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**MOTOR SICH**

## Dear shareholders, colleagues and partners!

Motor Sich Joint Stock Company is an enterprise which provides a full manufacturing cycle of modern engines: beginning with marketing researches, development and production and ending with in-service support and overhauling.

To sum up the work done by the enterprise in 2010 I would like to point out that we have successfully dealt with our tasks. The chosen strategy of building up a modern production and adoption of new most demanded in the world products have confirmed the validity of the strategy being fulfilled.

Our success is based on high qualification of our personnel and utilization of advanced technologies.

Our solid experience allows the enterprise to act flexibly and effectively in the world market. Quality and reliability of manufactured products is confirmed by their successful operation in more than 120 countries worldwide.

In 2010 we created a solid foundation to increase the enterprise efficiency and improve production and financial performance. Disposal of new prospective investment projects

contributes to consolidation of Motor Sich JSC competitive position and its further development.

At the moment Motor Sich JSC business conforms fully to the requirements of a market economy. When doing business we follow the principles of corporate liability; at the same time we implement a set of social programs and pay special attention to healthcare, labor safety and environmental protection.

I would like to express thanks to labor collective for their support, workmanship and conscientious piece of work. And of course I would like to state to our shareholders and partners and to all those who are closely connected with Motor Sich JSC activities my sincere appreciation of collaboration and mutual understanding.

Sincerely yours,  
Chairman of the Board of Directors Motor Sich JSC  
V. Boguslaev



## Basic Information About the Company

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# MOTOR SICH



- MAIN INDICATORS OF MOTOR SICH JSC PRODUCTION ACTIVITY IN 2010
- INFORMATION ABOUT MOTOR SICH JSC STATE REGISTRATION
- INFORMATION ABOUT AUDITOR
- SPECIALIZATION
- COMPANY STRATEGY
- COMPANY MISSION
- POSITIONING IN INDUSTRY

## BASIC INFORMATION ABOUT THE COMPANY

**Short title:** Motor Sich JSC

**Full title:** Motor Sich Joint Stock Company

**Company code:** 14307794

**Legal address:** 15 Motorostroiteley av., Zaporozhye 69068, Ukraine

Tel: (38 061) 720-48-14

Fax: (38 061)720-50-00

E-mail: motor@motorsich.com

web-site: www.motorsich.com

## MAIN INDICATORS OF MOTOR SICH JSC PRODUCTION ACTIVITY IN 2010

Labour force, people . . . . .	21 860
Company assets, millions of UAH . . . . .	6 153,8
Capital, millions of UAH . . . . .	3 799,7
statutory fund, millions of UAH . . . . .	280,5
Net income from selling in 2010, millions of UAH. . . . .	5 001,8
Financial result in 2010, millions of UAH. . . . .	1,2

## INFORMATION ABOUT MOTOR SICH JSC STATE REGISTRATION

Certificate series and number – **A00 207866**

Record No – **1 103 107 0031 005089**

Place of registration – the Executive Committee of Zaporozhye City Council.

Registration date – 25.05.1994.

## INFORMATION ABOUT AUDITOR

Authenticity and completeness of financial reports of Motor Sich JSC for 2010 is confirmed by an auditing company ZaporozhAudit-Consult CJSC (Enterprise Code 13625523) according to Agreement No 2729/09-Д (general accounting department) dated 10.04.2009. Location of auditing company: 6 Tikhy Pereulok Street, Zaporozhye. Date of state registration of ZaporozhAudit-Consult JSC – 21.01.1994; Enterprise code – 1 103 120 0000 012930. Certificate of Auditing chamber No. 0057, dated 26.01.2001, about registration as an auditing entity. Validity term of Certificate is extended till November 04, 2010.



## SPECIALIZATION

Development and production of gas turbine engines for military and civil aviation, industrial units for ground application (Gas-turbine power plants, Gas pumping units, Combined heat and power plants).



## COMPANY STRATEGY

### Motor Sich JSC corporate strategy principles

1. Positioning Motor Sich JSC as a developer and supplier of gas-turbine engines for military and civil aviation, gas-turbine drives with different powers and gas pumping units.
2. Ensuring the further development of Motor Sich JSC by means of research and introduction of advanced scientific-and-engineering and process design solutions based on innovative science and technology.
3. Expansion Motor Sich JSC position on a market by means of active promotion of enterprise products in the world market and their after-sale support, as well as search for and development of new market outlets.
4. Development of own equipment and machines production which will give the possibility to reduce a cost of our services and products without loss of quality.
5. Monitoring of changes in the aircraft engines market, research of new prospective types of products, search for new solutions, improvement of services provided for customers.
6. Consolidation of Motor Sich JSC status at share market as an open and attractive investee.

For that purpose Motor Sich JSC:

- develops progressive scientific-and-engineering and process design solutions, and introduces them into production;
- strengthens and develops cooperation with developers and partners;
- develops and introduces joint programs, supported by intergovernmental agreements with the Russian Federation:
  - joint production of An-140 airplane in Kharkov and Samara, An-148 and An-158 in Kiev and Voronezh, Be-200 in Taganrog;
  - renewal of production of An-124 "Ruslan" airplane in Ulyanovsk;
  - participates in joint projects on creation and modernization of civil and military helicopters Mi-28, Mi-17, Ka-50, Ka-52, Ka-32 with engines series TV3-117, VK-2500, TV3-117VMA-SBM1V, helicopter Mi-26 with Ukrainian engines D-136 having the greatest carrying capacity, Mi-2 helicopter with AI-450M engines;
- cooperates with Ukrainian and Russian aviation firms and research centers in the sphere of aviation engine-building.



## COMPANY MISSION

Motor Sich JSC works to be the best company in the sphere of aviation engine-building:

- in business – providing growth of income and profits of our shareholders by creating conditions for stable development of the Company;
- in satisfaction of consumer demands – as the main assessment criterion of performance and activity of the quality management system and performance of the Company as a whole;
- in influence upon society – in the way that society recognizes Company's activity as useful for themselves.;
- In ensuring proper labor conditions and living standards of personnel.

## POSITIONING IN INDUSTRY

Motor Sich JSC produces and masters serial production of aero-engines of different power ratings and various applications for aircraft of world-known helicopter- and airplane-building companies. Quality and reliability of manufactured products is confirmed by their successful operation in more than 120 countries worldwide.

Today Motor Sich JSC possesses the unique base for production of modern aeroengines both for airplanes and helicopters and provides a full manufacturing cycle of aerotechnics in Ukraine: beginning with design engineering and ending with production and further in-service support of airplanes, helicopters and other aircraft.

Many engines of the Company became worldwide leaders in their class: AI-25TL turbojet engines lift in the sky more than three thousand training airplanes and training-combat airplanes in 40 countries of the world; helicopter engines TV3-117, used in 61 countries of the world in all helicopters of average carrying capacity produced in Russia; D-18 engine for "Ruslan" and "Mriya" the highest capacity transport airplanes in the world; D-136 the most powerful engine in the world for helicopters and so on.

Production of industrial gas-turbine drives, created on the basis of long-term experience of manufacture and field service of aviation engines, occupies a considerable

position in the production program of Motor Sich JSC. This kind of products includes about ten types of drives with power range from 1 to 8 MW. Motor Sich JSC is a part of aviation industry complex of Ukraine, traditionally deeply integrated with enterprises of aviation industry of Russia.

**At the present time Motor Sich JSC performs the following work:**

### **serial production:**

- improvement and modernization of consumer features of such engines, as D-18T and its modifications, AI9-3B, TV3-117VMA-SBM1, D-36 of all series, TV3-117V family, D-436T1, D-436TP, D-436-148, AI-450-MS.

### **development, preparation of experimental and serial production of the following products:**

- AI-25TLSh engine, the new modification of AI-25TL engine, intended for remotorization of L-39 training airplanes;
- AI-222 family engines intended for use in Yak-130, L-15 and other combat trainers produced in Russia and China, as well as for light combat airplanes;
- TV3-117VMA-SBM1V engine designed for a great fleet of "Mi" and "Ka" helicopters all over the world, as well as for installation in new helicopters;
- TV3-117VMA-SBM1V series 1 engine with FADEC automatic engine control system and improved performance characteristics intended for use in Mi-28, Mi-17 and other helicopters.
- TV3-117VMA-SBM1V series 4, 4E engines designed for remotorization of existing Mi-8T helicopters;
- series MS-14 engines designed for modernization of airplanes from An-2 to An-3;
- MS-500V turbo-shaft engine designed for "ANSAT" and other helicopters;
- MS-400, MS-400P, MS-450, MS-100 small engines intended for use in light aerial vehicles;
- gas-turbine drives and power stations oriented on needs of Russia and Ukraine, as well as combined heat and power plants with gas-steam cycle or co-generation cycle.



## Company Structure

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# MOTOR SICH



- AFFILIATED COMPANIES
- SUBSIDIARY COMPANIES
- AIRLINE
- MOTOR SICH JSC REPRESENTATIVE OFFICES
- HEALTH RESORTS

## AFFILIATED COMPANIES

### Snezhnoye Machine-Building Plant (SMZ)

Year of foundation – 1974

#### Areas of activity:

- production of blades for gas-turbine engines;
- production of components and assembly units for mining equipment;
- production of consumer goods with special emphasis on agricultural and utility equipment.

### Volochysk Machine-Building Plant (VMZ)

Year of foundation – 1971

#### Areas of activity:

- providing aircraft engines with mass-produced parts and metal products;
- production of technological tooling;
- overhaul of AI-20 engine and its modifications;
- production of EG-1000, PAES-2500 power stations;
- manufacture and assembly of GTE-MS-2,5; AI-2500M power drives;
- production of consumer goods with special emphasis on a wide range of mufflers for motor cars and agricultural equipment.

### Zaporozhye Machine-Building Plant named after V.I. Omelchenko

Year of foundation – 1988

#### Areas of activity:

- testing of aviation engines;
- assembly and testing of EG-1000 and EG-6000 gas-turbine power stations;
- testing of 6.3 and 8 MW gas-turbine drives D-336, AI-336;
- assembly and testing of GPAK/5,5-GTP/6,3SK gas-turbine pumping units;
- manufacture of blades;
- foundry.



## SUBSIDIARY COMPANIES

### **Gulaypole Machine-Building Plant**

Ukraine, Zaporozhye region,  
Town of Gulaypole, 17, 9th  
January Street

#### Areas of activity:

- development, preparation and organization of research and serial production of machine-building products;
- sales of manufactured products;
- production, procurement and sales of agricultural products;
- provision of services to people on repairing and maintenance of motor vehicles, as well as delivery of spare parts for them;
- sales of process equipment, cars and tractors, withdrawn from process usage.

### **Gulaypole Mechanical Plant**

Ukraine, Zaporozhye region,  
Gulaypole district,  
Zheleznodorozhnoye village, 2  
Kotovskogo Street

#### Areas of activity:

- preparation and organization of research and serial production of aviation engines, aviation equipment and property
- manufacture of electrical machines, equipment and devices, industrial products;
- manufacture of agricultural machines, process equipment for textile industry, agricultural and garden tools;
- production of paint-and-lacquer materials;
- production of metal and cardboard containers.

### **Lebedin Engine-building Plant**

Ukraine, Sumy region, Town of  
Lebedin, 18 Grushevaya Street

#### Areas of activity:

- development, preparation and organization of research and serial production of machine-building products;
- sales of manufactured products;
- manufacture of industrial products, consumer goods, fuel and lubricants.

Share of Motor Sich JSC in statutory capital of the above subsidiary companies is 100%.

## AIRLINE



Motor Sich JSC Airline was founded in 1984 and is a structural subdivision of Motor Sich JSC. At present, it operates on the market of cargo and passenger air transportation in Ukraine, CIS and non-CIS countries. Base airfield is Zaporozhye airport (OZH/UKDE) – "Mokraya" airfield.

Since 2004 the Airline is accredited at UN as an official supplier of air transportation services for UN and takes part in air transportation according to UN program in Sudan using An-74TK-200 aircraft.

Aircraft fleet of the Airline consists of passenger, cargo/passenger and cargo planes: :

<b>Yak-42D</b> .....	1 plane
<b>Yak-40</b> .....	1 plane
<b>Yak -40 (business-class)</b> .....	1 plane
<b>An-24</b> .....	2 plane
<b>An -140</b> .....	1 plane
<b>An -74TK-200</b> .....	1 plane
<b>An -12</b> .....	3 plane

### Representative offices:

Kiev (Ukraine);  
 Simferopol (Ukraine);  
 Moscow (Russia);  
 Istanbul and Ankara (Turkey).

### International codes:

- ICAO code - MSI;
- IATA code -M9 and 011.

### Airline has:

- Certificate No 025 dated November 8, 2010, issued by State Aviation
- Air Service License series AV No 446861 dated October 29, 2009,.

### Services:

- cargo and passenger air transportation (scheduled, charter and business flights) to all regions of the world;
- air transportation of hazardous cargo and special-purpose cargo;
- line maintenance and periodic maintenance of An-140, An-24, An-12 and Yak-40 airplanes and line maintenance of An-74TK-200 airplane.

**Airline uses the following aviation systems:**

- AFTN aviation communication system (УКДЕМСИЪ);
- SITA international commercial aviation system (OZHSMXH);
- SIRENA, Amadeus, Gabriel, Galileo and other systems for sale and reservation of air tickets.

**Charter flights are performed to:** Iran, India, Thailand, Bangladesh, Sri-Lanka, Algeria, Israel, Armenia, Georgia, Syria, Italy, Spain, Turkey, Egypt, Kyrgyzstan, Kazakhstan, UAE, Slovenia, Germany, France, Hungary, Belgium and other countries.

**Motor Sich JSC Airline makes scheduled passenger flights:**

- Zaporozhye – Kiev -->
- Zaporozhye – Moscow -->
- Zaporozhye – Istanbul -->
- Kiev – Ankara -->

**New scheduled flights are starting soon:**

- Kiev – Rostov – Kiev -->
- Kiev – Uzhgorod – Kiev -->

**MOTRO SICH JSC  
REPRESENTATIVE OFFICES****Ukraine**

30 Shelkovichnaya Street, Kiev, Ukraine, 01080  
 Phone: +38 044 253 9105, +38 044 253 4083, Fax: +38 044 253 9034  
 E-mail: [motorsich@voliacable.com](mailto:motorsich@voliacable.com)

**Russia**

14 Novopeschanaya Street, Moscow, Russia, 125252  
 Phone: +7 495 411 5155, Fax: +7 495 411 5155  
 E-mail: [info@motorsich.ru](mailto:info@motorsich.ru)  
 Http://www.motorsich.ru

**China**

Representative Office  
 Asia Hotel, Office #403, #8 Gongti bei lu, Xinzhong xi jie, Doncheng District, Beijing, China, 100027  
 Phone: +8610 65515762, Fax: +8610 65515762  
 E-mail: [motorsich\\_china@mail.ru](mailto:motorsich_china@mail.ru)

**U.A.E.**

Regional Office  
 Plot F4-02, SAIF Zone, Sharjah, U.A.E.  
 Phone: +9 716 557 8097, Fax: +9 716 557 8098  
 E-mail: [motorme@eim.ae](mailto:motorme@eim.ae)

**Algeria**

Regional Representation  
 81, Lotissement El Feth, "Les Sables Rouges", El Biar, Algiers, Algeria, 16030  
 Phone: +2 132 192 3720, Fax: +2 132 179 8749  
 E-mail: [suprun.ms@mail.ru](mailto:suprun.ms@mail.ru)

**India**

India Liaison Office  
 24 Ferozeshah Rd., New Dehli, India, 110001  
 Phone: +91 114 350 4903, Fax: +91 114 350 4902  
 E-mail: [msindia@mail.ru](mailto:msindia@mail.ru)

**Bangladesh**

Representative Office Dakiv Corporation  
 House #95, Road #06, Block-C, Banani, Dhaka, Bangladesh  
 Phone: +8 802 883 4617  
 E-mail: [bromotor@dhaka.net](mailto:bromotor@dhaka.net), [bstech\\_ms@dhaka.net](mailto:bstech_ms@dhaka.net)

## HEALTH RESORTS



### HEALTH RESORT "PRIBOY"

Location:

Primorsk, Zaporozhye region (Azov seashore).

Capacity: 7 comfortable buildings for 490 persons .

Number of vacationers p.a.: about 3 thous. persons .

Line of activity: family recreation .

#### Main advantages:

- comfortable rooms;
- caloric food;
- equipped beach;
- gymnasium;
- various leisure facilities.

### HEALTH RESORT "MOTOR"

Location:

Primorsk, Zaporozhye region (Azov seashore).

Capacity: 4 comfortable buildings for 500 persons

Number of vacationers p.a.: more than 3 thous. persons .

Line of activity: family recreation .

#### Main advantages:

- comfortable, home atmosphere; perfect living conditions;
- the best equipped beach at Azov seashore;
- tennis courts with special cover;
- two thousand meters of sport grounds;
- gymnasium;
- billiard, cinema and concert halls;
- excellent national cuisine.



## MEDICAL-CARE VACATION HOTEL “HORIZONT”

Location:

Alushta (South coast of Crimea)

Capacity: 3 bedroom buildings for 500 persons.

Number of vacationers p.a.: more than 4 thous. persons.

Specialisation: medical treatment of diseases of respiratory organs, functional diseases of nervous system, as well as ear, nose and throat diseases .

Line of activity: family recreation.

### Main advantages:

- picturesque scenery, clean air, warm sea;
- comfortable rooms;
- qualified medical service;
- balanced diet;
- various leisure facilities;
- equipped sports and play grounds;
- chain of stores and cafes





# Management Bodies of Motor Sich JSC

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# MOTOR SICH



- CORPORATE MANAGEMENT
- BOARD OF DIRECTORS
- COMPETENCE OF THE BOARD OF DIRECTORS ACCORDING TO STATUTE OF MOTOR SICH JSC
- SUPERVISORY BOARD
- INTERNAL AUDIT COMMISSION



**VYACHESLAV  
Alexandrovich Boguslayev**  
Chairman of the Board of Directors



**Pavel Dmitrievich  
ZHEMANYUK**  
Deputy Chairman of the Board  
of Directors, Technical Director  
of Motor Sich JSC



**Mikhail Naumovich  
Berezovsky**  
Deputy Chairman of the Board  
of Directors, Director of  
Construction and Social  
Development of Motor Sich JSC



**Viktor Alekseyevich  
LUNIN**  
member of the Board of  
Directors, Financial Director  
of Motor Sich JSC



**Vladimir Borisovich  
SEMENOV**  
member of the Board of  
Directors, Director for  
Corporate Law and  
Investment Projects of Motor  
Sich JSC

# BOARD OF DIRECTORS OF **MOTOR SICH JSC**



**Vladimir Timofeyevich  
SHIRKOV**

Deputy Chairman of the Board  
of Directors, Marketing Director  
of Motor Sich JSC



**Vasily Vasilyevich  
TKACHENKO**

Director of the  
Representative office of  
NPO IVCHENKO  
Corporation



**Olimpy Valerianovich  
POKATOV**

member of the Board of  
Directors, Director of Human  
Resources Department of  
Motor Sich JSC



**Alexander Petrovich  
NEDASHKOVSKY**

member of the Board of  
Directors, Director of  
Snezhnoye Machine-Building  
Plant



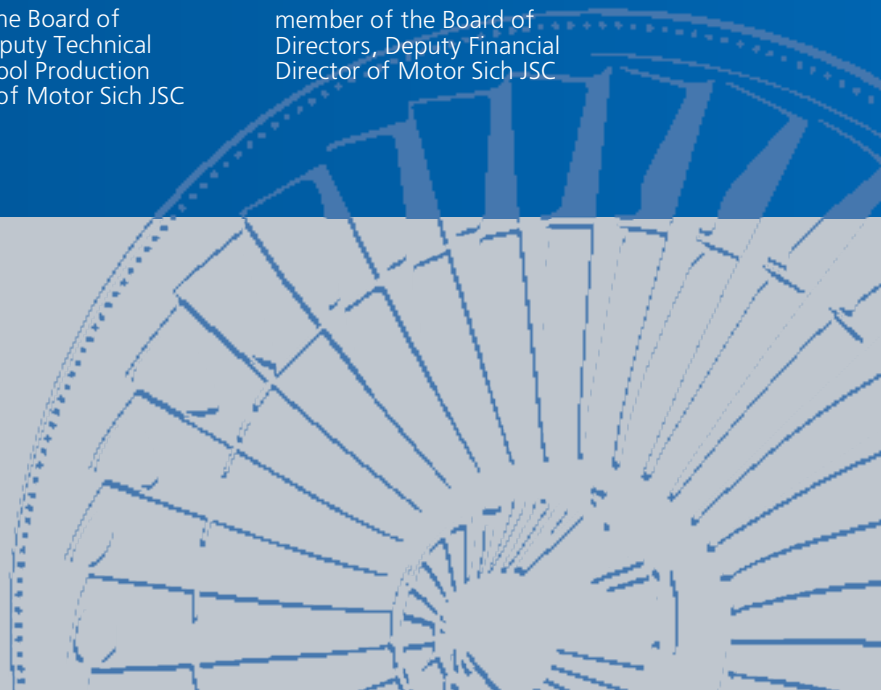
**Konstantin Ivanovich  
GORBIK**

member of the Board of  
Directors, Deputy Technical  
Director of Tool Production  
Department of Motor Sich JSC



**Vasily Vladimirovich  
KHVOSTAK**

member of the Board of  
Directors, Deputy Financial  
Director of Motor Sich JSC



Management and control bodies of Motor Sich JSC pay particular attention to openness, efficiency, honesty, responsibility and achievement of the specified objectives in order to provide efficient corporate management according to international standards.

The Company guarantees quality control in all directions of its activity under the corporate management system. It maintains good and fair relations with shareholders, provides transparent and prompt accounting reports.

### Management bodies of Motor Sich JSC:

- General meeting of shareholders;
- Supervisory Board;
- Board of Directors.

Authorities and obligations of management bodies are clearly divided and balanced. Corporate management system of Motor Sich JSC is built according to international standards, the best world experience and legislation of Ukraine. It provides:

- efficient cooperation between management and control bodies, as well as external auditors and all interested parties (shareholders, contractors, state bodies);
- monitoring of the Company's activity for achievement of the specified objectives.

### Corporate management system of Motor Sich JSC is based on the following principles:

- The Company protects rights of shareholders.
- The Company provides equal relations towards all shareholders, including minority and foreign shareholders.
- The Company acknowledges legal rights of the interested parties and encourages active cooperation between Motor Sich JSC and all interested parties for increase of social wealth, creation of new work places and achievement of financial stability of the Company.

- The Company provides timely disclosure of reliable information about all important aspects of Motor Sich JSC activities, including data about financial state, results of business activity, structure of shareholders and management.

- Board of Directors provides strategic business management and efficient control of all subdivisions. It regularly reports to its shareholders.

### Competence of the Board of Directors according to Statute of Motor Sich JSC

The Board of Directors is a permanent executive body of the Company, which shall perform management of its current activities according to the Statute of Motor Sich JSC.

The board of Directors at its own discretion, within its power stipulated by effective legislation, Statute and internal documents of the Company, shall make decisions, conclude agreements and carry out activities, which belong to its authorities according to legislation of Ukraine and are its rights or obligations.

Chairman of the Board of Directors is in charge of its work. He shall allocate responsibilities among the elected members of the Board of Directors. Chairman of the Board of Directors shall perform management of the Company's current activities according to the Statute and legislation of Ukraine.

Chairman of the Board of Directors shall perform all legitimate activities out of the Company's power of attorney. He shall represent the Company in all relations with the third parties, hold negotiations and conclude any agreements (contracts, treaties etc.), sign legal acts (documents) related to the Company's activities, issue Powers of Attorney (Orders), open bank accounts, sign labour contract with work collective, issue orders, directives to conclude labour contracts with the Company's employees and discharge them according to current labour code of Ukraine.

**Information about Motor Sich JSC shareholders among the members of the Board of Directors**

Position	Full name	Q-ty of shares, pcs.	Share in statute capital (%)
Chairman of the Board of Directors	<b>Vyacheslav Alexandrovich Boguslayev</b>	311 421	14,99
Deputy Chairman of the Board of Directors	<b>Pavel Dmitrievich Zhemanyuk</b>	87	0,0042
Director of the Representative office of NPO IVCHENKO Corporation	<b>Vasily Vasilyevich Tkachenko</b>	3	0,00014
Deputy Chairman of the Board of Directors	<b>Mikhail Naumovich Berezovsky</b>	-	-
Deputy Chairman of the Board of Directors	<b>Alexander Petrovich Nedashkovsky</b>	41	0,00197
member of the Board of Directors	<b>Olimpy Valerianovich Pokatov</b>	23	0,0011
member of the Board of Directors	<b>Vladimir Timofeyevich Shirkov</b>	22	0,0011
member of the Board of Directors	<b>Viktor Alekseyevich Lunin</b>	12	0,00058
member of the Board of Directors	<b>Vladimir Borisovich Semenov</b>	10	0,00048
member of the Board of Directors	<b>Konstantin Ivanovich Gorbik</b>	6	0,00029
member of the Board of Directors	<b>Vasily Vladimirovich Khvostak</b>	1	0,000048

# SUPERVISORY BOARD



**ANATOLY NIKOLAYEVICH MALYSH**

Chairman of the Supervisory Board, Director of Public Relations of Motor Sich JSC.

Date of birth: 15.04.1956.

Education: higher.



**VYACHESLAV ALEXANDROVICH BOGUSLAYEV**

Deputy Chairman of the Supervisory Board of Motor Sich JSC, Leading Manpower Training Engineer of the Personnel Training Department of Motor Sich JSC

Date of birth: 02.08.1978.

Education: higher.



**SERGEY ANATOLYEVICH VOITENKO**

Secretary of the Supervisory Board, Quality Director of Motor Sich JSC.

Date of birth: 27.08.1954.

Education: higher.



**YURY VLADIMIROVICH BURYA**

member of the Supervisory Board, Head of workshop No. 41 of Motor Sich JSC.

Date of birth: 10.04.1951.

Education: higher.



**YURY MIKHAILOVICH GRECHIKHA**

member of the Supervisory Board, Assembly fitter of engines of workshop No. of Motor Sich JSC.

Date of birth: 06.07.1954.

Education: specialized secondary.



**PETER IVANOVICH KONONENKO**

member of the Supervisory Board, Director of Moscow Representative office of Motor Sich JSC.

Date of birth: 05.12.1955.

Education: higher.



**VALERY MIHKAILOVICH LOGVIN**

member of the Supervisory Board, Director of Catering Centre of Motor Sich JSC.

Date of birth: 23.07.1952.

Education: higher.



**SERMIHKAIL IVANOVICH TRUSH**

member of the Supervisory Board, Chairman of Trade union committee of Motor Sich JSC.

Date of birth: 10.06.1949.

Education: higher.



**SVETLANA ALEXANDROVNA KHOREVA**

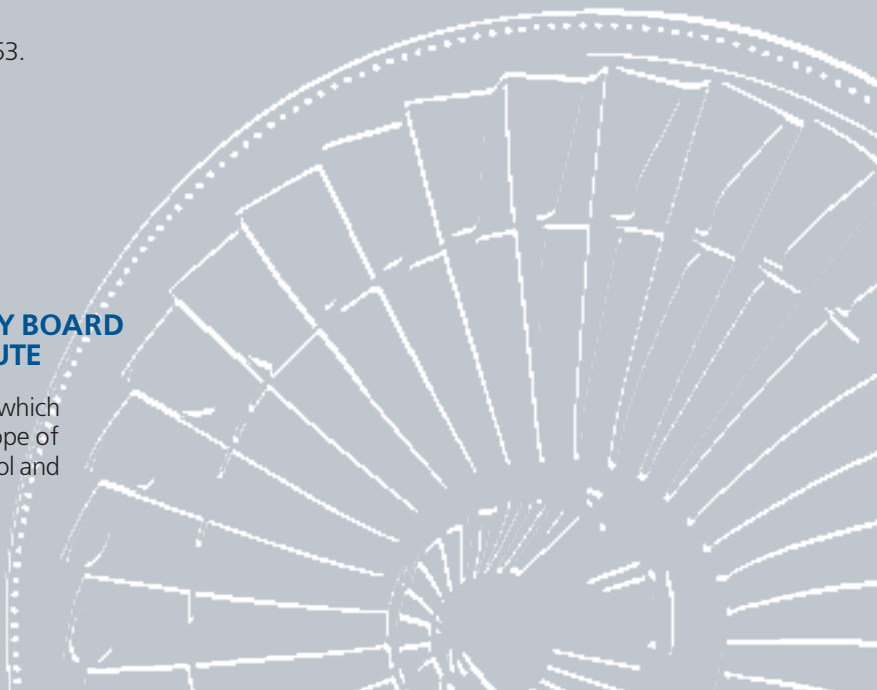
member of the Supervisory Board, Head of Finance-and- Economy Department of Motor Sich JSC.

Date of birth: 21.12.1953.

Education: higher.

**SCOPE OF FUNCTIONS OF THE SUPERVISORY BOARD OF MOTOR SICH JSC ACCORDING TO STATUTE**

The Supervisory Board of Motor Sich JSC is a body, which shall protect rights of shareholders and, within the scope of its functions stipulated by Laws and Statute, shall control and regulate activities of the executive body.



## INTERNAL AUDIT COMMISSION



### **ALEXANDER NIKOLAYEVICH POLYVIANY**

Chairman of Internal Audit Commission of Motor Sich JSC, Deputy Head of Finance-and-Economy Department, Head of Labour and Wages Department of Motor Sich JSC.

Date of birth: 10.12.1954.  
Education: higher



### **ANATOLY YURYEVIKH GRINCHENKO**

member of Internal Audit Commission; Chief dispatcher - Head of Assembly and Testing Department of Motor Sich JSC.

Date of birth : 08.04.1948.  
Education: higher.



### **VALENTINA NIKOLAYEVNA MOLCHANOVA**

member of Internal Audit Commission; Nondestructive testing operator of X-ray and gamma-ray examination of workshop No. 60 of Motor Sich JSC.

Date of birth : 26.02.1955.  
Education: secondary.



### **VALENTIN GRIGORYEVICH PASTERNAK**

member of Internal Audit Commission, Director of Volochysk Machine-Building Plant.

Date of birth :16.02.1954.  
Education: higher.

**IGOR ANDREYEVICH PETRIK**

member of Internal Audit Commission of Motor Sich JSC, Chief welder of the Chief Metallurgist Department of Motor Sich JSC.

Date of birth : 27.05.1956.

Education: higher.

**LEONID ALEKSEYEVICH PIROGOV**

member of Internal Audit Commission of Motor Sich JSC, Deputy Technical Director – Head of Design-Engineering Department.

Date of birth : 14.04.1948.

Education: higher.

**VIKTOR YURYEVICH KOTSYUBA**

member of Internal Audit Commission ; Head of workshop No. 20 of Motor Sich JSC.

Date of birth : 07.09.1965.

Education: higher.

**Competence of Internal Audit Commission according to Statute of Motor Sich JSC**

General meeting of shareholders shall elect Internal Audit Commission for auditing of financial and economic activities of the Company. Members of the Board of Directors, Supervisory Board and other officials may not be members of Internal Audit Commission.

Commission shall prepare conclusions on the Company's Annual Reports and Balance Sheets, as well as supervise:

- implementation of plans and main directions of the Company's activities accepted at the General meeting of shareholders;
- implementation of decisions of the Board of Directors concerning the Company's financial and economic activities;
- settlement of accounts with shareholders;
- implementation of decisions on elimination of revealed faults.



## Production Activity

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# MOTOR SICH

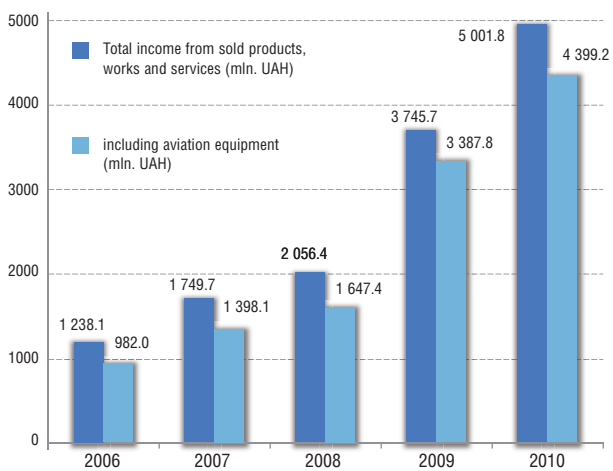


- MAIN ASPECTS OF PRODUCTION AND FINANCIAL ACTIVITY
- FIRST-PRIORITY DIRECTION OF ACTIVITY OF THE COMPANY
- PRODUCTION ACTIVITY IN PROCESS-STOCK
- ADVANCED TECHNOLOGIES
- CERTIFICATES AND LICENCES
- SERVICE MAINTENANCE
- PROSPECTS FOR 2011

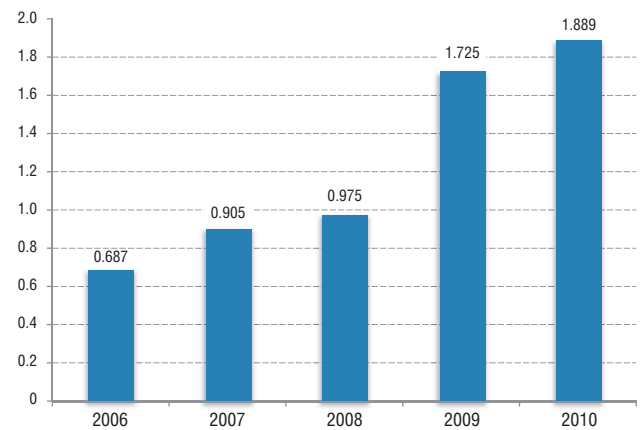
## MAIN ASPECTS OF PRODUCTION AND FINANCIAL ACTIVITY

- Growth rate of production volume in comparable prices to 2009 – 114,0%
- Income from sold products, works and services – 5,001.8 mln. UAH. It is by 1,256.1 mln. UAH more than in 2009
- Specific weight of aviation equipment in the sold products – 93,8%
- Export share in the income from sold products – 91,5%

**Income from sold products, works and services for 2006 – 2010 (mln. UAH)**



**Yield of capital investments for 2005 – 2010 (mln. UAH)**



## FIRST-PRIORITY AREAS OF ACTIVITY OF THE COMPANY

As manufacturer having big experience and high technology capabilities, Motor Sich JSC performs high quality repair of engines using enterprise facilities and doing this job in short period of time according to flexible contractual terms. Along with this, the latest measures are implemented which are aimed at further increase of reliability and good performance of engines.

Nowadays, Motor Sich JSC has to work in very hard competitive environment in aviation world market. It means that the first priority should be given to new advanced products which will be capable to compete with products of leading world companies.

Thereby, on the basis of analysis of tendencies of development of the world and domestic aeroengine building, demands of aviation market and actual economic situation of Ukrainian aviation industry, the following main areas of activity can be drawn up:

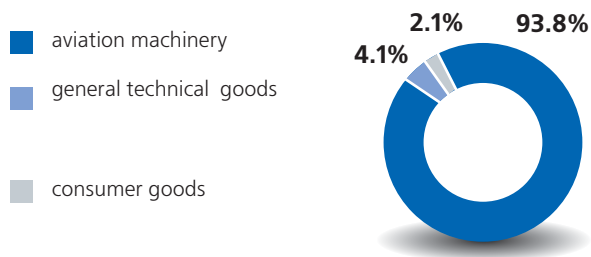
- continuation of works of operation support of engines which are manufactured in series, as well as further increase of their performance (reliability, life time, efficiency);
- development and implementation in production of new competitive engines which shall have export potential and meet demands of Ukraine for aviation products;
- development of modifications of engines which are demanded by the aviation market having in mind the aim of decrease of time and cost for design of the products;
- development of scientific-and-technical stock to ensure competitiveness of domestic engines in the nearest future;
- development of modifications of aeroengines for ground application (pumping oil and gas, power generation, transport);
- development of modifications of gas turbine power generation sets, heat-and-power engineering complexes and gas pumping units;
- expansion and intensification of integration relations with Russian aeroengine building complex;
- expansion of presence in international market with orientation as a first priority to CIS market and Asian region market.



## PRODUCTION ACTIVITY IN PROCESS-STOCK

Motor Sich JSC during year 2010 ensured fulfillment of deliveries of products according to contracts and agreements concluded with the customers. 206 contracts had been fulfilled for delivery of serial produced and repair engines, drives, power generation sets. Marketable products amounted to 4 billion 768.8 million UAH in currently effective prices had been manufactured, shipped for 4 billion 688.0 million UAH.

**The relative portions of products that were sold are distributed as follows:**



In addition to manufacture of engines, the Company secured fulfillment of 74 contracts for delivery of spare parts (46 – to non-CIS foreign countries, 28 – to Russia). The Company carries out technical support of engines in operation, warranty and post-warranty service. For that purpose, the locations of periodic maintenance and permanent staying of specialists of Product Support Department (190 locations) are established, a system of airworthiness support is functioning. The work with Operators is arranged on contractual basis. 337 contracts and 370 additional agreements to currently effective contracts aimed at increase of time parameters and technical support of engines produced by Motor Sich JSC were concluded during year 2010 with aviation enterprises of CIS countries.

During year 2010 the consumer goods were sold for **96.0** million UAH.

During year 2010 the works related to implementation of serial production of the whole range of new aviation products were continued.

**The following items had been manufactured**

- 3 engines MC-500;
- 2 engines AI-450M;
- 2 engines AI-450MC, series 1;
- 3 engines TB3-117BMA-CBM1B, series 4Э;
- modified fan of engine Д-36МБ;

Preparation of production and manufacture of prototypes of engines MC-450, MC-14, of full-size engine AI-222-25 were carried out. Mockup copy was made and preliminary on-ground tests of Ми-8Т helicopter were performed, the helicopter was upgraded with replacement of TB3-117 engine with TB3-117BMA-CBM1B, series 4Э engine. Heat exchangers for engines Д-36, AI-9 3Б, Д-436-148 were being manufactured.

**Work related to engineering and implementation to production line of the following general consumer goods had been performed:**

- design documents had been developed, experimental batch of petrol-powered saws «Motor Sich-475С» of improved design was manufactured;
- experimental batch of modified rotary-swing column КПО-60-01 was manufactured;
- experimental batch of «Motor Sich СЦМ-80Е» separators was manufactured.

The company allocated 85.0 million UAH of own assets for development and preparation to serial production of new types of aviation products, technical goods and consumer goods.

During accounting year, ТЭК-3 experimental specimen was completely mounted, it was put into operation, the adjustment of the complex is in progress at this moment. ТЭК-6 complex is manufactured more than for 70%. Because of lack of governmental financing further works related to manufacture of ТЭК-6 are being performed at the expense of the Company.

As to 01.01.2011, the in process-stock at Motor Sich JSC amounted to 1 549.2 million UAH. During year 2010 the in process-stock increased by 430.6 million UAH (38,5%). Hereby, the main production in process-stock increased by 365,5 million UAH (35,9%), auxiliary production in process-stock increased by 65,1 million UAH (64,3%). The reasons for increase of main production in process-stock were: increase of prices for material resources, creation of groundwork for output of year 2011, development and manufacture of prototypes of new machinery.

**The portion of main production output in the in process- stock:**

As to 01.01.2010 – **90,9%**;

As to 01.01.2011 – **89,3%**.

**In process-stock created in 2010 shall ensure uninterrupted and continuous work of the Company in year 2011.**

## ADVANCED TECHNOLOGIES

Manufacture of aeroengines which should meet contemporary demands of the market and be capable to compete with the products of the leading world companies requires continuous improvement of production processes with due consideration of the latest achievements of science and engineering.

Motor Sich JSC carries out the following activities in this respect:

### 1. Implementation of new production processes:

- process of strengthening of wide-chord blades, compressor discs, blisks and shafts of Gas Turbine Engine (GTE);
- processes of quick prototyping of GTE parts;
- processes of forming of high-precision gears for GTE reduction gears;
- processes of electrolyte-plazma polishing of GTE parts made of titanium alloys and other materials;
- process of brazing of wear-resisting plates on embossings of shroud platforms of blades
- processes of manufacture of plates from sintered material БМК-1 for tilt-rotary tables to machining centers being upgraded;
- process of manufacture of plates for CNC machines using method of powder metallurgy;
- processes of application of two-layer vacuum-plasma coating to blades
- process of restoration of casing type parts made of aluminium and magnesium alloys using method of gas-dynamic spraying;

### 2. Implementation of advanced preforms:

- precision investment casting of heat-resistant and structural alloys;
- centrifugal precision investment casting of titanium alloys;
- casting of monocrystal blades of heat-resistant alloys ЖС32, ЖС26;
- metal mould casting of magnesium and aluminum alloys;
- precise casting of large-size components made of non-ferrous alloys.

### 3. Joint scientific researches:

- The works are carried out together with UkrNIIspetsstal institute in adjustment of conditions of gas-static pressing of titanium and heat-resistant casting using Avure gas-static machine and investigation of carbide phase of heat-resistant bearings made of ЭИ347-Ш steel;
- The works are carried out together with Paton Welding Institute of National Science Academy of Ukraine in development of friction welding process with mixing of thin-sheet articles made of aluminium alloys;
- A complex of investigations and development of methods of repair of GTE parts made of high-alloyed titanium compounds by means of welding using nanostructured additive materials are carried together with Zaporozhye National Technical University.

### 4. Development and implementation of control programs for CNC equipment.

### 5. Creation of new software products:

- development of Computer-Aided Design (CAD) System for designing aeroengines, enhancement of its functionality thanks to introduction of complicated special systems of calculation and simulation;
- development of Computer-Aided Process Engineering System;
- development of Management Integrated Control System (MICS) on the basis of SAP solutions;
- creation and development of Integrated Product Operation Support System;
- integration of above mentioned systems and formation of integrated data field of the Company.

### 6. New imported process equipment had been purchased:

- CNC semi-automatic lathe machine GOODWAY GA3300M
- CNC machining center TWINHORN VE-1020L3
- CNC milling machining center HURON VX4
- CNC lathe machining center DZ45CNC/T2
- CNC machining center TURBOMILL 1200 g.

## CERTIFICATES AND LICENCES

Today the Company delivers to world market the products which are produced on certified production base. Production of aeroengines is a high-tech production, and for that reason, in order to ensure and strengthen our competitiveness and provide world level quality system, continuous work is carried out in our Company aimed at improvement of organizational structure, increase of personnel qualification, supplying production line with new high-tech equipment, implementation of new technology processes. Production of modern aeroengines, as well as repair of all produced aeroengines, is certified by Aviation Register of Interstate Aviation Committee (IAC) and State Department of Aviation Transport of Ukraine. Our Company is recognized by Aviation Register of IAC as Designer of aeroengines for civil aircraft.

Quality system of Motor Sich JSC is certified by transnational organization **BUREAU VERITAS CERTIFICATION (BVC)** for conformity to **ISO 9001** standard with regard to production, overhaul and maintenance of aeroengines, gas turbine drives and designing of gas turbine power generation sets with accreditation area in USA, UK and Germany.

### Certificates

- Quality system compliance certificate No. POCC UA.IC25.K00031; issued by CERTIFICATION CENTER «Quality» (Russia)
- Quality system compliance certificate No. UA226244; issued by BUREAU VERITAS CERTIFICATION
- Quality system compliance certificate of Motor Sich JSC CK No. 126; issued by CERTIFICATION CENTER «Gosviasertifica» JSC (Russia)
- Quality system compliance certificate No. POCC UA.IC25.K00031; issued by CERTIFICATION CENTER «Quality» (Russia)
- Quality management system compliance certificate BP 27.1.3401-2010; issued by CERTIFICATION CENTER «Gosviasertifica» JSC (Russia)
- Certificate of technical support organization BP 0030; issued by Transport and Communications Ministry of Ukraine – State Aviation Administration
- Certificate of aviation equipment designer P-56; issued by AR IAC
- Certificate of aviation equipment designer CP 0009; issued by Transport and Communications Ministry of Ukraine – State Aviation Administration





- Production approval certificate ОП 01-ПД; issued by AR IAC
- Production approval certificate CB 0004; issued by Transport and Communications Ministry of Ukraine – State Aviation Administration
- Certificate of repair organization СПР-11; issued by AR IAC

### Type certificates

- Type certificate CT №ТДД 0009 «Auxiliary Power Unit AI-450-MC»; issued by Transport and Communications Ministry of Ukraine – State Aviation Administration
- Type certificate CT 260-ВД «Auxiliary Power Unit AI-450-MC»; issued by AR IAC
- Type certificate CT №ТД0041 «Turboshaft engine TB3-117B»; issued by Transport and Communications Ministry of Ukraine – State Aviation Administration
- Type certificate № CT 267-АМД «Turboshaft engine TB3-117BMA-СБМ1В»; issued by AR IAC
- Type certificate № ТД 0035 CT № 0035 «Turboshaft engine TB3-117BMA-СБМ1В»; issued by Transport and Communications Ministry of Ukraine – State Aviation Administration

### Type compliance and approval certificates Certificates of Conformance and Certificates of Type Approval

- Certificate of Conformance ROSS UA. MX04.V00117 (Certification Centre “Quality”, Russia, Moscow) for gas-turbine drives (power-generating gas turbines) AI-20 (DKE, DME, DKN, DMN, DMECh, DMNCh), AI-2500M, GTE-MS-2,5, GTE-MS-2,5D
- Certificate of Conformance ROSS UA. MX04.V00118 (Certification Centre “Quality”, Russia, Moscow) for converted gas-turbine drives (power-generating gas turbines) AI-20 (DKE, DME, DKN, DMN, DMECh, DMNCh), AI-2500M, GTE-MS-2,5
- Certificate of Conformance ROSS UA. MX04.V00108 (Certification Centre “Quality”, Russia, Moscow) for gas-turbine drives (driving gas turbines) D-336-1, D-336-2, D-336-2T, AI-336-2T, AI-336-2-8, D-336-1-E, D-336-2-E, D-336-2T-E, AI-336-2-8-E
- Certificate of Conformance ROSS UA. MX04.V00114 (Certification Centre “Quality”, Russia, Moscow) for gas-turbine drive (power-generating gas turbine) GTE-6,3/MS

- Certificate of Conformance ROSS UA. MX04.V00113 (Certification Centre "Quality", Russia, Moscow) of gas-turbine drive (power-generating gas turbine) GTE-8/MS
  - Certificate of Type Approval for GTD ST No. ODC 0550-0209/2.2 «D-336-1, D-336-2, D-336-2T, AI-336-2-8, GTE-6,3/MS, GTE-8/MS, D-336-1-E, D-336-2-E, D-336-2T-E, AI-336-2-8-E»; issued by SGS
  - Certificate of Conformance ROSS UA. ME22.N00245 (ANO "Certification Centre of Electrical Equipment and Mobile Power Stations", Russia, Kursk) for «Gas turbine power station Motor Sich PAES-2500 and its modifications»
  - Certificate of Conformance ROSS UA. ME22.N00244 (ANO "Certification Centre of Electrical Equipment and Mobile Power Stations", Russia, Kursk) for «Gas turbine power station Motor Sich EG 1000T-T400-ZUKhL1»
  - Certificate of Conformance ROSS UA. MX04.N00246 (Certification Centre "Quality", Russia, Moscow) for «Gas turbine power station Motor Sich EG 6000T-T10500-3VNM1UkhL1»
  - Certificate of Conformance ROSS UA. MP092.V01309 (Federal State Institution "Russian Maritime Register of Shipping", Russia, St. Petersburg) for "Motor Sich KPO-60-1" stern drive and its spare parts"
  - Certificate of Conformance No. UA 1.050.0029643-09 (OSTT INPOMT, Ukraine, Odessa) for "Motor Sich MB-4,05" motor cultivator
  - Certificate of Conformance No. UA 1.014.0046771-10 (R&D Centre "Stankocert", Ukraine, Odessa) «Hand chain electric motor saw of model Motor Sich EP-2000-1»
  - Certificate of Conformance No. UA 1.014.0036618-09 (R&D Centre "Stankocert", Ukraine, Odessa) for «Motor Sich STsM-80» skimming machine in various versions»
- Licenses**
- License Ser. AF No. 506371 dated 25.02.2011: «Design, mounting and maintenance of fire protection means and heating facilities, estimation of fire safety level of the objects»; issued by State department of fire security of Ministry of Emergency Situations of Ukraine
  - License Ser. AB No. 298690 dated 17.04.2007: «Operations in the field of hazardous waste products treatment (collection, transportation, storage, removal)»; issued by Ministry of Environment of Ukraine
  - License Ser. AB No. 501770 dated 20.04.2010: «Development, manufacture, introduction, maintenance and estimation of efficiency of systems and means of data technical protection, rendering services in the field of data technical protection»; issued by Administration of state service of special communication and information protection of Ukraine
  - License Ser. AB No. 419945 dated 03.07.2009: «Development, manufacture, sale, repair and upgrade of military equipment»; issued by Ministry of Industrial Policy of Ukraine
  - License Ser. AB No. 475989 dated 22.07.2010: «Rendering services on transportation of passengers and cargoes by river and marine transport»; issued by State administration of sea and river transport
  - License Ser. AB No. 348265 dated 11.07.2007: «Medical practice»; issued by Ministry of Health of Ukraine
  - License Ser. AB No. 469946 dated 23.09.2009: «Electric energy supply according to unregulated tariff»; issued by National commission on regulation of electrical energy industry of Ukraine
  - License Ser. AB No. 466399 dated 27.08.2009: «Rendering services in fixed local telephone communication»; issued by National commission on communications regulation of Ukraine
  - License Ser. AB No.472038 dated 23.09.2009: «Natural gas supply according to unregulated tariff»; issued by National commission on regulation of electrical energy industry of Ukraine
  - License Ser. AB No. 474140 dated 15.07.2009: «Rendering services on transportation of passengers and cargoes by automobile transport in accordance with types of works determined by Law of Ukraine «On automobile transport»; issued by Ministry of Transport and Communications of Ukraine
  - License Ser. AB No. 446861 dated 29.10.2009: «Rendering services on transportation of passengers and cargoes by air transport»; issued by State Aviation Administration of Ukraine
  - License Ser. AB No. 506066 dated 07.12.2009: «Rendering educational services by educational institutions»; issued by Ministry of Education and Science of Ukraine.

## SERVICE MAINTENANCE

Motor Sich JSC has an after-sales service division (Product Support Department – PSD), which is ready to effect technical support of all manufactured aircraft engines within the whole period of their operation.

PSD represents the main link connecting the company with numerous operators.

All the work of PSD with customers is regulated by the concluded contracts: at present more than 350 contracts are in force, 200 of them were concluded with Air Companies from CIS countries.

### **In 2010, Product Support Department:**

- has rendered various services to the amount of 308.4 mio UAH;
- has performed light overhaul of all in all 103 engines: in service conditions - 74, at technical centres (Technical Centre MSME, UAE; Technical Centre Borisfen-Avia, Russia) – 42;
- continued to master light overhaul of D-336, AI-336-2-8, D-436TP, D-436-148, AI-450-MS, TV3-117VMA-SBM1V, AI9-3B engines;
- has developed new kinds of repair technologies for TV3-117VMA-SBM1V, AI9-3B, D-18T, D-36 engines.

The sphere of PSD activity has become wider, as new gas-pumping stations were put into operation in Iran, Turkey, Turkmenia, Uzbekistan, Bulgaria, Belarus, Russia, Azerbaijan. Total of 105 engines are now operated at gas-pumping stations and 8 engines are used at power stations.

### **Presently, highly experienced specialists of PSD render in-service support of the following new equipment:**

- An-148-100B and An-158 airplanes with D-436-148 and AI-450-MS engines of “Aerosvit” (Borispol’, Ukraine), “Russia” STC (Pulkovo, Russia) and “BACO” OJSC air companies;
- An-140-100 airplanes with TV3-117VMA-SBM1 and AI9-3B engines of “Motor Sich” (Ukraine), “Yakutia” (Russia) air companies;
- Be-200 airplanes with D-436TP engines;
- Tu-334 airplanes with D-436T1 engines;
- J-8 airplanes with AI-25TLK engine in China;

- experimental-industrial operation of Mi-8, Mi-8MTV and Mi-24 helicopters with TV3-117VMA-SBM1V engines;
- experimental-industrial operation of 10 MW gas-turbine installation in the urban settlement of Novopskov;
- 7 MW gas-turbine drives at CS “Eskisehir” (Turkey), CS “Volkhov”, CS “Pikaleva”, underground gas storage station “Kanchurinskaya” (Russia);
- 8 MW gas-turbine drives at BCS “Shurtan”, «Zevardy», “Pamuk” (Uzbekistan), “Western Shatlyk” (Turkmenia);
- 8 MW gas-turbine drives at CS “Lozinetz” (Bulgaria), CS “Yuzhno-Balykskaya” (Russia);
- 6.3 MW gas-turbine drive at “Igolskaya” gas-turbine power station.



## PROSPECTS FOR 2011

### Works on aviation engines

- issue of design documentation, manufacture, testing and certification of TV3-117VMA-SBM1I;
- continuation of cooperative deliveries of assembly units for AI-222-25 turbofan engines for manufacture of engines under the concluded contracts;
- manufacture of parts and assembly units of AI-222K-25F engine, as well as testing of the prototype engines;
- completion of flight tests of AI-25TLSh engine installed in L-39 aircraft and launching its production;
- participation in completion and design supervision of D-27 engines for performance of state certification tests;
- manufacture of components and assembly units for AI-450-MS series 1 and AI-450M engines, participation in development works together with "Ivchenko-Progress" SE;
- continuation of work in accordance with integrated schedule for launching production of AI9-3B series 1A engine;
- performance of works on development of MS-500UBE auxiliary engine intended for special purpose aircraft

### Works on MS-14 engine:

- manufacture of pilot batch of the engines, performance of research and development works, preparation for certification;
- performance of works on MS-14 engines adaptation for ram-wing craft;
- conclusion of a contract with Iranian party for performance of works on MS-14 «TWIN».

### Performance of works on MS-500V engine:

- manufacture of third gas generator;
- manufacture and assembly of the engines for performance of research and development works;
- conducting of developmental and special tests on the test bench;
- performance of certification.

### Performance of works on TV3-117VMA-SBM1V engine:

- conducting of state bench tests of the engine in behalf of Russian Federation Ministry of Defense;
- conducting of flight tests as a part of Mi-24 and Mi-8MT/Mi-17 helicopters in RF, Poland and China;

- performance of works on further increase of life operating characteristics of the engine;
- performance of works on creation of TV3-117VMA-SBM1V series 1 modification of the engine with new electronic engine control system for Mi-28NM and Mi-171 helicopters;
- performance of works with helicopter companies and foreign customers on application of the engine in Mi-8MT/Mi-17, Mi-24 and Ka-32 helicopters.

### Performance of works on MS-450 engine:

- manufacture and testing of the demonstrator engine;
- introduction of compressor test bench, as well as the installations for testing turbine and combustion chamber.

### Performance of works on MS-400 engine:

- continuation of works on introduction of new modification of the engine and metal container for long-time storage;
- continuation of works on matching MS-400P product to the reconnaissance-strike complex of «Yuzhnoye» Design Bureau.

### Performance of works on TV3-117VMA-SBM1V series 4, 4E:

- completion of issue of design documentation;
- performance of research and development works and flight development tests as a part of helicopter;
- obtaining of the type certificate;
- works on development and manufacture of heat-exchange devices

### Works on ground equipment

- performance of research and development works on introduction of electronic control system for IGV assembly and air bleed valve of TV3-137 gas turbine drive;
- continuation of optimization of dual-fuel system of GTE-MS-2,5D engine as a part of dual-fuel power station;
- performance of works on creation of GTE-8,3/MS gas-turbine drive for EG-8000MS power station, pre-production and manufacture of prototype of GTD;
- manufacture of prototype of AI-312 gas turbine engine;
- performance of works on manufacture of the first prototype of EG-1000MS power station;
- development of design documentation and operational documentation on modernization of Motor Sich PAES-2500G power station;

- manufacture and delivery to the supplier of three Motor Sich GTE-6/6,3M1UKhL1 gas turbine installations;
- development of operational documentation set, manufacture and testing of the first prototype of EG 7000MS gas turbine power station;
- performance of works on manufacture of the first prototype of EG 8000MS gas turbine power station;
- completion of testing the first prototype of gas pumping unit at the test bench in Kantserovka;
- continuation of experimental works aimed at cheapening of the design of gas pumping modules and units, replacement of materials, standardization of components and assembly units, their application in the development of design documentation for the further deliveries of gas pumping units;
- performance of complex operational, preliminary, acceptance tests of the prototype model of gas pumping unit and putting the first gas pumping unit in pilot operation at Kupyansk compressor station;
- development of Terms of Reference and conceptual design of new gas pumping unit GPA-K/5,5-GTD/12 with 12 MW gas-turbine drive;
- introduction of gas regulating equipment unit into newly developed projects of gas pumping units;
- application of video surveillance systems for control of gas turbine drives and power stations operation.





Foreign economic activity

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# MOTOR SICH



- CASH INFLOW BY REGIONS
- PARTICIPATION IN EXHIBITIONS
- PROSPECTS

## CASH INFLOW BY REGIONS

Implementation of export contracts concerning aviation and ground equipment was, by tradition, the main financial resource in 2010. The Company supplied new aviation engines, gas-turbine drives and other ground products, spare parts, repair-assembling tools, consumer goods. It carried out overhauling, after-sale maintenance of aviation and ground equipment, rendered in-operation services.

Cash inflow under the concluded contracts has increased by 37.1% in 2010 as compared to 2009. Cash inflow from consumers in Russia, CIS and non-CIS countries has increased. A growth of cash inflow from Ukrainian customers was also observed.

### In 2010, distribution of cash inflow among the regions was as follows:

1. From Russia – **68.7%** of total receipts. Increase against the level of 2009 was **66.5%**. Major part of money was received for the delivery of serial aircraft engines TV3-117 (of various modifications), VK-2500, AI-9V.

The largest Russian consumers in 2010 were:

- Kazan Helicopter Plant OJSC;
- Ulan-Ude Aviation Plant OJSC;
- Klimov OJSC (St. Petersburg);
- Kumertau Aviation Plant OJSC;
- Rostov Helicopter Plant OJSC;
- Ilyushin Finance Co. OJSC (Voronezh)

2. From non-CIS countries – **22.0%** of total receipts. Money was received for the delivery and repair of various modifications of aviation engines, as well as for delivery of corresponding spare parts.

The largest foreign consumers of products in the year being reported were:

- China;
- India;
- UAE;
- Algeria.

3. From CIS countries, except for Russia – **1.9%** of total receipts. The Company repaired aviation engines, rendered services for extension of service life, as well as delivered and repaired ground equipment of near abroad companies.

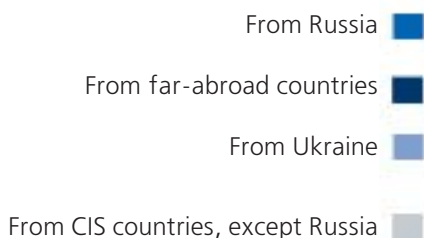
The largest consumers were:

- Belarus;
- Kazakhstan.

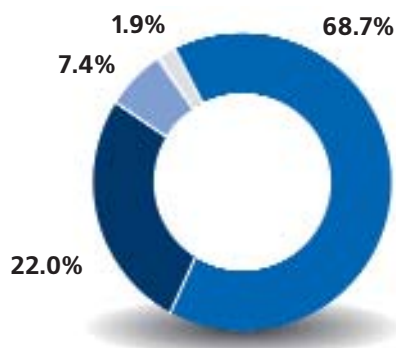
4. From Ukraine – **7.4%** of total receipts. The Company has delivered to the internal market D-36 series 3A, AI-20, D-436-148, AI-450-MS aviation engines, gas turbine drives of D-366 family, as well as repaired various modifications of aircraft engines and ground equipment.

The largest Ukrainian consumers in 2010 were:

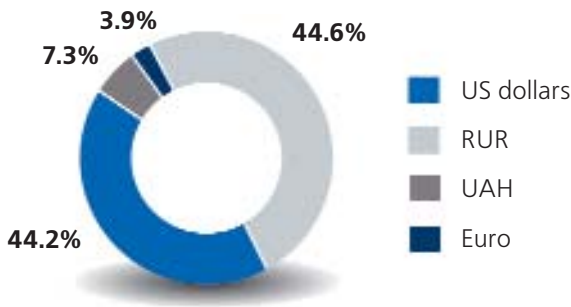
- Antonov SE (Kiyev);
- KhGAPP (Kharkov)



### Cash inflow in 2010:



**Cash assets received for shipped products and rendered services as per forms of payment currency were distributed as follows:**



Technical reequipment of the Company was still under way in 2010. The import contracts for acquisition, overhaul and refurbishment of the equipment to the total amount of **15 040,4 ths.** US dollars were paid in the accounting year according to the foreign currency expenditure plan. The main partners of Motor Sich JSC on importing equipment and spare parts as well as overhauling and upgrading are Germany, Switzerland, Sweden, Poland, France, Slovakia, Czechia, Korea, Bulgaria and other countries. The following machines were purchased: machining centers produced by HERMLE, electric discharge drilling machines SARIX, complex equipment for coating application VTD DREVA 600, general-purpose sharpening machines ROLLOMATIC, hot isostatic press, spare parts and components for vacuum furnaces and machining centers. The contracts were concluded for purchasing high-vacuum furnaces SECO/WARWICK, machines produced by DOOSAN (Korea), CNC electric discharge machines, grinding machine for manufacturing broaches CORVUS BBA 1700. Motor Sich JSC persistently implements professional marketing policy, which makes it possible not only to keep traditional sales markets of our products, but also to subdue new ones. The following methods are used by the Company to organize product sales:

- marketing research of sales markets for determining priorities and implementing merchantable production projects as well as sales of aviation and ground equipment;
- establishment of regional representation offices in different regions of the world: Russia, South-East Asia, China, India, Middle East, Africa, Latin America. By means of the regional representation offices Motor Sich JSC take part in all tenders for delivery of the Company products and services, conducted by the state organizations of different countries such as China, India, Thailand, Bangladesh, Sri Lanka, Algeria, the Gulf States, Bulgaria, Hungary, Turkmenistan, Russia etc.;
- establishment of the vast network of service centers all over the world for improving quality and efficiency of assistance of the Customers of our products;
- purposeful advertising campaigns aimed at promoting our products in new markets, publications in specialized magazines and catalogues;
- participation in prestigious specialized exhibitions related to the products manufactured by our Company.

## PARTICIPATION IN EXHIBITIONS

In 2010, Motor Sich JSC took part in prestigious international and regional exhibitions:

- related to aviation equipment – Defexpo India 2010 (India), Farnborough 2010 (Great Britain), Airshow China 2010 (China), and Russia – “Engines 2010” (Russia), “Aerospace technologies” (Russia).
- related to ground equipment – “Oil and Gas 2010” (Moscow) and “Energy efficiency 2010” (Kiev) with presentation of models of power-generating units and gas-pumping units. Besides, our Company actively participated in the different exhibitions related to consumer goods, in the competitions of loggers as well as in the exhibitions and conferences devoted to the problems of traumatic surgery and orthopedics.

The meetings and negotiations with Operators and Customers of the aircraft engines and ground equipment manufactured by Motor Sich JSC were held in all events. Advertising and presentation of the perspective products were actively under way both during negotiations and in the specialized publications and mass media of the countries holding exhibitions. Participation in the exhibitions and the contracts concluded made it possible to consolidate the results achieved by the Company in the development of sales markets. Motor Sich JSC hold firm positions in the markets of Russia, South-East Asia, Middle East, countries of Africa and Latin America.

## PROSPECTS

In 2011, the enhanced growth of cash receipts is expected to be kept for foreign contracts. The contracts gained also promise to hold such a tendency. As of January, 2011, these contracts form **85%** of the stock of orders. In 2011, the Russian aircraft manufacturing plants are still the partners of the first priority for our Company. They are our biggest Customers, with which the following contracts were concluded:

- Kazan helicopter-building plant – for delivery of engines TV3-117VM, VK-2500 and AI-9V;
- Ulan-Ude aircraft-manufacturing plant – for delivery of engines TV3-117VM and AI-9V;
- Kumertau aircraft-manufacturing plant – for delivery of engines TV3-117VMA and AI-9.

A large-scale contract was signed with VASO (Voronezh) for delivery of engines D-436-148 and AI-450MS for aircraft An-148.

The contracts for delivery of power-generating units PAES-2500, EG-6000 and EG-7000 to Russia are being coordinated.

In addition to cooperation with the Russian Federation, a great attention is paid to keep and expand sales markets in the far-abroad countries, which operate the aviation equipment of the Soviet and Russian origin. In 2011, the Company expects to hold the achieved volumes of cooperation with constant foreign partners.

Performance of the Indian three-year contract for delivery of engines AI-20D is still under way, the contract with China for delivery of engines AI-25-TLK is also executed. A long-term contract is expected to be signed with China for delivery of new modern engine AI-222K-25.

Cooperation with Algeria is still under way. In 2010, the non-standard equipment, repair and mounting tools, test bench and reference pieces were shipped for establishing the overhaul line for the TV3-117 type engines. The installation and testing of test benches and equipment are expected to be finished in 2011 and the overhaul line is to be started in 2012 under the supervision of the Company specialists.

The contracts signed with the Ministry of Defense of Algeria for overhauling engines AI-25TL, TV3-117 of different versions and AI-9V will be performed within 3 years.

The countries of South-East Asia and Latin America such as Bangladesh, Sri Lanka, Peru, Columbia and others, which operate airplanes and helicopters powered with the engines manufactured by Motor Sich JSC are the prospective markets for our Company.

Good prospects are expected for selling aircraft engines at the domestic market in 2011. For the moment the Company carries on performing the contract with KHGAPP for delivery of engines D-36, Series 3A, and the contract with ANTONOV SE for delivery of engines AI-20D, Series 5. A big contract is being coordinated for delivery of engines D-436-148 and AI-450MS to ANTONOV SE within the framework of the mutual project (with Russia) on manufacturing airplanes An-148 and An-158. The contract is also expected to be signed with KHGAPP for delivery of engines D-36, TV3-117VMA-SBM1 and AI9-3B.



In 2011, Motor Sich JSC are going to take part only in the most important and prestigious international exhibitions such as Aero India 2011 (India), Dubai Air Show 2011 (UAE), Paris Air Show 2011 (France), Aviation Expo China 2011 (China), MAKS-2011 (Russia), Helirussia-2011 (Russia).

All in all, the concluded contracts and reached agreements will enable Motor Sich JSC to have the positive rates of sales growth in 2011.



**MOTOR SICH**

# Financial and economic activity

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■ CREDIT POLICY



## CREDIT POLICY

To provide a stable financial and economic activity, Motor Sich JSC implement a flexible financial policy aimed at attracting additional borrowed assets from resident and non-resident financial and banking institutions.

Long-term credits were attracted for purchasing the equipment (long-term credit agreement with UBS AG

Swiss Bank) and implementing the investment projects (contract with SIFCO for introduction of "Thermal energy complex "Motor Sich" cogeneration plant).

As of the end of 2010, credit resources share on the liabilities has reduced from 15.5% to 8.9%.

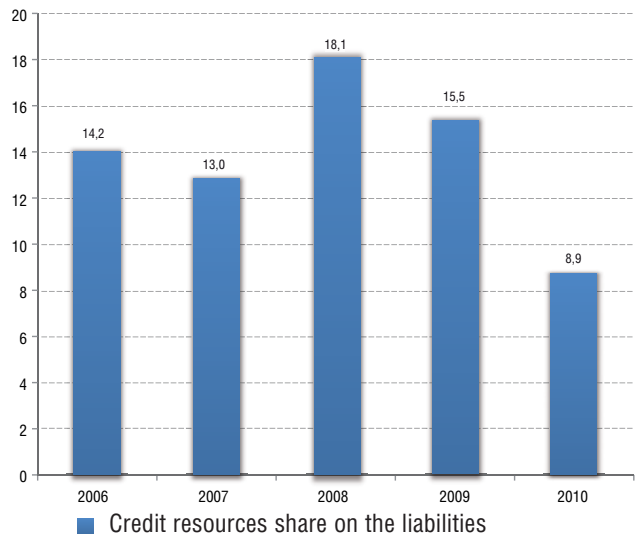
### Indices of financial stability, business activity and financial solvency of the Company

Profitability of sales (the index, which shows the net profit share in the volume of sales) has increased in 2010 up to 25.0%.

Profitability of the current assets (which shows the productivity of circulating assets and the profit earned by the unit of circulating capital of the Company) has grown up to 24.1% and demonstrates the positive result of the Company activity.

Return on equity determining the efficiency of investments into the Company has increased in the accounting period up to 39.3%. Return on equity of Motor Sich JSC is at rather high level and testifies to the efficient activity.

### Dynamics of credit resources share on the liabilities in 2006 – 2010 (%)





Capital  
investments

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# MOTOR SICH

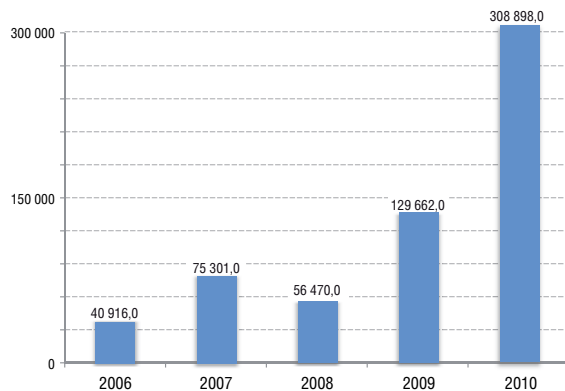


- PREPRODUCTION PREPARATION
- ATTRACTION OF BUDGET AND CREDIT FUNDS FOR FINANCING DEVELOPMENT AND PREPRODUCTION OF NEW PRODUCTS IN 2010

## PREPRODUCTION PREPARATION

In 2010, Construction and Social Development Department fulfilled reconstruction and technical reequipment of the operating production facilities, construction of social facilities, capital and light repair of buildings and structures. 480.0 mln UAH of the Company's own funds were directed for these purposes; 314.8 mln UAH from the above amount were spent for equipment acquisition for main production facilities and social sphere.

### Dynamics of equipment acquisition for main production facilities in 2006 – 2010, ths. UAH.



### The following operations were carried out:

- Installation of isostatic press for commissioning the hot isostatic pressing procedure;
- Construction of thermal energy complex TEC-3;
- Reconstruction of the airline's hangar for organizing the work required for equipping the helicopter overhaul section;
- Reconstruction of test benches for engines MS-500, MS-400, MS-450, D-436-148, D-36, AI-222K-25F;
- Establishment of sections suitable for installation of new high-efficient machines.

The scope of capital construction of social facilities planned for the year was performed. All recreation centers, preventoriums and children's health camps were timely prepared for summer recreational season.

### Company investments in legal economic facilities

As of 01.01.2011, the Emitter owns the shares and equity stakes of more than 30 companies.

The Emitter owns the shares (equities) of the companies situated in Ukraine and Russia. The share fractions of the Emitter vary from 0.013% to 99.96%, the amount of investments varies from several thousands to several tens of millions of UAH.

The Emitter carries out the work aimed at restructuring these assets and abandonment of non-core investments. The investment in the aviation branch is selected as a priority for strategic development of the Emitter and further investments.

### The following investments were made in 2010:

- Monetary assets were contributed to the statutory fund of "Island" Ltd.;
- Monetary assets were contributed to the statutory fund of "New Khortitsa" Ltd.;
- Monetary assets were contributed to the statutory fund of "Motor-Bank" JSC;
- Monetary assets were contributed to the statutory fund of "Borisfen" ZAO (Moscow, Russian Federation);

### Preproduction preparation for new types of products

The following business plans of investment projects have been made:

- "Retrofitting of the powerplant of An-26 airplane by replacing old engines with engines TV3-117VMA-SBM1";
- "Retrofitting of the powerplant of Mi-8T helicopter by replacing old engines with engines TV3-117VMA-SBM1V, Series 4E";
- "Development, preproduction and manufacture of engines AI-450M for upgrading the powerplant of Mi-2 helicopter";
- "Development and preparation of series production of turbofan bypass engine AI-28 for prospective versions of airplanes".

The future of the Company depends on properly implemented investment policy. Any innovations are impossible without investments.

The company constantly participates in the tenders and competitions to get the budget financing of investment and innovative projects.

This work is aimed at establishing favourable conditions for attracting investments, renewal and upgrading of fixed assets, implementation of modern technologies, creation of new jobs, enhancement of financial and production resources of the Company, expansion of production scales of the newest competitive aviation equipment to meet the requirements of economics and defense of Ukraine and actively promote the Company products to the external market.

## ATTRACTION OF BUDGET AND CREDIT FUNDS FOR FINANCING DEVELOPMENT AND PREPRODUCTION OF NEW PRODUCTS IN 2010

Owing to the fact that there were no funds in the budget of 2010 for financing the investment projects and no tenders were held for their receipt as a consequence, the Company did not submit any investment projects for participating in the tenders.

To reduce the Company costs by getting privileges and preferences on taxation and invest the released funds in modernization of production, in 2010 the specialists of the department considered and prepared the following draft regulations to the Cabinet of Ministers of Ukraine, draft laws of Ukraine, laws of Ukraine:

- Law of Ukraine No.1814-VI dtd 20.01.2010 "About introduction of amendments into certain laws regarding the state support of aircraft industry in Ukraine".
- Resolution of the Cabinet of Ministers of Ukraine No. 405 dtd 09.06.2010 "About approval of the list of aircraft industry subjects to which temporary measures of the state support are applied".
- "Tax code of Ukraine" No. 2756 dtd 02.12.2010.
- Law of Ukraine No.2857-VI dtd 23.12.2010 "About state budget of Ukraine for 2011".
- **creating conditions for professional growth** (appraisals of personnel in order to increase qualification category, training at administrative courses under the topic of "Modern Methods of JSC Management").

- **providing favourable and safe labour conditions** (regular complex inspections on labour protection and accident prevention measures, development of measures according to the results of inspections and supervision over their implementation).
- **providing social protection of employees**, including protection after retiring (insurance medicine, improvement of health at "Horizont" vacation hotel in Crimea, "Motor" and "Priboy" health resorts at the Azov sea, at sanatorium-preventorium, "Raduga" sanatorium, participating in sports and cultural activities at "Motor Sich" sports complex and Cultural Center named after T.G. Shevchenko).





## Securities

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# MOTOR SICH



- THE STATUTORY CAPITAL
- QUANTITY AND STRUCTURE OF SHAREHOLDERS
- REGISTRAR
- SHARES OF "MOTOR SICH JSC"
- CAPITALIZATION OF "MOTOR SICH JSC"

## THE STATUTORY CAPITAL

The Statutory Capital of "Motor Sich JSC" is **280 528 650** (Two hundred eighty million five hundred twenty eight thousand six hundred fifty) UAH and this sum is divided to **2 077 990** (Two million seventy seven thousand nine hundred ninety) common nominal shares, the nominal value of each share is 135 (one hundred thirty five) UAH.

The National depository assigned to "Motor Sich JSC" common nominal shares following code: ISIN: **UA0800541007**. The Statutory Capital amount of "Motor Sich JSC" was not changed during last five years

## QUANTITY AND STRUCTURE OF SHAREHOLDERS as of 31.12.2010

Owners of shares (Shareholders)	Q-ty of shares, pc	Share in Statutory Capital of "Motor Sich JSC" (%)	Nominal value of Securities, UAH
Legal entities	3 444	0,16	464 940,00
Natural persons	446 316	21,48	60 252 660,00
Nominee shareholders *	1 530 632	73,66	206 635 320,00
Emitter	97 598	4,70	13 175 730,00
<b>Total</b>	<b>2 077 990</b>	<b>100,00</b>	<b>280 528 650,00</b>

\* Nominee shareholders are not owners of securities

As of 27.01.2011 (registration date – date of opening the register for mailing Notifications to the shareholders about holding the general meeting of shareholders on 24.03.2011) shareholders of the company are natural persons and legal entities, including: natural persons – **285** shareholders; legal entities – **8680** shareholders. Government is not the shareholder of the Company

## HOLDERS OF MORE THAN 10% SHARE OF STATUTORY CAPITAL

Title (Full name for natural persons)	Q-ty, pc	Share in Statutory Capital, %
Vyacheslav Alexandrovich Boguslayev	311 421	14,98665

In 2010 "Motor Sich JSC" has not effected emissions of bonds and other securities, which issue is subject to registration. In 2010 the Company has not made decisions about repurchase of own shares.

## REGISTRAR

Records on the right of ownership of securities of "Motor Sich JSC" are kept by an independent registrar – Sich-Register Ltd. (Enterprise Code 30801610).

**Operating license** – AB No. 115244 dated 14.06.2006.

**Location:** 21 Omelchenko Street, Zaporozhye 69068, Zaporozhye region.

Phone: 7204863, Fax: 2139764.

E-mail: s-reestr@s-reestr.zssm.zp.ua

Web-page: www.s-reestr.com.ua



## SHARES OF “MOTOR SICH JSC”

Presently, shares of “Motor Sich JSC” have passed listing and are actively traded at two Stock Exchanges: the First Stock Trading System (FSTS) and Ukrainian Stock Exchange: Ticker of shares is “MSICH”.

In 2010 total turnover of the Company’s securities at stock exchanges (including FSTS Stock Exchange and Ukrainian Stock Exchange as well as over the counter (OTC) market) has reached more than 1.5 milliard UAH. Shares of “Motor Sich JSC” are included into «index basket» of Ukrainian Trade Index (UTX) of Vienna Stock Exchange.

At the present time shares of “Motor Sich JSC” have indicated their ability to withstand general market tendency and to increase in price. In comparison with the beginning of this year the price of shares has increased by 1,8: from 1 655 up to 3 000 UAH per each share.

## CAPITALIZATION OF “MOTOR SICH JSC”

Over the financial year capitalization of “Motor Sich JSC” has reached 6 187 mil. UAH (in comparison with 2009 it is increased by 1.8). In 2010 total turnover of the Company’s securities at stock exchanges has reached 44 769 and increased by 6 in comparison with 2009.

Presently, shares of “Motor Sich JSC” are one of the most liquid and callable securities at the Ukrainian stock market. In 2001 one can forecast subsequent cost increase of Company shares due to successful Enterprise activity and numerous customer orders.



Main risk  
factors

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# MOTOR SICH



- INDUSTRY RISKS
- FINANCIAL RISKS
- LEGAL AND MACROECONOMIC RISKS
- RISK FACTORS CONNECTED WITH INVESTMENT IN SECURITIES OF "MOTOR SICH JSC"

## INDUSTRY RISKS

### **Risk of consumer loss**

Until now the demand for aviation engine-building products was not too high at the Ukrainian market. Ukrainian airlines do not have enough funds for financing of aircraft-building process, and budget financing is not provided on regular basis. Therefore, Russia and Asian countries remain main sales markets. However, due to increase of attention to the problem of aviation at all levels of Russian government at present time the tendency of developing aeroplane technical service and repairing market is growing in Russia. At a time when Russian aircraft repair plants engaged in serious competition there is a risk of partial consumer loss due to intention of Russian airlines to carry out aeroengine repairing and technical maintenance at their own Enterprises. Nowadays many Russian aircraft repair plants (in Rostov, Aramil, Yeysk, Staraya Russa, Kaliningrad, Omsk, Khabarovsk) are involved in repairing different type of aeroengines produced by "Motor Sich JSC"

### **Complex competitive environment**

Degree of competition is very high at the market of aviation engines. Serious competitors are Snecma/Trbmeka (France), BMW Rolls-Royce (Germany/England) General Electric (USA), which are still at the top of the list of leading producers of aeroengines. Regular work on improvement of quality and characteristics of products, as well as development of new aeroengines and their modifications in accordance with increased requirements of customers, is required to hold and strengthen positions at the market. Such work requires considerable expenses. Until now financing of works on serial production preparation was performed mainly at the account of own funds, investments and bank credits. Volume of budget financing is quite insignificant. The Company particularly needs government support in difficult conditions of intense competition.

## FINANCIAL RISKS

### **Credit risks**

Credit risks are connected with failure of Enterprise to pay principal debt and interests accrued on credit. Credit indebtedness was timely repayed in 2010. Several factors led to this result such as money flow stability, management quality and credit policy, which stimulates bank competition, allowed reducing of credit rate and advances portfolio of the Enterprise as well as improving of credit conditions in general. Bank guarantees has become basic instrument for reduction of credit risk. In 2010 all these constituents allowed realization of flexible credit policy with minimum credit risks for Enterprise.

### **Currency risks**

Such risks are mainly connected with adverse changing of currency exchange rate. Constant fluctuation in exchange led to instability of hryvnia and strengthening of US dollar at the financial markets. Export trading activity is the sphere, which especially subjected to such risks. Since "Motor Sich JSC" is actively involved in purchasing of new imported technological equipment as well as in upgrading of production and engineering base of the Company the considerable part of borrowed current assets is attracted in foreign currency in order to reduce currency risk.

**Liquidity risks** meaning a probability of financial stability loss when the Enterprise fails to fulfill its obligations in time due to pressure for money and has to pay fines and forfeits to the prejudice of its business reputation. As a rule the problem of liquidity risk arises due to poor cash flow, bill receivable and bill payable control. In 2010 the Company managed to minimize liquidity risks due to detailed budgeting, cash flow forecasting, financial and industrial planning. Such procedures allowed revealing lack of liquidity and attracting required financial resources in due time.

## LEGAL AND MACROECONOMIC RISKS

The aircraft industry was recognized by government as the sphere of priority development, therefore the State pays much attention to it and supports it. In 2019 the Law of Ukraine was adopted "Changes to some Laws concerning aircraft building state support" which ensures creation condition for aircraft building development as well as for competitiveness of home manufactured aircraft, aeroengines and aircraft equipment.

Up to 01.02.2016 "Motor Sich JSC" has such preferences as import tax exemption, simplification the procedure of customs and the possibility to make export-import transactions during 500 days.

As a result of this one can forecast the possibility for upgrading Enterprise productive capacity, increase in production and creation of innovative products.

As regards relations with authorities the negative factor is the tendency of debt accumulation (meaning VAT) which affects the volume of circulating assets and makes the Enterprise bear additional costs for attraction of financial resources.

## RISK FACTORS CONNECTED WITH INVESTMENT IN SECURITIES OF "MOTOR SICH JSC"

"Motor Sich JSC" has determined the following risk factors connected with investment in its securities:

- Factors, which are limiting ability of shareholders to influence on decisions concerning election of members of management bodies or other questions, which are settled by means of voting. These factors should be estimated as insignificant ones. Shareholders of "Motor Sich JSC" have got equal rights to influence on settlement of questions regarding election of members of management bodies or other questions, which are settled by means of voting.
- Factors, which may cause "dilution" of existing share in the statutory capital of "Motor SICH JSC" They should not be considered significant ones, as authorised body has not taken decision about additional issue of shares in 2010.
- Factors, which may limit payment of dividends on shares of "Motor Sich JSC". These factors should be considered insignificant ones, as the Company conducts common clear dividend policy for many years.
- Insufficient liquidity of securities and other factors, which may limit possibility of carving out the securities of Motor Sich JSC. These factors should be considered insignificant ones, as the Company has got stable financial situation, shares of the Company have the high level of liquidity and are actively quoted at the formal stock market.
- Legal acts, which regulate import and export of capital, and which may influence on payment of dividends or other payments to non-residents. These factors are well-known, and interested parties should estimate their influence by themselves.
- Procedure of securities income taxation may influence on the size of yield. This factor is also well-known. Any changes in tax legislation may influence on the current taxation procedure and, correspondingly, on the size of yield.
- Any other factors, which may negatively influence on the rights of shareholders of "Motor Sich JSC, including possibility to realize their rights. They are not forecasted for 2011.



# Social Policy

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# MOTOR SICH



- PERSONNEL POLICY
- LABOUR AND SALARY
- STAFF RECRUITMENT
- SOCIAL SPHERE

## PERSONNEL POLICY

### Main purposes:

Attraction, motivation and stimulation of young talented enterprising specialists;  
 Constant knowledge and skills development;  
 Management potential development;  
 Creation of comfortable working conditions which ensure staff health protection;

### Foundations:

Ensuring of competitive bonus system;  
 Investment in staff education and training for potential realization;  
 Ensuring of social support.

### Tasks:

Giving the possibility of professional growth (basic educational institutions for Enterprise are Zaporozhye National Technical University (ZNTU), Khar'kov National Aerospace University named after N.E. Zhukovsky (KhAI), Zaporozhye Aviation College (ZAC), Zaporozhye Electrotechnical College (ZEC), Higher vocational school No.27).

Ensuring of competitive payment system (timely payments, absence of wage arrears, revision of tariffs and salary rates, introduction of regulations concerning new bonus system, additional payment to young specialists up to the level of average wage at the Company.

## LABOUR AND SALARY

The Company's labour remuneration system shall provide fair remuneration for employees' labour depending on complexity and conditions of work, employee's professional and business qualities, results of the employee's work and economic activity of the Company's corresponding subdivision.

Motor Sich JSC has introduced new wage rates and official salaries from January 01 and May 01, 2010 in order to increase social standards for all categories of the Company employees pursuant to Laws of Ukraine No. 1646-VI dated 20.10.2009 "About Establishment of Living Wage and Minimum Wage" and No. 2154-VI dated 27.04.2010 "About the State Budget of Ukraine for 2010".

Increase of average wages from January till December 2010 has made 30.7% at 9.4% average official rate of inflation per year.

Average wages of production and industrial personnel in December 2010 have amounted to **3 047** UAH, of industrial workers – **3 169** UAH, of chief foremen – **4 338** UAH, of foremen – **3 017** UAH.

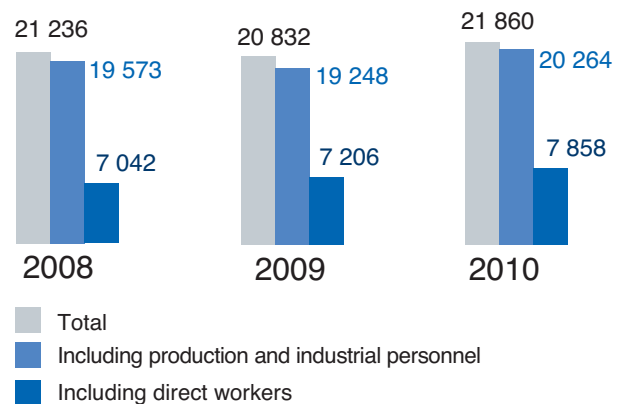
Main indices of the Company's performance (average wages of all categories of workers, efficiency rates, wage rates) are constantly analyzed. Average efficiency rate has made **116.6%** in 2010.

The Company has no wage arrears, as well as tax arrears to budgetary and extra-budgetary funds.

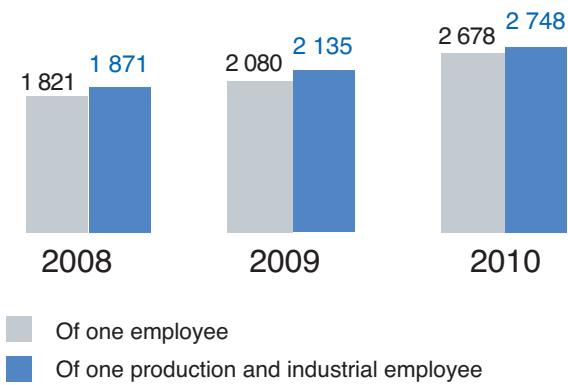
Labour force at the parent enterprise has increased by **1 028** persons in 2010. Labour force structure has changed due to the increased amount of direct workers from 33.8% as of 01.01.2010 to 34.6% as of 01.01.2011.

Labour fluctuations at the parent enterprise has made 5.25% in 2010.

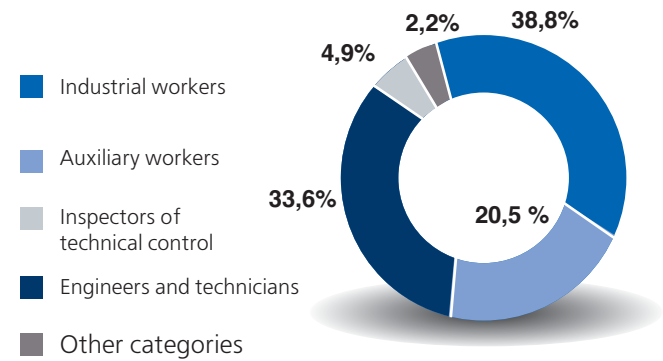
### The Company's staff on the payroll during 2008 – 2010 (persons)



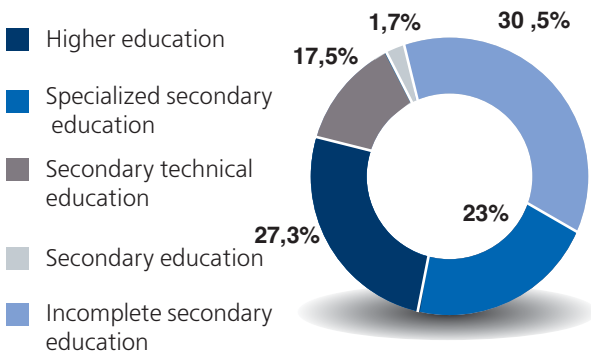
**Growth of the average annual wages of the Company employees in 2006 – 2010 (UAH)**



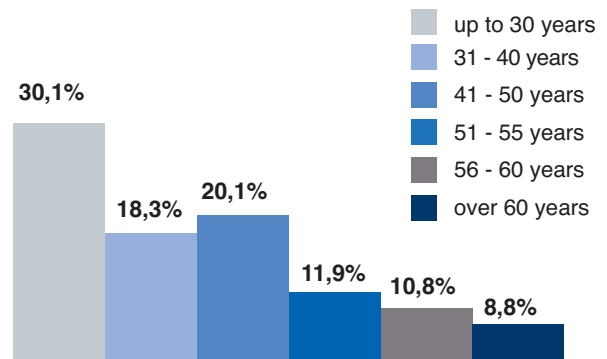
**Qualitative indices of staff Personnel structure by categories, %:**



**Growth of the average annual wages of the Company employees in 2006 – 2010 (UAH)**



**Age structure for the parent enterprise, %**



28 Candidates of Science are employees of the Company

The average age of the Company's employees is 41.4 years

## STAFF RECRUITMENT

### Staff recruitment system:

- competitive selection;
- psychological testing for objective estimation of the candidate's intellectual and psychological potential;
- candidate's interview by the head of subdivision;
- probation period.

### Training and professional development oriented at systematic and comprehensive work with personnel reserve:

- industrial training courses, special training courses;
- cooperation with educational institutions;
- training at Personnel Training Department.

In 2010 the Company has employed 186 young specialists with higher education, 83 graduates of Zaporozhye Aviation College, Electrotechnical College, Hydroelectrical College and Zaporozhye Metallurgical secondary technical school, graduates of technical vocational schools - 135 persons. All together - 404 young specialists.

The Company has concluded contracts with all young specialists, who will get additional payment up to the Company's average wage during 2 - 3 years.

Competitive selection was performed on the basis of partnership agreements with ZNTU and ZEC. 40 young employees having more than 5-year experience of work at the Company have got opportunity to study at the 1st - 4th course of these educational institutions on-the-job at the expense of the state budget as a result of this selection.

16 workers of the Company, who study at ZNTU under the contracts, have got opportunity to study at the expense of the state budget.

More than 950 employees of the Company are getting education via correspondence.

52 children of the Company's employees were enlisted to ZNTU Pre-university Training Department in 2010.

Cooperation with Zaporozhye Aviation College not only provides the Company with specialists having secondary special education, but gives an opportunity to send them to the 3rd course of higher educational institutions for further studies to complete earlier formed groups. 18 graduates of ZAC were sent to the 3rd course of KhAI at the expense of the state budget this year. 24 students of ZAC undergo training at preliminary courses.

More than 552 children of the Company's employees were sent to the full-time department of the branch of Pre-university Training Faculty to get in-demand specialties during the period from 2005 till 2010.

Branch of KhAI Department "Technology of production of aviation engines" functions at the plant from 1996. ZNTU Department "Equipment of casting production" functions from 1992. ZNTU has established new specialty "Aircraft engines and power units" according to recommendations of Motor Sich JSC.

The following number of students was trained at the plant in 2010:

- 631 students of the 3rd - 5th course of fifteen higher educational institutions were trained in 56 specialties;
- more than 390 students of 8 secondary technical schools and colleges were trained in 24 specialties;
- 694 students of 10 vocational schools and were trained in 14 specialties.

73 children of the Company's employees have successfully passed entrance examinations at Pre-university Training Department and were enlisted to ZNTU to study the following machine-building specialties at the account of the state budget:

- "Aviation Engines Production Process";
- "Aircraft Engines and Power Units";
- "Mechanical Engineering";
- "Metal-cutting Machines and Systems".

The Company has rewarded 70 employees, whose children have come to the plant after graduation from higher educational institutions and vocational schools, in order to maintain the corporate spirit and labour dynasties.

The Company systematically works on occupational guidance of schoolchildren of the 9th, 10th and 11th forms of the schools of Zaporozhye and Zaporozhye region, recruiting students for the basic State higher educational establishment "Zaporozhye machine-building higher vocational school", Zaporozhye Aviation College, Zaporozhye Electrotechnical College, ZNTU Pre-university Training Department.

Personnel training service is functioning at the plant. It is called Personnel Training Department now. It has got licenses of the Ministry of Education and Science of Ukraine for personnel training in 18 professions.

## SOCIAL SPHERE

The Company's social sphere includes practically all types of social benefits: health care, education, recreation, sports, housing. Social facilities are financed from the Company's assets.

The Company has spent 20.9 mln. UAH for capital investments into the objects of social sphere in 2010. The Company is proud of the best local children's health and sport camps with all conditions for physical, psychological and social development of the younger generation. Children are provided with opportunities for individual improvement, development of artistic skills and activation of their natural potential. 1 348 children of the Company's employees have recreated at the camps. Vacation hotel "Horizont" in Crimea and health resorts "Motor" and "Priboy" at the Azov sea are equipped with comfortable sleeping buildings, spacious halls, improved rooms (suites and semi-suites), as well as canteens with three daily meals, bars, saunas, billiard-rooms, cinema halls, libraries, sports grounds and children's playgrounds.

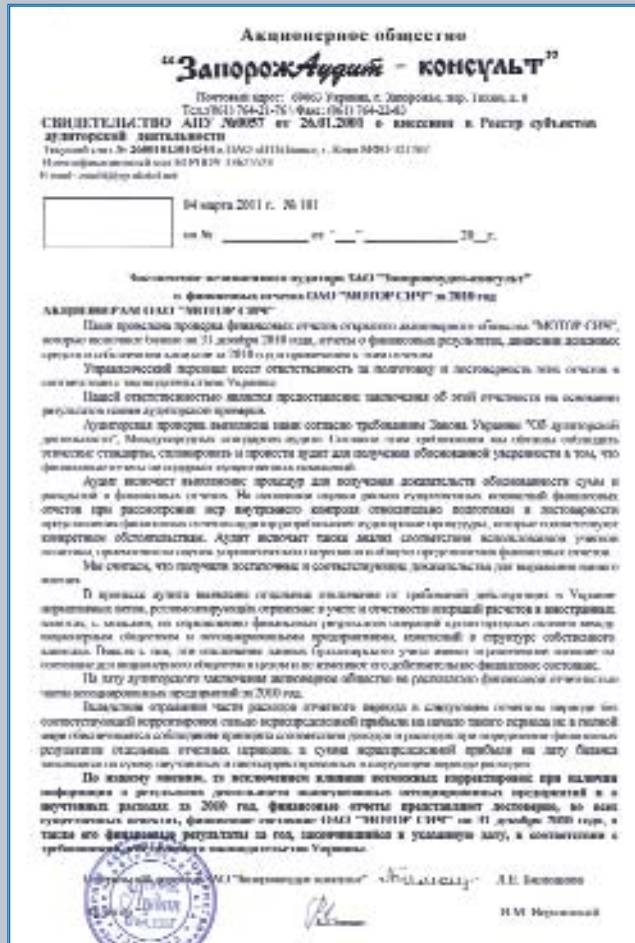
Sanatorium-preventorium in Andreyevka village at the bank of the Dnieper river and sanatorium "Raduga" located in the town of Volochysk (Khmelnitsky region) provide the resting people with different medical and preventive procedures: baths, inhalations, ozokerite therapy, massage, remedial gymnastics, physical and

therapeutic procedures. Tourist camp "Meridian" is the most affordable recreation site for the Company's youth for many years. It is situated in one of the most picturesque places, Sedlasty island, not far from Kakhovka artificial lake. Holiday-makers are provided with more than 100 cottages, sports ground, tennis tables, billiard-room, rental boats and fascinating youth leisure programs. 18 646 persons, including 12 661 employees of the Company and their children have recreated at the health centres in 2010. The Company has introduced collective arrivals, mother and child arrivals, arrivals of veterans of the Great Patriotic War and veterans of labour. 1588 persons are dwelling at the Company's dormitories. 507 children study at the centre of preschool education.

Medical division of Motor Sich JSC is equipped with up-to-date equipment and manned with the best medical staff. Thousands of engine-builders and inhabitants of Zaporozhye get qualified medical care there every year.

Collectives of Cultural Center named after T.G. Shevchenko and "Motor Sich" sports complex are well-known outside Zaporozhye and Ukraine.





# FINANCIAL REPORT

- BALANCE
- REPORT ON FINANCIAL RESULTS
- MAIN ASPECTS OF ACCOUNTING POLICY
- NOTES TO FINANCIAL REPORT



## BALANCE (thous. UAH)

	Note No.	31.12.2009	31.12.2010
<b>ASSETS</b>			
Intangible assets in residual value	1	839	1 394
Fixed assets in residual value	2	921 056	1 197 879
Incomplete construction	3	213 187	287 023
Long-term financial investments	4	263 184	403 160
Long-term accounts receivable	6	6 595	6 595
Other non-circulating assets		2 837	642
Production stock	5	1 585 229	2 243 511
Settlements with debtors	6	848 845	1 380 843
Monetary resources and their equivalents	7	187 390	443 199
Current financial investments	4	105 067	69 031
Other circulating assets		87 417	116 883
Deferred expenses		1 445	3 604
<b>Total for Assets</b>		<b>4 223 091</b>	<b>6 153 764</b>
<b>LIABILITIES</b>			
Provision of deferred expenses and payments		6 769	7 070
Long-term liabilities	9	206 145	265 896
Short-term credits		538 687	401 533
Settlements with creditors	9	911 582	1 679 473
Deferred income		234	60
<b>Total for liabilities</b>		<b>1 663 417</b>	<b>2 354 032</b>
<b>OWNERSHIP CAPITAL</b>			
Statutory capital	8	280 529	280 529
Additional invested capital	8	171 757	171 757
Other additional capital	8	658 522	656 493
Capital reserves	8	70 145	70 145
Retained profit	8	1 383 599	2 625 686
Withdrawn capital	8	-4 878	-4 878
Total for ownership capital		2 559 674	3 799 732
<b>Total for liabilities</b>		<b>4 223 091</b>	<b>6 153 764</b>

## REPORT ON FINANCIAL RESULTS (thous. UAH)

	Note No.	2009	2010
<b>INCOME</b>			
Net income (proceeds) obtained from sale of products (goods, works, services)	10	3 745 680	5 001 803
Other operational income	10	2 478 633	3 165 852
Profit of capital share	10	19 183	25 446
Financial income	10	787	2 634
Other income	10	64 764	50 794
Total for income from cost accounting		6 309 047	8 246 529
Extraordinary income		–	–
<b>EXPENSES</b>			
Cost of sold products (goods, works, services)		2 137 504	2 666 560
Administrative expenses		308 658	372 556
Sales expenses		224 449	286 630
Other operating expenses	10	2 445 826	3 253 511
Financial expenses	10	83 416	74 994
Capital share expenses	10	11 887	11 656
Other expenses	10	88 277	47 287
Profit tax		254 384	285 307
<b>Total expenses from cost accounting</b>		<b>5 554 401</b>	<b>6 998 501</b>
Extraordinary expenses			
<b>Net profit</b>		<b>754 646</b>	<b>1 248 028</b>
<b>Net profit per one ordinary share (UAH/ share)</b>		<b>381,06</b>	<b>630,19</b>

## MAIN ASPECTS OF ACCOUNTING POLICY

The principles of accounting policy used as a basis for preparation of summary financial report are determined by effective legislation of Ukraine, Regulations (Standards) for Accounting (R(S)A), accounting policy of Motor Sich JSC approved by Chairman of the Board of Directors, and other regulatory documents of the Company.

Accounting and financial reporting at the Company is based on the principles of continuity, full coverage, discretion and priority of content over form.

Accounting policy is common for the head plant and all its subsidiaries.

Assets and liabilities are reflected in the Balance Sheet at initial (actual) cost, with the account of the fact that the cost of fixed assets, intangible assets and stocks may be revaluated in compliance with the requirements of National accounting standards.

Currency of the Company's Financial Report is the national monetary unit of Ukraine, hryvnya (UAH).



## NOTES TO FINANCIAL REPORT

### Note 1

#### Intangible assets

Intangible assets are accounted according to the following groups: software products for personal computers, rights to products and service trademarks, rights to objects of industrial property, incomplete capital investments in intangible assets, licenses for effecting definite types of activity for over one year. Intangible assets should be estimated by cost price when they are entered to balance. Costs for creating Company's own trademark are included

in costs of the period under account. Trademarks acquired from the third parties are considered as intangible assets. Intangible assets of the Company mainly consist of software products and computer networks. Depreciation of intangible assets is accrued by straight-line method. Useful service life is determined for each intangible asset.

#### Structure and flow of intangible assets (thous. UAH)

Item	Software	Other intangible assets	Total
<b>COST</b>			
Balance as of 31.12.09	15078	163	15 241
Received per year	1526	0	1 526
Retired per year	0	0	0
Balance as of 31.12.10	16 604	163	16 767
<b>DEPRECIATION</b>			
Balance as of 31.12.09	14 338	64	14 402
Received per year	941	30	971
Retired per year	0	0	0
<b>Balance as of 31.12.10</b>	<b>15 279</b>	<b>94</b>	<b>15 373</b>
<b>Net Balance value as of 31.12.09</b>	<b>740</b>	<b>99</b>	<b>839</b>
<b>Net Balance value as of 31.12.10</b>	<b>1 325</b>	<b>69</b>	<b>1 394</b>

The Company has no intangible assets, which are under limitation of the right of ownership and which have been registered under security conditions

**Note 2**
**Fixed assets and low-value non-negotiable tangible assets**

Fixed assets include tangible assets held by the Company in order to use them during production or delivery of goods and rendering of services, as well as to lease to other persons or to realize administrative and social-and-cultural activities; their expected useful life is more than one year. Fixed assets are assets with useful life of more than one year and cost of more than 1000 UAH.

Fixed assets and low-value non-negotiable tangible assets are shown in the balance with respect to their initial and depreciated cost.

Initial evaluation of objects of fixed assets and low-value non-negotiable tangible assets is carried out with respect to their first cost. First cost of the object of fixed assets and low-value non-negotiable tangible assets consists of acquisition price and costs that are directly related to bringing fixed assets to condition at which their operation is possible.

Residual value of fixed assets was not used in the accounting year. Additional evaluation of fixed assets was not carried out.

Depreciation of fixed assets is accrued during useful life of the object by means of straight-line method.

**Structure and flow of fixed assets (thous. UAH)**

Item	Buildings, structures, transfer facilities	Machines and equipment	Transport facilities	Other fixed assets	Low-value non-negotiable tangible assets	Total
<b>COST</b>						
<b>Balance as of 31.12.09</b>	<b>783 318</b>	<b>753 145</b>	<b>120 088</b>	<b>202 957</b>	<b>259 193</b>	<b>2 118 701</b>
Received per year	93 288	221 338	19 651	64 642	68 469	467 388
Retired per year	28 176	5 770	596	12 789	13 905	61 236
<b>Balance as of 31.12.10</b>	<b>848 430</b>	<b>968 713</b>	<b>139 143</b>	<b>254 810</b>	<b>313 757</b>	<b>2 524 853</b>
<b>DEPRECIATION</b>						
<b>Balance as of 31.12.09</b>	<b>299 681</b>	<b>511 879</b>	<b>70 933</b>	<b>91 648</b>	<b>223 504</b>	<b>1 197 645</b>
Received per year	18 148	48 539	6 066	23 735	59 030	155 518
Retired per year	3 253	5 715	566	6 648	10 007	26 189
<b>Balance as of 31.12.10</b>	<b>314 576</b>	<b>554 703</b>	<b>76 433</b>	<b>108 735</b>	<b>272 527</b>	<b>1 326 974</b>
<b>Net Balance value as of 31.12.09</b>	<b>483 637</b>	<b>241 266</b>	<b>49 155</b>	<b>111 309</b>	<b>35 689</b>	<b>921 056</b>
<b>Net Balance value as of 31.12.10</b>	<b>533 854</b>	<b>414 010</b>	<b>62 710</b>	<b>146 075</b>	<b>41 230</b>	<b>1 197 879</b>

The Company has fixed assets, with respect to which there exist limitations stipulated by the effective legislation regarding the right of ownership in the amount of 40 425 thous. UAH. Cost of fixed assets under mortgage is 733 530 thous. UAH. Cost of fixed assets received under operational lease conditions is 42 474 thous. UAH.

In 2010 fixed assets were acquired for monetary funds, as well as built up by the Company. Fixed assets were retired due to liquidation, since they no longer met the criteria for acceptance as assets, as well as since they were sold or transferred gratis.

**Note 3****Capital Investments**

Incomplete capital investments form a separate group; an individual object of incomplete capital investments is considered as a unit for their accounting.

Incomplete capital investments in capital tangible assets are capital investments in construction, manufacture, reconstruction, modernization, acquisition of objects of non-negotiable tangible assets, which were

not put in service as of the date of the Balance Sheet, as well as advance payments for financing of construction.

Incomplete capital investments are accounted by their initial cost. Depreciation is not accrued for them.

The amount of 545 481 thous. UAH was spent for capital investments in fixed assets during the accounting year.

**Structure and flow of capital investments (thous. UAH)**

Item	Balance as of 31.12.09	Received per year	Retired per year	Balance as of 31.12.10
<b>Capital construction</b>	<b>176 696</b>	<b>91 578</b>	<b>27 642</b>	<b>240 632</b>
Acquisition (manufacture) of fixed assets	23 125	377 051	369 281	30 895
Acquisition (manufacture) of other non-negotiable tangible assets	13 366	72 817	70 687	15 496
Other	0	4 035	4 035	0
<b>Total</b>	<b>213 187</b>	<b>545 481</b>	<b>471 645</b>	<b>287 023</b>



**Note 4****Financial Investments**

One of directions of the Company's activity is investment activity. The Company holds 100% of shares of subsidiaries and has stakes in statutory capitals of Motor Sich Middle East (SAIF zone, Sharjah, United Arab Emirates) 100%, Energo-Service CJSC (Strizhevoye, Russian Federation) – 49%, Dubnenskiye Motory CJSC, (Dubna, Russian Federation) – 24.9%, Sodruzhestvo Stroy Ltd. (Zaporozhye) – 99.74%, Iveco - Motor Sich CJSC (Zaporozhye) – 10.37%, Motor Bank Ltd. (Zaporozhye) – 4.99%, Zaporozhye fish factory CJSC (Zaporozhye) – 72.73%, Motor Garant Insurance Company ALC (Zaporozhye) – 30% and a number of other enterprises in Ukraine and Russia.

Long-term financial investments of the Company make 371 365 thous. UAH as of 31.12.2010.

Financial investments with the stakes exceeding 20% are accounted by method of participation in capital and are shown as of the date of Balance Sheet with the value determined taking into consideration change of total value of ownership capital of investment object. Balance value of investments has been increased/decreased by the sum that is the investor's stake in the net profit/negative profit of the investment object and is included into the amount of income/losses from the shareholding. At the same time the balance sheet value of the investment is decreased by the amount of declared dividends. All other financial investments as of the date of balance statement are shown at their self-cost.

**Flow of financial investments (thous. UAH)**

Item	Per year	As of the end of the year	
		Retired per year	Balance as of 31.12.10
<b>Financial investments according to the shareholdings method in:</b>			
Associated enterprises	112 899	369 234	0
Subsidiaries		2 131	
<b>Other financial investments in:</b>			
Shareholding in statutory capital of other companies		2 023	
Shares	7 174		69 031
Bonds	29 771	29 771	
Other		1	
<b>Total</b>	<b>149 844</b>	<b>403 160</b>	<b>69 031</b>

Long-term financial investments increased during reporting period by the amount of 114 444 thous. UAH. During current reporting period there was received capital share income for the amount of 25 446 thous. UAH and there were suffered losses for the amount of 11 656 thous. UAH. Financial investments into associated companies amounted to 112 899 thous. UAH in 2010.

Current financial investments include shares of emitters, which were acquired for further resale.

**Note 5****Process Stock**

The stock is considered to be an asset, if there is a possibility that the Company will get future economical benefits connected with their utilization and their cost can be reliably determined. Each item of valuables is a stock unit. When stock is transferred into production, sold or disposed otherwise, their evaluation is done according to the first-in-first-out method. To monitor consumption of inventory items, accounting of their quantity is

organized in places of their consumption, and stock audit is regularly performed.

The stock is reflected in accounting and balance statement at the initial cost as of the balance date. If price of the stock has decreased or inventory items got spoiled, became obsolete or lost their originally expected economic value as of the date of balance statement, they are reflected by net liquidation value.

**Balance value of the stock (thous. UAH)**

Item	Balance value as of 31.12.2009	Balance value as of 31.12.2010
Raw staff and materials	204 195	290 952
Purchased semi-finished items and components	80826	155 826
Fuel	10 755	10 749
Construction materials	1 780	1 969
Spare parts	44 898	61 534
Low-value and rapidly amortizable items	16939	23 988
Incomplete production	1118765	1549420
Finished products	96 522	135 758
Commodities	4 298	5 542
Other stocks	6 251	7 773
<b>Total</b>	<b>1 585 229</b>	<b>2 243 511</b>



**Note 6****Account Receivable**

Accounts receivable are considered to be assets, if there is a possibility that the Company will get future economical benefits and their cost can be reliably determined. Current account receivable for products/goods and services are accepted as the asset simultaneously with acceptance of sales income and is evaluated by initial cost.

Current accounts receivable for products, goods and services are included in the balance total by net cost of sales. Reserve of doubtful debts is accrued as of the date of balance statement for determining net cost of sales. This reserve is reflected in the Report on financial results being included in other operational expenses.

Reserve amount of doubtful debts is determined based on financial solvency of individual debtors. Criteria of referring to accounts receivable as doubtful debts are as

follows: debt, which limitation period is expiring earlier than 12 months after the accounting date, if the debtor is declared a bankrupt or is absent at the address indicated in documents.

Accounts receivable for products and goods are reflected in the balance by net cost of sales, which is equal to the amount of accounts receivable minus the reserve of doubtful debts.

Bad account receivable are written off from the assets with non-recurring reduction of the reserve of doubtful debts. If the reserve amount of doubtful debts is not sufficient, doubtful debts are written off from the assets of the Company to other operational expenditures. The compensation amount of earlier written off account receivable is included in other operational profits.

**Structure of accounts receivable of the Company (thous. UAH)**

Item	As to 31.12.2009	As to 31.12.2010
Promissory notes received	–	–
<b>Accounts receivable for goods, works, services:</b>		
- clear liquidation value	145 626	325 178
<b>Accounts receivable to be settled:</b>		
- by state budget	69 697	200 687
- due to advance payment issued	526 435	766 749
- due to internal payments	4 305	3 717
Other current accounts receivable	102 782	84 512
<b>Total:</b>	<b>848 845</b>	<b>1 380 843</b>

Other current accounts receivable include: accounts receivable due to sums given on account, settlements of claims, accounts receivable due to non-commercial operations.

Item «Long-term accounts receivable» reflects contribution to joint activity with Zaporozhye Consumer Goods Factory LLC.

**Note 7****Monetary assets**

Monetary assets of the Company are allocated in current accounts and in cash office of the Company and are represented both in national and foreign currency. Transactions in foreign currency as per first declaration are set forth by conversion of the sum in foreign currency to the currency of the balance-sheet according to exchange rate of National Bank of Ukraine effective on the date of transaction. Sums of advance money paid and received in foreign currency are converted to reporting currency using exchange rate effective on the date of payment or reception of advance money.

Further on, balance-sheet value of the above mentioned balance items shall be determined (evaluated) according to appropriate regulations (standards) of accounting. Determination of exchange rate differences as per foreign currency monetary items is performed as on the date of settlement and the date of balance-sheet reporting. Exchange rate differences due to conversion of balance-sheet items denominated in foreign currency shall be included to other operating and other revenues/expenses.

**Monetary assets (thous. UAH)**

Item	Year 2009	Year 2010
Cash account	186	179
Current accounts in banks	146 834	403 350
Other accounts in banks (letters of credit, cheque books)	25 369	30 683
Cash in transit	1	-
Cash equivalents	15 000	8 987
<b>Total:</b>	<b>187 390</b>	<b>443 199</b>

**Note 8****Owned capital**

Registered statutory fund of Motor Sich JSC in year 2010 amounted to 280 528 650 UAH and consisted of 2 077 990 simple nominal shares with nominal value of 135 UAH.

At the end of the year 1 980 392 shares were in circulation. All shares provide equal rights for participation in voting, as well as for receiving dividends and return of capital share. Net profit assigned to each share amounts to 630 UAH and 19 kopecks.

Other additional capital includes value of indexation of fixed assets and construction in progress, final appraisal of inventory, goods received gratis as a result of privatization.

Correction of errors made in preceding accounting periods was carried out by correction of net balance for undistributed profit with simultaneous recognition of revenues and expenses.

**Changes in owned capital during year 2010 (thous. UAH)**

Item	Statutory fund	Capital invested additionally	Other additional capital	Reserve capital	Undistributed profit	Capital with-drawn	Total
<b>Net balance as per beginning of the year</b>	<b>280 529</b>	<b>171 757</b>	<b>658 522</b>	<b>70 145</b>	<b>1 370 182</b>	<b>-4 878</b>	<b>2 546 257</b>
Correction:							0
- Correction of errors					3 747		3 747
- other changes					9 670		9 670
<b>Corrected net balance as per beginning of the year</b>	<b>280 529</b>	<b>171 757</b>	<b>658 522</b>	<b>70 145</b>	<b>1 383 599</b>	<b>-4 878</b>	<b>2 559 674</b>
Final appraisal of fixed assets			913				913
Assets transferred as public property			-2 729				-2 729
Net profit as per accounting period					1 248 028		1 248 028
Distribution of profit:							0
Dividends paid					-5 941		-5 941
Deductions to reserve capital							0
Assets received gratis			5				5
Other changes in capital (exchange rate differences as per financial investments)			-218				-218
<b>Total of changes in capital</b>	<b>0</b>	<b>0</b>	<b>-2 029</b>	<b>0</b>	<b>1 242 087</b>	<b>0</b>	<b>1 240 058</b>
<b>Net balance as per ending of the year</b>	<b>280 529</b>	<b>171 757</b>	<b>656 493</b>	<b>70 145</b>	<b>2 625 686</b>	<b>-4 878</b>	<b>3 799 732</b>

**Note 9**
**Liabilities**

The liabilities are recognized by the Company, if they can be trustworthily evaluated and reduction of economic benefits in future is probable due to their repayment. If on the date of balance-sheet reporting the previously recognized liabilities are not to be repaid, their sums shall be included to the set of revenues of accounting period.

The Company accrues reserve for future expenditures for employee vacation payments. Reserves for guarantee service, for payment of annual seniority bonus, etc. were not created. During accounting year, provisions for vacation payments amounted to 70 749 thousand UAH were accrued and 70 551 thousand UAH were spent.

**Structure of long-term liabilities of the Company (thous. UAH)**

Item	As to 31.12.09	As to 31.12.10
Long-term bank credits	73 546	103 771
Other long-term financial liabilities	12 619	6 035
Postponed tax liabilities	119 980	156 090
<b>Total:</b>	<b>206 145</b>	<b>265 896</b>

Item "Other long-term financial liabilities" shows credit which is granted by State Innovative Credit Financing Agency for implementation and realization of innovation project «Implementation of cogeneration energy saving plant "Motor Sich heat-and-power complex"».

"Postponed tax liabilities" are accrued to the sums of advance money received and paid, net balances of process stock and finished products, and as per direct overhead costs - they are amounted to the sum of excess of residual cost of industrial fixed assets in tax accounting over their

residual cost in accounting of revenues and expenses of forthcoming periods.

During accounting year, postponed tax liabilities (income tax sum which shall be paid during forthcoming periods from temporary tax differences subject to taxation) have been increased by the amount of 36 110 thousand UAH.

The sum of postponed tax assets and liabilities is shown in consolidated form in item «Postponed tax liabilities» of balance-sheet.

**Structure of long-term liabilities of the Company (thous. UAH)**

Item	As to 31.12.09	As to 31.12.10
Bills issued	9 312	473
Accounts payable for goods, works and services	86 701	65 998

**CURRENT LIABILITIES ON SETTLEMENTS:**

■ of obtained advance payments 657 153 1 368 072

■ with budget 49 122 85 615

■ of insurance 19 142 18 272

■ of salary 38 827 38 179

■ with participants 9 953 3 438

Other current liabilities

12 112

62 908

**Total**

**882 322**

**1 642 955**

Items of current liabilities reflect debts, which liquidation term did not become due as of the balance sheet date. Item "Other current liabilities" reflects the amount of liabilities on non-commercial transactions and transactions with other creditors.

**Note 10****Incomes and Expenses**

Items of incomes and expenses are taken into account and evaluated at the moment of assets sale or service provision. All the Company's incomes and expenses taking place in the reporting period are reflected within the same period regardless of date of actual acquisition or payment of monetary funds.

Incomes, which were received in the reporting period, but were to arrive in the next period, are accounted as incomes of future periods. Incurred expenses and payments relating to future periods are accounted as expenses of future periods.

Accounting of percentage incomes and expenses is carried out by accrual method. Cash basis method is used only for accounting of percentage incomes added to demand balance on bank accounts.

Profit from selling products (goods, works, services) amounted to 2 335 243 thous. UAH in 2010.

Basic types of activity of Motor Sich PJSC in 2010 were production and overhaul of aircraft engines, as well as ground equipment based on aircraft engines.

**Given below are the incomes and expenses from other operating, investment and financial activity: (thous. UAH)**

Item	Reporting period	Preceding period	Absolute changes
<b>OTHER OPERATING INCOMES</b>			
Operating lease of assets	5 343	3 681	1 662
Operating difference in rates	11 793	33 721	-21 928
Income from selling other circulating assets	64 162	65 152	-990
Received penalties, fines and forfeits	835	87	748
Maintenance of objects of housing and communal services, social sector	3 921	3 610	311
Other operating incomes and expenses	3 079 798	2 372 382	707 416
<b>Total</b>	<b>3 165 852</b>	<b>2 478 633</b>	<b>687 219</b>
<b>INCOMES FROM PARTICIPATION IN CAPITAL FROM INVESTMENTS IN:</b>			
Associated enterprises	24917	19 158	5 759
Subsidiary companies	529	25	504
<b>Total</b>	<b>25 446</b>	<b>19 183</b>	<b>6 263</b>
<b>OTHER FINANCIAL INCOME</b>			
Other financial income	2634	787	1847
<b>Total</b>	<b>2634</b>	<b>787</b>	<b>1847</b>
<b>OTHER INCOME</b>			
Realization of financial investments	15 003	38 397	-23 394
Non-operating difference in rates	35 480	25090	10 390
Other income	311	1277	-966
<b>Total</b>	<b>50 794</b>	<b>64 764</b>	<b>-13 970</b>

Item	Reporting period	Preceding period	Absolute changes
<b>OTHER OPERATING EXPENSES</b>			
Operating lease of assets	84	0	84
Operating difference in rates	40 098	42 836	-2 738
Selling of other negotiable assets	47 847	41 386	6 461
Penalties, fines and forfeits	1 592	4 157	-2 565
Maintenance of objects of housing and communal services, social sector	100 597	69 815	30 782
Other operating incomes and expenses	3 063 293	2 287 632	775 661
<b>Total</b>	<b>3 253 511</b>	<b>2 445 826</b>	<b>807 685</b>
<b>EXPENSES FROM PARTICIPATION IN CAPITAL FROM INVESTMENTS IN:</b>			
Associated enterprises	11 233	11 405	-172
Subsidiary companies	423	482	-59
Total	11 656	11 887	-231
<b>OTHER FINANCIAL EXPENSES</b>			
Interest on credit	74 994	83 416	-8 422
<b>Total</b>	<b>74 994</b>	<b>83 416</b>	<b>-8 422</b>
<b>OTHER EXPENSES</b>			
Realization of financial investments	12 879	38 199	-25 320
Realization of non-current assets	208	422	-214
Non-operating difference in rates	31 667	46 063	-14 396
Other expenses	2 533	3 593	-1 060
<b>Total</b>	<b>47 287</b>	<b>88 277</b>	<b>-40 990</b>

The highest figures in items "Other operating incomes and expenses" belong to the receipts and expenses related to selling of foreign currency and other negotiable assets, as well as maintenance of social sphere facilities. Absolute values of receipts/expenses have increased significantly in comparison with the previous year.