

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

Interim condensed consolidated financial statements

For the six months ended 30 June 2011 (unaudited)

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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 2011

The following statement, which should be read in conjunction with the independent auditor's report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the interim 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 2011 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 consolidated financial statements, management is 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 consolidated financial statements were approved by management on 31 October 2011:



I. E. Pshenichny
Acting General Director



S. V. Yarkovoy
Deputy General Director on Finance

31 October 2011
Moscow, Russia

Report on review of interim condensed consolidated financial statements

To the shareholders 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 2011 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.

Basis for qualified conclusion

The accompanying interim condensed consolidated financial statements do not include comparative figures as required by International Accounting Standard 34 *Interim Financial Reporting*.

Qualified conclusion

Based on our review, except for the effect on the interim condensed consolidated financial statements of the matter described in the Basis for Qualified Conclusion paragraph, 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 17 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

31 October 2011

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
IN MILLIONS OF RUSSIAN ROUBLES

		For the six months ended 30 June
	Notes	2011 (unaudited)
Revenue	7	42,369
Cost of sales		(25,023)
Gross profit		17,346
Selling, general and administrative expenses		(11,568)
Reversal of impairment of property, plant and equipment	9	97
Government grants		55
Other operating expenses		(432)
Other operating income		89
Operating profit		5,587
Finance income		131
Finance costs		(2,019)
Share in results of associates		(208)
Foreign exchange gain, net		573
Profit before income tax		4,064
Income tax expense	8	(1,255)
Profit and total comprehensive income for the year		2,809
Profit and total comprehensive income for the year attributable to:		
Shareholder of the Company		1,935
Non-controlling interests		874
		2,809
Earnings/(losses) per share		
Weighted average number of ordinary shares		94,994,000
Basic and diluted earnings/(losses) per share		0.00003

The notes on pages 8 to 23 are an integral part of these interim condensed consolidated financial statements.

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

IN MILLIONS OF RUSSIAN ROUBLES

	Notes	30 June 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	9	34,301	31,532
Goodwill	10	1,093	913
Other intangible assets	11	3,815	2,509
Investments in associates		408	794
Trade receivables		65	172
Prepayments and other receivables		3,667	5,080
Other financial assets	12	208	900
Available-for-sale securities	13	616	456
Deferred tax assets		344	201
		44,517	42,557
Current assets			
Inventories	14	24,185	20,120
Amounts due from customers under construction contracts		14,245	6,336
Trade receivables		4,958	8,397
Prepayments and other receivables		27,270	19,856
Income tax receivable		101	65
Other taxes receivable		7,485	6,631
Other financial assets	12	2,298	413
Cash and cash equivalents	15	7,264	17,957
		87,806	79,775
TOTAL ASSETS		132,323	122,332
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		95	95
Additional paid-in capital		8,414	8,414
Oboronprom shares owned by the Group		(231)	(231)
Retained earnings		12,451	12,315
Attributable to the shareholder of the Company		20,729	20,593
Non-controlling interests		6,563	9,594
		27,292	30,187
Non-current liabilities			
Loans and borrowings	17	32,313	20,514
Obligations under finance leases		257	275
Employee benefit liabilities		326	324
Provisions		386	121
Deferred tax liabilities		3,638	3,850
		36,920	25,084
Current liabilities			
Loans and borrowings	17	24,379	25,377
Obligations under finance leases		199	192
Trade payables		4,373	4,806
Advances received and other payables		13,845	8,776
Amounts due to customers under construction contracts		22,809	24,202
Income tax payable		649	888
Other taxes payable		987	1,538
Provisions		870	1,282
		68,111	67,061
TOTAL LIABILITIES		105,031	92,145
TOTAL EQUITY AND LIABILITIES		132,323	122,332

The notes on pages 8 to 23 are an integral part of these interim condensed consolidated financial statements.

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

IN MILLIONS OF RUSSIAN ROUBLES

	Notes	Equity attributable to the shareholder of the Company						Non-controlling interests	Total
		Share capital	Additional paid-in capital	Oboronprom shares owned by the Group	Retained earnings	Total			
Balance at 31 December 2010		95	8,414	(231)	12,315	20,593	9,594	30,187	
Profit for the period (unaudited)		–	–	–	1,935	1,935	874	2,809	
Other comprehensive income (unaudited)									
Dividends (unaudited)	16	–	–	–	–	–	(426)	(426)	
Increase in ownership in subsidiaries:	6								
OAO Kazan Helicopter Plant (unaudited)		–	–	–	(1,701)	(1,701)	(2,672)	(4,373)	
OAO Rostvertol (unaudited)		–	–	–	168	168	(1,217)	(1,049)	
OAO Arsenyev Aviation Company PROGRESS (unaudited)		–	–	–	(244)	(244)	388	144	
OAO Kamov (unaudited)		–	–	–	(22)	(22)	22	–	
Balance at 30 June 2011 (unaudited)		95	8,414	(231)	12,451	20,729	6,563	27,292	

The notes on pages 8 to 23 are an integral part of these interim condensed consolidated financial statements.

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

CONSOLIDATED STATEMENTS OF CASH FLOWS

IN MILLIONS OF RUSSIAN ROUBLES

**For the six months
ended 30 June 2011
(unaudited)**

Operating activities	
Profit for the period	2,809
Adjustments for:	
Income tax expense	1,255
Finance income and costs, net	1,889
Depreciation and amortisation	1,283
Reversal of impairment of property, plant and equipment	(97)
Foreign exchange gain, net	(573)
Impairment of accounts receivable	19
Change in allowance for obsolete inventories	–
Change in provisions and retirement benefit obligations	(145)
Loss on disposal of property, plant and equipment	151
Share of results of associates	208
	6,799
Movements in working capital:	
Increase in inventories	(3,876)
Increase in amounts due from customers under construction contracts	(7,909)
Decrease in trade receivables	3,364
Increase in prepayments and other receivables	(5,901)
Increase in other taxes receivables	(849)
Decrease in trade payables	(860)
Increase in advances received and other payables	4,494
Decrease in amounts due to customers under construction contracts	(1,393)
Decrease in other taxes payable	(551)
Cash generated from operations	(6,682)
Interest paid	(2,195)
Government grants – compensation of finance costs	14
Income tax paid	(1,886)
Net cash used in operating activities	(10,749)
Investing activities	
Purchases of property, plant and equipment	(3,042)
Proceeds from disposal of property, plant and equipment	130
Purchases of intangible assets	(1,636)
Government grants compensation of capitalised development costs	330
Loans provided	(382)
Loans repaid	110
Purchases of other financial assets	(1,700)
Interest received	131
Net cash used in investing activities	(6,059)
Financing activities	
Proceeds from loans and borrowings	35,921
Repayments of loans and borrowings	(24,040)
Principal repayments of obligations under finance leases	(232)
Acquisitions of non-controlling interests in subsidiaries	(5,093)
Dividends paid to non-controlling shareholders	(204)
Net cash generated by financing activities	6,352
Net decrease in cash and cash equivalents	(10,456)
Effect of exchange rate changes on balance of cash held in foreign currencies	(237)
Cash and cash equivalents at beginning of the year	17,957
Cash and cash equivalents at end of the year	7,264

The notes on pages 8 to 23 are an integral part of these interim condensed consolidated financial statements.

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED)

1. General information

Open Joint Stock Company Russian Helicopters (the “Company”) is 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 fall 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: 29 Vereyskaya str., Moscow, 121357, 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 2011		31 December 2010	
		(1)	(2)	(1)	(2)
Group subsidiaries					
OAO Kazan Helicopter Plant (Kazan)	Producer of helicopters: Mi-8, Mi-17, Ansat	93.47	93.47	65.9	66.1
OAO Rostvertol (Rostov-on-Don)	Producer of helicopters: Mi-24, Mi-26, Mi-28, Mi-35	92.01	92.01	75.1	75.1
OAO Ulan-Ude Aviation Plant (Ulan-Ude)	Producer of helicopters: Mi-8, Mi-17	75.1	75.1	75.1	75.1
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 Engineering centre	88.47	88.47	75.0	75.0
OAO MIL Moscow Helicopter Plant (Moscow)	(for helicopters brand Mi) Engineering centre	74.79	80.7	74.4	80.7
OAO KAMOV (Moscow)	(for helicopters brand Ka)	99.79	99.79	98.5	98.5
OAO Stupino Machine Production Plant (Stupino)	Producer of helicopter allied products (for helicopter brands Mi and Ka)	61.2	80.5	61.2	80.5
OAO Reduktor-PM (Perm)	Producer of helicopter allied products (for helicopter brands Mi and Ansat)	80.8	80.8	80.8	80.8
ZAO Ulan-Ude Blade Plant (Ulan-Ude)	Producer of helicopter allied products (for helicopter brand Mi)	75.1	75.1	75.1	75.1
OAO Helicopter Innovation Industrial Company (Ulan-Ude)	Producer of helicopter allied products (for helicopter brand Mi)	75.1	75.1	75.1	75.1
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	100.0	100.0	5.0	5.0
Group associates					
ZAO Aktivnye Operatsyi (Moscow)	Holding company	49.0	49.0	49.0	49.0
OAO AKB Donkombank (Rostov-on-Don)	Commercial bank	30.3	29.7	30.3	29.7
OAO AKB Zarechye (Kazan)	Commercial bank	–	–	25.4	25.5

(1) Effective ownership interest

(2) Voting rights

Details of changes in ownership are described in Note 6.

NOTES TO THE INTERIM 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 2011 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 2010.

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 measurement

The Financial Statements are prepared on the historical cost basis except financial investments classified as available-for sale are stated at fair value.

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 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

IAS 24 Related Party Transactions (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**2. Basis of preparation and changes to the group's accounting policies (continued)****Improvements to IFRSs (issued May 2010)**

- In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.
- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.
- *IAS 34 Interim Financial Statements*: The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group has illustrated those amendments in Note 12.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

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

3. Significant accounting policies**a. Foreign currency transactions**

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.

Russian Rouble is the currency in which these financial statements are presented.

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

	30 June 2011	31 December 2010
Closing exchange rates at the year end – RUB		
1 U.S. Dollar ("USD")	28.08	30.48
1 Euro	40.39	40.33
Average exchange rates for the six months ended 30 June 2011 – RUB		
1 USD	28.63	
1 Euro	40.17	

NOTES TO THE INTERIM 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 judgments, 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 consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended 31 December 2010.

5. Segmental 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 consolidated financial statements.

The 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.

A. Segment revenues

The following is the analysis of the Group's revenue for the six months ended 30 June 2011:

	Six months ended 30 June 2011			Total without
	Military	Commercial	Inter-segment	inter-segment
Helicopters	25,374	6,810	–	32,184
Services and support	3,351	3,244	3,992	6,595
Research and development	131	17	152	148
Other	2,721	721	1,087	3,442
Total	31,577	10,792	5,231	42,369

Inter-segment revenue primarily consists of sales of semi-products and research and development services for helicopter production.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**5. Segmental information (continued)****B. 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.

The following is analysis of operating results measured by adjusted EBITDA and its reconciliation to the operating profit and profit before tax for the six months ended 30 June 2011:

	Six months ended 30 June 2011
Adjusted EBITDA	
Helicopters	3,959
Services and support	2,391
Research and development	(228)
Other	593
Total adjusted EBITDA	6,715
Depreciation and amortisation	(1,283)
Loss on disposal of property, plant and equipment	(150)
Reversal of impairment of property, plant and equipment	97
Share in results of associates	208
Operating profit per IFRS financial statements	5,587
Finance income	131
Finance costs	(2,019)
Share in results of associates	(208)
Foreign exchange gain, net	573
Profit before income tax per IFRS financial statements	4,064

C. 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 7.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**6. Business combinations and changes in ownership****Increase in ownership during the six months ended 30 June 2011*****OAO Kazan Helicopter Plant ("KHP")***

On 24 January 2011, the Company acquired additional 33,200,000 ordinary shares of KHP for cash consideration of RUB 3,403 million. As a result of the transaction the Group's effective ownership in KHP increased from 65.9% to 87.4%. The excess of the value of the consideration paid over the non-controlling interests acquired was recognised as decrease in retained earnings in the amount of RUB 1,310 million.

On 11 February 2011, as a consequence of the above mentioned transaction and in accordance with the Russian Federal Law on Joint Stock Companies, the Company made a mandatory offer of RUB 102.5 per ordinary share to acquire the remaining non-controlling interests in KHP.

On 27 June 2011, within the frame of mandatory offer the Company acquired additional 9,459,929 ordinary shares of KHP for consideration of RUB 970 million, of which RUB 642 million paid in cash in June 2011, recent amount paid in cash in July 2011. As a result of the transaction the Group's effective ownership in KHP increased from 87.4% to 93.5%. The excess of the value of the consideration paid over the non-controlling interests acquired was recognised as decrease in retained earnings in the amount of RUB 391 million.

OAO Rostvertol ("Rostvertol")

On 21 February 2011, the Company made a mandatory offer of RUB 2.69 per ordinary share to acquire remaining 24.9% non-controlling interests in Rostvertol. On 27 June 2011 the Company acquired additional 389,775,598 ordinary shares of Rostvertol for cash consideration of RUB 1,048 million. As a result of the transaction the Group's effective ownership in Rostvertol increased from 75.1% to 92%. The remaining 8% non-controlling interest holders rejected the offer. The excess of the value of the consideration paid over the non-controlling interests acquired was recognised as increase in retained earnings in the amount of RUB 168 million.

OAO Kamov ("Kamov")

On 27 January 2011, Kamov duly authorised and registered 1,362,900,000 ordinary shares of which 1,360,000,000 shares were acquired by the Group by consideration RUB 136 mln. As a result of the transaction the Group's effective ownership in Kamov increased from 98.5% to 99.8%. On the date of additional issue of the shares accumulated deficit of OAO Kamov was RUB 1,683million. As result of the transaction non-controlling interest increased by RUB 22 million.

OAO Arsenyev Aviation Company PROGRESS ("Progress")

On 14 June 2011, Progress duly authorised and registered 737,058 ordinary shares of which 706,346 shares were acquired by the Group for a consideration of RUB 3,050 million. Cash consideration was paid in 2010. As a result of the transaction the Group's effective ownership in Progress increased from 75% to 88.5% and non-controlling interest increased in the amount of RUB 388 million.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. BUSINESS COMBINATIONS AND changes in ownership (continued)

Acquisition of subsidiaries during the six months ended 30 June 2011

ZAO Avia Company Rostvertol Avia ("Rostvertol Avia")

On 31 March 2011, Rostvertol, a group subsidiary, acquired remaining 95% interests in ZAO Avia Company Rostvertol Avia ("Rostvertol Avia"), a helicopter services provider, for consideration of RUB 620 million. Cash consideration was paid in 2010.

This acquisition was accounted using the acquisition method. The Group has determined the fair value of the identifiable assets and liabilities of Rostvertol Avia at the date of acquisition on a provisional basis. At the date of authorisation of these consolidated financial statements the necessary fair value assessment for property, plant and equipment and certain other assessments were not finalised.

	Provision value
ASSETS	
Property, plant and equipment	416
Inventories	190
Prepayments and other receivables	94
Other taxes receivable	5
Cash and cash equivalents	16
Total assets	721
LIABILITIES	
Provisions	6
Deferred tax liabilities	16
Trade payables	227
Total liabilities	249
Net assets at the date of acquisition	472
Add: Goodwill	180
Total consideration, including:	652
Cash consideration	620
Fair value of previously held interest in Rostvertol Avia	32
Total consideration	652
Less: Fair value of previously held interest in Rostvertol Avia	(32)
Less: Cash and cash equivalents acquired	(16)
Net cash outflow on acquisition of subsidiary	604

ZAO Sanatory Zor'ka ("Zor'ka")

On 31 March 2011, Rostvertol, a group subsidiary, acquired an additional 98% interest in ZAO Sanatory Zor'ka ("Zor'ka"), health resort in Touapse, for the consideration of RUB 130 million, increasing its ownership to 100%. Cash consideration was paid in 2010. The Group has determined the value of the identifiable assets and liabilities of Zor'ka at the date of acquisition on a provisional basis. At the date of authorisation of these consolidated financial statements the assessment was not finalised.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Revenue

	Six months ended 30 June 2011
By customer destination	
Russian Federation	20,034
Asia	11,367
Other CIS countries	5,579
America	3,259
Europe	1,514
Africa	585
Other	31
Total	42,369

8. Income tax expense/(benefit)

	Six months ended 30 June 2011
Current income tax expense	1,477
Adjustment to income tax of prior periods	(17)
Total current income tax expense	1,460
Income tax reserve	7
Accrued income tax for dividends	160
Deferred tax benefit	(372)
Total deferred income tax benefit	(205)
Total income tax expense	1,255

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 2011 was 20.0% (15.5% in the Perm region where Reduktor-PM is located).

9. Property, plant and equipment

	Land and buildings	Machinery and equipment	Transport	Other	Construction- in-progress	Total
Cost						
At 1 January 2011	18,225	11,053	2,124	2,469	5,292	39,163
Additions	15	414	29	435	2,699	3,592
Transfers	155	679	14	53	(901)	-
Acquisitions of subsidiaries	130	441	-	-	-	571
Disposals	(43)	(165)	(17)	(22)	(99)	(345)
At 30 June 2011	18,482	12,422	2,150	2,935	6,992	42,981
Accumulated depreciation and impairment						
At 1 January 2011	(4,239)	(2,212)	(437)	(743)	-	(7,631)
Depreciation charge	(351)	(473)	(83)	(306)	-	(1,213)
Disposals	7	43	12	5	-	65
Reversal of impairment	97	-	-	-	-	97
At 30 June 2011	(4,486)	(2,642)	(508)	(1,044)	-	(8,680)
Carrying value						
At 1 January 2011	13,986	8,841	1,687	1,726	5,292	31,532
At 30 June 2011	13,996	9,780	1,642	1,891	6,992	34,301

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Property, plant and equipment (continued)

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 takes automatic 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 2011	31 December 2010
Carrying value of leased property, plant and equipment	1,009	803

Impairment test

During the six months ended 30 June 2011, due to the recovery of the Russian and worldwide economies, the Group performed a re-assessment of the carrying value of property, plant and equipment previously impaired. As at 30 June 2011, as a result of the re-assessment the Group reversed RUB 97 million of previously recognised impairment losses.

10. Goodwill

Balance at 1 January 2011	913
Goodwill arising on subsidiaries (refer to note 6)	180
Balance at 30 June 2011	1,093

11. Other intangible assets

	Capitalised development costs	Purchased software and other	Total
Cost			
At 1 January 2011	2,841	269	3,110
Additions	1,599	107	1,706
Government grants received	(330)	–	(330)
Disposals	–	(9)	(9)
At 30 June 2011	4,110	367	4,477
Accumulated amortisation			
At 1 January 2011	(490)	(111)	(601)
Amortisation charge	(17)	(53)	(70)
Disposals	–	9	9
At 30 June 2011	(507)	(155)	(662)
Carrying value			
At 1 January 2011	2,351	158	2,509
At 30 June 2011	3,603	212	3,815

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Other financial assets

	30 June 2011	31 December 2010
Bank deposits	2,066	259
Loans issued	310	198
Promissory notes	130	108
Other	–	748
Total	2,506	1,313
Total non-current other financial assets	208	900
Total current other financial assets	2,298	413

Bank deposits

Bank name	Currency	30 June 2011	31 December 2010
OAo AKB Donkombank, an associate of the Group	RUB	150	150
OAo AKB Zarechye, an associate of the Group as at 31 December 2010	RUB	854	20
OAo AKB Bank of Moscow, a related party of the Group	USD	16	18
OAo AKB Bank of Moscow, a related party of the Group	Euro	25	26
OAo VTB, a related party of the Group	USD	880	–
ZAO AKB Interprombank	RUB	40	45
Others	Varios	101	–
Total		2,066	259

13. 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 2011	31 December 2010
OAo TVTz *	25.0	359	359
OAo AKB MMB Bank of Moscow	0.03	19	19
OAo AKB Zarechie	15.5	168	–
ZAO Avia Company Rostvertol Avia	5.0	–	32
ZAO Sanatory Zor'ka	2.0	–	3
Other	various	70	43
Total		616	456

* In December 2010, as part of acquisition of Rostvertol shares, the Group acquired 100% of non-voting preferred shares of OAo TVTz or 25% of its charter capital.

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Inventories

	30 June 2011	31 December 2010
Raw materials and manufacturing supplies	16,977	15,723
Less: Allowance for obsolete raw materials and manufacturing supplies	(1,100)	(975)
	15,877	14,748
Work-in-progress	7,440	4,902
Finished goods	1,334	1,061
Less: Allowance for obsolete work-in-progress and finished goods	(466)	(591)
	8,308	5,372
Total	24,185	20,120

The movement in the allowance for obsolete and slow-moving items was as follows:

	30 June 2011
Balance at the beginning of the year	1,566
Increase in allowance	71
Acquired within the business combination	–
Reversal of allowance	(71)
Balance at the end of the year	1,566

15. Cash and cash equivalents

	30 June 2011	31 December 2010
Current bank accounts, including:	4,787	8,238
RUB-denominated	1,081	1,701
USD-denominated	758	922
Bank deposits, including:		
RUB-denominated	527	6,423
Euro-denominated	95	–
USD-denominated	–	645
Other cash and cash equivalents	16	28
	7,264	17,957

Bank deposits

Bank name	Currency	30 June 2011	31 December 2010
		Balance	Balance
OAo Bank VTB	RUB	28	3,700
OAo Sberbank of Russia	RUB	119	1,423
OAo Sberbank of Russia	USD	95	–
OAo AKB Zarechye	RUB	180	1,200
OAo Bank Saint Petersburg	Euro	–	645
ZAO AKB Novikombank	RUB	–	100
OAo NK Bank	RUB	200	–
Total		622	7,068

All bank deposits classified as cash and cash equivalents have an original maturity of less than three months. The interest rates vary from 1% till 6%.

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Dividends

During the six month ended 30 June 2011 the Group entities declared the following dividends:

Entity name	Six months ended 30 June 2011	
	Total dividends declared	Attributable to non-controlling interests
OAo Ulan-Ude Aviation Plant	1,133	282
OAo Kazan Helicopter Plant	981	123
OAo Stupino Machine Production Plant	32	12
OAo Reduktor-PM	30	6
OAo Helicopter Service Company	11	–
OAo AAC PROGRESS	10	3
OAo Kumertau Aviation Production Enterprise	9	–
Total	2,206	426

OPEN JOINT STOCK COMPANY RUSSIAN HELICOPTERS

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Loans and borrowings

	Interest rate	30 June 2011		31 December 2010	
		Rate, %	Balance	Rate, %	Balance
Secured bank loans, including:					
RUB-denominated					
OAo Sberbank, related party	Fixed	5-10%	13,121	4-11%	6,406
OAo Alfa Bank	Fixed	9%	3,230	9%	3,230
OAo AKB Rosbank	Fixed	8-9%	4,355	10-15%	3,040
OAo Gazprombank, related party	Fixed	7-9%	1,663	9-11%	1,471
ZAO AKB Novikombank	Fixed	10-12%	1,715	10-12%	807
OAo Bank VTB, related party	Fixed	7-10%	4,016	10%	376
ZAO KB Nats Invest Prom Bank	Fixed	10%	300	11%	350
OAo Bank Saint Petersburg	Fixed	10%	300	10%	300
OAo AKB Ural FD	Fixed	12%	200	13%	200
OAo AKB Zarechye, related party	Fixed	9%	235	14%	100
Vnesheconombank, related party	Fixed	12%	1,883	–	–
Other	Various	7-10%	348	9-12%	228
USD-denominated					
OAo Sberbank, related party	Fixed	8-9%	4,187	9%	5,708
OAo AKB Bank of Moscow, related party	Fixed	8%	4,211	9%	3,871
Vnesheconombank, related party	Floating	Libor+4,5%	449	Libor+4,5%	488
OAo AKB Spurt	Fixed	9%	393	9%	427
OAo Promsvyazbank	Fixed	7-10%	267	10%	274
OAo Bank Saint Petersburg	Fixed	8%	1,685	–	–
Other	Various	8%	3,990	6%	76
EURO-denominated					
OAo Bank Saint-Petersburg	Fixed	9%	2,423	9%	3,227
OAo Gazprombank, related party	Fixed	8%	404	8%	403
OAo Sberbank, related party	Fixed	3-8%	405	8%	109
Other	Fixed	7-9%	743	–	–
Unsecured loans and borrowings, including:					
RUB-denominated					
OAo Bank VTB, related party	Fixed	7-9%	993	12-13%	3,670
OAo AKB Rosbank	Fixed	8%	42	8-15%	2,175
OAo Sberbank, related party	Fixed	7%	1,685	9%	2,149
Vnesheconombank, related party	Fixed	–	–	12%	1,883
IFC Bank	Fixed	–	–	11-12%	1,180
Mustoe limited, related party	Fixed	9%	595	13%	695
Oboronprom, related party	Fixed	0-9%	354	0-9%	331
OAo AKB Eurofinance Mosnarbank	Fixed	8%	325	8%	325
LLC Korsa, related party	Fixed	–	–	13%	175
OAo Metkombank	Fixed	11%	250	11%	150
Other	Fixed	9%	1,579	0-10%	27
USD-denominated					
UniCredit Bank	Fixed	–	–	9%	914
Rosoboronexport, related party	Fixed	–	–	5%	485
BSGV	Fixed	–	–	4%	254
Mustoe limited, related party	Fixed	7%	157	11%	171
OAo Bank Saint Petersburg	Fixed	–	–	–	–
EURO-denominated					
OAo AKB Zarechye, related party	Fixed	–	–	11%	16
Accrued interest	–	–	189	–	200
Total			56,692		45,891
Long-term portion of loans and borrowings			32,313		20,514
Current portion repayable in one year and shown under current liabilities			24,379		25,377

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Loans and borrowings (continued)

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

	30 June 2011	31 December 2010
Inventories	9,527	2,177
Property, plant and equipment	1,754	2,669
Total	11,281	4,846

18. Related parties

Related parties include shareholders entities over which Group's management exercises significant influence and entities under common ownership and control of the Government of the Russian Federation and key management personnel.

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 in these consolidated financial statements.

Transactions between the Group entities, which are related parties, have been eliminated in full in these 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).

	Trade and other receivables		Advances paid		Cash and deposits		Other investments	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Group 1	9,319	4,476	16,016	11,046	6,729	12,400	52	140
Group 2	76	39	383	86	1,410	–	115	30
Group 3	–	11	–	1	265	3,403	408	964
Total	9,395	4,526	16,399	11,133	8,404	15,803	575	1,134

	Trade and other payables		Advances received		Loans and borrowings		Other liabilities	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Group 1	3,257	4,316	15,521	17,412	34,859	27,872	500	–
Group 2	34	84	27	54	251	1,041	–	–
Group 3	21	–	–	1	–	116	–	–
Total	3,312	4,400	15,548	17,467	35,110	29,029	500	–

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Related parties (continued)

	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 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 2011 key management personnel of the Group (who are considered to be the General Director, Deputy General Directors, Directors of key departments) received as compensation RUB 24 million. Key management personnel received only short-term employment benefits.

19. Commitments and contingencies**a. 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.

b. Capital commitments

The Group's capital commitments including both contractual commitments and capital expenditures provided in the annual budget for the year ending 31 December 2011 amount to RUB 7,164 million.

c. 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 various 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 life 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**19. Commitments and contingencies (continued)****c. Operating leases: Group as a lessee (continued)**

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

Due within one year	271
Due from second to fifth year	780
Due thereafter	23
Total	1 074

20. Events subsequent to the reporting date

On 2 June 2011 the Company in accordance with Russian Federal Law on joint stock companies made a mandatory offer of RUR 4,318 per ordinary share to acquire the remaining non-controlling interest of Progress. On 20 August 2011 the Company acquired 46,054 ordinary shares of Progress for cash consideration RUR 199 million and increased its ownership from 88.48% to 92.52%.

On 30 August 2011 the Board of Directors of Progress approved to issue an additional 12,771 ordinary shares with RUB 1 par value. The offering price is RUB 4,295 per share. The shares expected to be acquired by the Group and OAO "OPK "Oboronprom".

On 13 October 2011 the Board of Directors of Kamov approved the issue of additional 76,567,743 ordinary shares with RUB 0.1 par value. The offering price is RUB 1.78 per share. The shares expected be acquired by the Group and OAO "OPK "Oboronprom".

On 18 October 2011, the Company made a mandatory offer of RUB 4,770 per ordinary share to acquire remaining 7.48% non-controlling interests in Progress. The maximum cash outflow that the Group can potentially face under this mandatory offer amounts to RUB 406 million. The mandatory offer was made in accordance with the Russian Federal Law on Joint Stock Companies. The non-controlling shareholders have 180 days from mandatory offer receipt date to accept or decline such offer. OAO Sberbank acts as a guarantor of the transaction for the total amount of RUB 434 million.

New loans and borrowings

The Group entered into several new borrowing agreements for total amount of RUB 9,614 million. Average interest rate is 8.7%. A total amount of funds available under these agreements will be utilized by the Group for re-financing of current borrowings and financing of investment activities of the Group.