borrowings			40,069		35,142
Current portion repayable in one year and shown under current liabilities			22,291		19,318

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

19. Loans and borrowings (continued)

The following items of property, plant and equipment and inventories were pledged to secure loans and borrowings:

	30 June 2012	31 December 2011
Inventories	466	686
Property, plant and equipment	549	1,788
Total	1,015	2,474

Certain numbers of shares of the Group's (subsidiaries) have been pledged to secure bank loans and borrowings granted to the Group:

	30 June 2012	31 December 2011
OAO Kazan Helicopter Plant	34,344,684	33,200,000
OAO Ulan-Ude Aviation Plant	31,666,919	
Total	66,011,603	33,200,000

20. Amounts due under the Military Purchase Program construction contracts

In 2011, in connection with the 2011-2020 Military Purchase Program of the Russian Federation ("the Military Purchase Program") the Group's subsidiaries entered into long-term contracts with the Ministry of Defence of the Russian Federation ("the Ministry of Defence") to produce and deliver military helicopters over the period of 2011-2020. Under these contracts, the substantial portion of amounts due from the Ministry of Defence 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. The deferred amounts to be received from the Ministry of Defence 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 Ministry of Defence defaults or delays payments beyond the credit line facilities tenors and the amounts due under the credit line facilities, as secured by the guarantee, will be paid by the Ministry of Finance. Interest expenses incurred on these credit line facilities are fully reimbursed by the Ministry of Defence.

The amounts due under the Military Purchase Program construction contracts are comprised of the following:

	30 June 2012	31 December 2011
Amounts received under construction contracts	(48,760)	(30,739)
Amounts due from customers under the Military Purchase construction contracts	14,708	7,369
Amounts billed under the Military Purchase Program	18,690	9,575
Amounts due under the Military Purchase Program construction contracts	(15,362)	(13,795)

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

20. Amounts due under the Military Purchase Program construction contracts (continued)

As at 30 June 2012 and as at 31 December 2011, the amounts drawn down under the credit line facilities secured by the Russian Federation under the Military Purchase Program presented as advances received under construction contracts are as follows:

State-owned bank name	Currency	30 June 2012		31 December 2011	
		Rate, %	Outstanding balance	Rate, %	Outstanding balance
OAo Bank VTB, related party	RUB	8.0-10.15	26,938	8.0-8.3	17,058
OAo Sberbank, related party	RUB	8.4-9.1	21,103	8.4	12,962
OAo Vnesheconombank, related party	RUB	9.0	719	9.0	719
Total			48,760		30,739

21. Related parties

Related parties include controlling shareholder 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 entities enter into various sale, purchase and service transactions with related parties. These transactions are primarily with state bodies of the Russian Federation, other Government controlled entities, or in areas the Government is involved in the business. These transactions are on terms that may not be available to third parties. The repayment terms related to these transactions are consistent with those paid by third parties. In addition, the Group has received loans from and made deposits with related parties, the terms of which are disclosed in the related notes to these interim condensed consolidated financial statements.

Transactions between the Group's entities, which are related parties, have been eliminated in full in these interim condensed consolidated financial statements and are not disclosed in this note.

During the six months period 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	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Group 1	4,502	3,950	23,193	19,471	6,866	7,907	122	205
Group 2	60	40	43	32	2,838	1,725	196	–
Group 3	46	5	–	–	–	–	21	35
Total	4,608	3,995	23,236	19,503	9,704	9,632	339	240

	Accounts payable		Advances received, including Military Purchase Program*		Loans and borrowings, financial liabilities and obligations under finance lease*	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Group 1	9,978	5,618	27,123	22,416	46,178	36,401
Group 2	49	51	3	2	252	252
Group 3	38	50	–	–	–	–
Total	10,065	5,719	27,126	22,418	46,430	36,653

* Certain amounts do not correspond to the consolidated financial statements as at 31 December 2011 and for the year then ended and reflect reclassifications made as detailed in note 3.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

21. Related parties (continued)

	Six months ended 30 June 2012			
	Sales of goods and services, including Military Purchase Program	Purchase of goods and services	Finance costs	Interest income
Group 1	26,479	12,101	1,304	126
Group 2	89	81	11	9
Group 3	64	1	–	–
Total	26,632	12,183	1,315	135

	Six months ended 30 June 2011			
	Sales of goods and services	Purchase of goods and services	Finance costs	Interest income
Group 1	19,162	7,517	1,197	85
Group 2	29	125	–	–
Group 3	–	27	–	–
Total	19,191	7,669	1,197	85

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 entities over which the Group's management exercises significant influence.

Group 3 consists of associates of the Group.

Remuneration of the Group's key management personnel

During the six months ended 30 June 2012 and 2011 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 38 million and RUB 24 million, respectively. Key management personnel received only short-term employee benefits.

22. Commitments and contingencies

Contractual commitments

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

At 30 June 2012, the Group had capital commitments including both contractual commitments and capital expenditures provided for in the annual budget for the year ending 31 December 2012 in the amount of RUB 4,627 million for property, plant and equipment and RUB 3,448 million for development cost (31 December 2011: to RUB 4,627 million and RUB 3,448 million respectively).

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

22. Commitments and contingencies (continued)

Operating leases: Group as a lessee

The majority of land plots on which the Group's production facilities are located are owned by the state.

The Group therefore leases the land through operating lease agreements, which expire in different years through 2057. According to the terms of the lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of each lease period and an option to buy land at any time, at a price established by the local authorities. The Group also leases other property, plant and equipment. The respective lease agreements have an average term of 1 to 6 years and generally do not have a renewal option at the end of the term. There are no restrictions placed upon the Group by entering into these agreements.

Future minimum rental expenses under non-cancellable operating leases are as follows:

Due within one year	199
Due from second to fifth year	521
Due thereafter	0
Total	720

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

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and Russia's economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon economic, fiscal and monetary measures undertaken by the Government, together with legal, regulatory, and political developments.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

22. Commitments and contingencies (continued)

Operating environment (continued)

The global financial turmoil that has negatively affected Russia's financial and capital markets in 2009 and 2010 has receded and Russia's economy returned to growth in 2011. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt Russia's economy, adversely affecting the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

The Russian Federation is facing a relatively high level of inflation and according to the Government's statistical data consumer price inflation for the six months ended 30 June 2012 and the years ended 31 December 2011, 2010 and 2009 was 3.5%, 6.1%, 8.8% and 8.8%, respectively.

Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas in the world market that fluctuated significantly during 2009-2012. Although recently years there has been a general improvement in economic conditions in the Russian Federation, it continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the Government of the Russian Federation to implement structural reforms.

Tax contingencies in the Russian Federation

The tax system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels. The Government of the Russian Federation has commenced a revision of the tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions. In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While the Group's management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxes, fines and penalties that could be significant.

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ and the maximum effect of additional taxes, fines and penalties on these consolidated financial statements, if the authorities were successful in enforcing their different interpretations, could be significant, and amount up to RUB 218 million.

Insurance

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.

Open Joint Stock Company Russian Helicopters

Notes to the interim condensed consolidated financial statements (continued)

23. Events subsequent to the reporting date

Share capital

At 21 June 2012 Oboronprom, the shareholder, approved and the Company, subsequently to 30 June 2012, issued additional 279,116 ordinary shares with par value of RUB 1.

Subsidiaries

KHP

On 14 August 2012 in accordance with Russian Federal Law on Joint Stock Companies the Company made a mandatory offer of RUB 109.56 per ordinary share to acquire the remaining non-controlling interest of KHP valid till 21 September 2012.

Military Purchase Program construction contracts

After the end of the reporting period the Group drew down approximately RUB 5,805 million under the credit line facilities secured by the Ministry of Finance of the Russian Federation.

Borrowings

	Interest rate	30 June 2012		From 30 June 2012 till issuance date		
		Rate, %	Balance	Received	Disposed	Balance
Secured bank loans, including:						
<i>RUB-denominated</i>						
Sberbank, related party	Fixed	5-11%	19,198	3,630	471	22,357
Alfa bank	Fixed	9-10%	3,830	–	–	3,830
Rosbank	Fixed	9-11%	2,313	150	1,097	1,366
Gazprombank, related party	Fixed	9%	2,459	235	–	2,694
Novikombank	Fixed	10-12%	2,508	–	–	2,508
VTB, related party	Fixed	7-10%	3,864	1,085	1,025	3,924
UralFD Bank	Fixed	10%	200	–	–	200
Zareche, related party	Fixed	9%	235	–	–	235
Vneshekonombank, related party	Fixed	9-12%	2,381	485	–	2,866
Other	Various	9-10%	2,394	627	–	3,021
Sberbank, related party	Fixed	8%	1,532	11	728	815
Promsvyazbank	Fixed	9%	197	2	101	98
Other	Various	5-6%	523	133	1	655
<i>EURO-denominated</i>						
Bank Saint-Petersburg	Fixed	8%	2,314	54	99	2,269
Gazprombank, related party	Fixed	7%	879	–	38	841
Sberbank, related party	Fixed	3-8%	212	56	3	265
Rosbank	Fixed	7%	1,653	39	71	1,621
Other	Fixed	7-8%	677	7	425	259
Unsecured loans and borrowings, including:						
<i>RUB-denominated</i>						
VTB, related party	Fixed	0-10%	622	663	26	1,259
Sberbank, related party	Fixed	7-10%	5,341	4,496	403	9,434
Mustoe limited	Fixed	9%	310	–	–	310
Oboronprom, related party	Fixed	0-7%	259	–	–	259
Metcombank	Fixed	8%	150	–	–	150
Other	Fixed	0-9%	487	50	626	(89)
<i>USD-denominated</i>						
Mustoe limited	Fixed	7%	184	–	–	184
VTB, related party	Fixed	6%	7,384	132	1,360	6,156
Total			62,106	11,855	6,474	67,487