

**Rostec**

*APPROVED by  
the Supervisory Board  
of the Russian Technologies State Corporation  
Minutes No. 1 of April 2, 2012*

***ANNUAL REPORT  
The Russian Technologies State Corporation  
for 2011***

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*The Russian Technologies State Corporation*

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\_\_\_\_\_ 2012

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\_\_\_\_\_ 2012

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## 1. Corporation Overview

### 1.1. History

The Corporation was founded under Federal Law No. 270-FZ of November 23, 2007 Concerning the Russian Technologies State Corporation (hereinafter, "Federal Law No. 270-FZ") and is a legal entity established by the Russian Federation in the legal form of a state-owned corporation.

Name of the Corporation:

full name in the Russian language is «Государственная корпорация по содействию разработке, производству и экспорту высокотехнологичной промышленной продукции «Ростехнологии»;

abbreviated name in the Russian language is «Государственная корпорация «Ростехнологии»;

full name in the English language is "State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product "Rostekhnologii"; and

abbreviated name in the English language is State Corporation "Rostekhnologii".

Details of the state registration:

state registration certificate: series 77, number 011483840 issued by the Moscow Department of the Federal Tax Service on December 3, 2007;

main state registration number (OGRN): 1077799030847; assignment date: December 3, 2007;

INN/KPP: 77042744002/770401001.

Auditor of the Corporation:

Name: Limited Liability Company RSM Top-Audit;

OGRN: 1027700257540;

located at: Bld. 2, 54, Bolshaya Ordynka street, Moscow, 119017, Russian Federation;

a member of the self-regulated audit organization Non-Commercial Partnership "Russian Collegium of Auditors" (membership certificate No. 984-u, ORNZ 10305006873, located at 2/6, Kolokolnikov pereulok, Moscow, 107045, Russian Federation);

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The goal of the Corporation is to assist in the development, manufacture and export of high-technology industrial products by supporting Russian organizations on the domestic and foreign markets, including developers and manufacturers of high-technology industrial products and organizations where the Corporation can impact the decision-making process due to its majority stake in their share capital and in accordance with agreements concluded between them (hereinafter, “Corporate Companies”), and by raising investments in organizations of various industrial sectors, including the Defense Industry Complex (hereinafter, “DIC”).

The key responsibilities of the Corporation and its authority to execute such responsibilities are set forth in Federal Law No. 270-FZ and Decree No. 1052 of President of the Russian Federation of July 10, 2008 “Issues of the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product “Rostekhnologii” (hereinafter, Decree No. 1052 of President of the Russian Federation).

### 1.2. Corporate Structure

The Corporate Governance Bodies include the Supervisory Board, the Managing Board and Director General of the Corporation.

The Supervisory Board is the highest management body of the Corporation.

Order No. 1576 of the President of the Russian Federation of November 26, 2007 on the Supervisory Board Members of the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product “Rostekhnologii” and Order No. 726 of the President of the Russian Federation on the Matters of the Supervisory Board of the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product “Rostekhnologii” and Order No. 862 of the President of the Russian Federation of July 27, 2011 on the Matters of the Supervisory Board of the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product “Rostekhnologii” appointed the following members of the Supervisory Board:

Serdiukov Anatoly Eduardovich	Minister of Defense of the Russian Federation (Chairman of the Supervisory Board)
Basargin Viktor Fedorovich	Minister of Regional Development of the Russian Federation
Dmitriev Mikhail Arkadievich	Director of the Federal Service for Military and Technical Cooperation
Komissarov Sergey Vasilyevich	Deputy Head of the State Legal Administration of the President of the Russian Federation
Nabibullina Elvira Sakhipzadovna	Minister of Economic Development of the Russian Federation
Borisov Yury Ivanovich	First Deputy Chairman of the Military and Industrial Commission at the Government of the Russian Federation
Khristenko Viktor Borisovich	Minister of Industry and Trade of the Russian Federation
Chemezov Sergey Viktorovich	Director General of the Corporation

Secretary of the Supervisory Board is Kudashkin Vladimir Vasilyevich, Director at the Legal Department of the Corporation.

In 2011, the Supervisory Board held 12 meetings which addressed 63 issues related to different business areas of the Corporation.

The Managing Board is a collegiate executive body of the Corporation. In 2011, the Managing Board approved by the Supervisory Board included 10 members:

Chemezov Sergey Viktorovich	Director General of the Corporation
Alyoshin Alexey Vladislavovich	First Deputy Director General of the Corporation
Volobuyev Nikolay Anatolyevich	Deputy Director General of the Corporation
Zavyalov Igor Nikolayevich	Deputy Director General of the Corporation
Shugayev Dmitry Yevgenyevich	Deputy Director General of the Corporation
Borisova Natalia Vladimirovna	Chief Accountant – Director of Accounting and Tax Reporting Department
Bekkiev Azret Yusupovich	Director of Innovation and Strategic Development Department (withdrew in August 2011 due to a transfer to another appointment)
Kudashkin Vladimir Vasilyevich	Head of the Legal Department
Litvin Vladimir Zalmanovich	Director at the Corporate Procedures and Asset Department
Chernov Oleg Dmitrievich	Director at the Advisory Group to Director General

In accordance with Federal Law No. 270-FZ, Director General and Deputies Director General are members of the Managing Board by title.

Order No. 1575 of the President of the Russian Federation of November 26, 2007 on General Director of the the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product “Rostekhnologii” appointed Chemezov Sergey Viktorovich Director General of the Corporation.

Audit Commission is Corporation’s body for internal financial control. The Audit Commission approved by the Supervisory Board includes the following members:

Sukhorukov Alexander Petrovich	First Deputy Minister of Defense of the Russian Federation (Chairman of the Audit Commission)
Golikov Igor Fedorovich	Deputy Director of the Federal Service for Defense Business
Kobzev Andrey Nikolayevich	Director of Internal Audit Department at LLC Gazprom-Inform
Solovyova Marina Viktorovna	Director of Department for Education and Research Institutions Register at the Department for Investment Development and Federal Property, Ministry for Education and Science of the Russian Federation
Kochieva Yelena Alexandrovna	Chief Inspector at the Department for Control of Federal Budget Expenditures on International Operations of the Accounts Chamber of the Russian Federation

In 2011, the Audit Commission of the Corporation carried out audit of Corporation’s financial and business operations in 2010 which outcomes were reviewed by the Supervisory Board meeting on March 31, 2011 and set forth in Appendix No. 1 hereto.

### *1.3. Corporate Status in the Manufacturing Industry of the Russian Federation*

Orders of the President of the Russian Federation and the Government of the Russian Federation contemplate transfer to the Corporation the asset contribution by the Russian Federation of shares (stakes) in 442 organizations, including shares in 251 joint stock companies, shares in 185 joint stock

companies established as a result of conversion from federal state-owned unitary enterprises, interest in 3 limited liability companies, shares in 1 enterprise and interest in 2 foreign-invested companies.

Taking into account the acquired or established companies, the total number of Corporate Companies is 593, including 339 companies entered into the register of Defense and Industry Complex.

The Corporate Companies are located across 54 constituents of the Russian Federation. The main types and areas of their activities are set forth in Section 2 hereof.

#### *1.4. Key 2011 Events*

In 2011, the Corporation performed its responsibilities set forth in Federal Law No. 270-FZ, Order No. 1052 of the President of the Russian Federation, and Order No. 873 of November 21, 2008 on Measures to Perform Order No. 1052 of the President of the Russian Federation.

The Supervisory Board approved the 2011-2020 development strategy of the Russian Technologies State Corporation.

On March 31, 2011, the Supervisory Board approved the 2011-2020 Innovation Development Program of the Russian Technologies State Corporation.

The Supervisory Board approved amendments to the programs for upgrading the Corporate Companies related to the Defense Industry Complex and civil industry.

With a view to the Development Strategy, the Supervisory Board approved the 2012 Business Areas of the Russian Technologies State Corporation on September 29, 2011.

The Managing Board approved the Business Program of the Corporation for 2011 and scheduled period of 2012 and 2013.

The Corporation engaged in the implementation of the General Government Policy to Develop the Defense Industry Complex of the Russian Federation for 2020 and further prospects. Information on implementation in 2011 of the business plan concerning the above General Government Policy is submitted to the Ministry of Industry and Trade of the Russian Federation to prepare report to the Government of the Russian Federation.

The Corporation developed and approved with the government customers the proposals of the Corporation and its holding companies (integrated entities) on efforts included in the Federal Targeted Program on Development of the Defense Industry Complex of the Russian Federation for 2011-2020.

The Corporation was engaged (with the Ministry of Defense as head contractor) in the project for regulation of monitoring, research, comparative assessment and certification of foreign-made software which have no domestic equivalents carried out to enable its application in compliance with information security requirements.

The Corporation developed and approved mid-term (2011-2013) programs for restructuring and streamlining of industrial facilities and fixed assets of Corporation's holding companies (integrated companies).

The Corporation developed and approved the procedure for qualifying violations of the laws of the Russian Federation, failure to comply with the requirements and instructions of the Corporation by

management of the Corporate Companies and preparing proposals on disciplinary measures imposed on executives of the Corporate Companies.

The Corporations sponsored multiagency comparative tests of domestic and foreign small arms on the premises of FGUP CNIITOCHEMASH.

Within the National Software Platform, the Corporation set up federal centers of competence to deploy free software in Novosibirsk, Kirov, St. Petersburg and Samara. A competence center focused on healthcare was established in Irkutsk.

The Corporation transferred its shares in regional airlines to set up a national air carrier operated by JSC Aeroflot – Russian Airlines.

The Corporation increased its stake in the share capital of JSC AVTOVAZ to 28.98%.

The Corporation made efforts aimed at implementing the investment project to set up a joint venture with Pirelli to manufacture tyres. This joint venture acquired JSC Kirovsky Tyre Plant.

The Corporation acquired a 25%+1 share stake in JSC Corporation VSMPO-AVISMA.

The Corporation purchased 20% of shares in JSC ACB NOVIKOMBANK.

In order to monitor investment performance and assist organizations in implementing investment programs, the Corporation launched an investment procedure in 2011 concerning review and approval by the Corporation of investment programs pursued by its holding companies (integrated companies) and other Corporate Companies not included therein.

The Corporation hosted a presentation of its companies in China where they could show their potential and establish business relations with leading Chinese companies.

The Corporation made a presentation in Germany (Stuttgart and Munich) to promote Russian-German business relations. At the presentation the Corporation signed the following documents:

- cooperation agreement with Cassidian (EADS); and
- cooperation letter with Rohde & Schwarz.

The Corporation held targeted presentations in Spain within its business program at the exhibition “Research, Technical and Innovation Progress in Russia” dedicated to the Year of the Russian Federation in the Kingdom of Spain and the Year of the Kingdom of Spain in the Russian Federation.

At the International Air Show MAKS the Corporation signed a set of key contract documents:

- the strategic partnership agreement between the Corporation and JSC United Aircraft Corporation;
- the purchase and sale agreement for 50 medium-range passenger jets MC-21 between JSC Corporation Irkut and LLC Aviacapital-Service;
- the agreement to expand cooperation with Boeing which enables Corporation VSMPO-Avisma to increase its investment in the development and growth of Ural Boeing Manufacturing facilities; and
- the agreement to set up a joint Russian-French venture to manufacture laser inertia navigation systems by JSC Rosoboronexport, JSC ITT and Sagem.



The Corporation supported a joint manufacturing of infant incubators developed by JSC PA Urals Optical and Mechanical Plant in Cuba.

The Corporation assisted in making agreements to supply helicopters for JSC Airline Utair, LLC Gazprom Avia and Atlas Air, Brazil and in extending until 2020 a long-term agreement with Embraer S.A., a Brazilian aerospace conglomerate, which guarantees to JSC Corporation VSMPO-AVISMA to meet 100% Embraer's demand for titanium products.

The Corporation and the Corporate Companies with its support entered into several cooperation agreements with Russian and foreign companies, including:

- the agreement between the Corporations and the Russian Ministry of Economic Development and Trade on cooperation in modernization of Russia's economy within foreign economic activity;
- the memorandum of understanding between the Corporation and the Korean Institute for Technologic Development;
- a joint venture agreement to set up Russia-based assembly, distribution and maintenance of Italian AW130 helicopters (business class, executive, transport and rescue) between JSC Russian Helicopters and AgustaWesterland;
- the master agreement between IO Incorporated and JSC Molot for supplies of plant's products to the USA in amount of US\$10 million;
- the agreement between RT-Biotechprom and General Electric to set up a Russia-based joint venture to manufacture, assemble, market and maintain hi-tech medical equipment;
- the memorandum of understanding between the Corporation and Stoneridge, Great Britain, for manufacturing digital tachographs;
- the memorandum of cooperation between the Corporation and Indra, Spain in transportation, traffic management and information technologies used in healthcare and government management, security in energy and finance sectors;
- the letter of intent for cooperation between the Corporation and Poly Group, China, and a Chinese corporation of electronic technologies; and
- the memorandum of understanding between the Corporation and Singapore Technologies Electronics contemplating cooperation between the parties in such areas as smart traffic control systems, non-military emergency response systems and elements of electronic government information systems.

The Corporation was engaged in the following:

- execution of contractual documents of JSC UC United Engine Corporation, General Electric and Inter RAO UES Group to set up a joint venture to manufacture industrial gas turbine units; and
- execution of the contract between the Ministry of Defense of Indonesia and JSC Rosoboronexport to supply a new shipment of 6 aircrafts Su-30MK2 and additional assets to Indonesian Air Forces.

## 2. Core business operations and areas of the Corporation

Business operations of the Corporate Companies related to the DIC in 2011 were performed under the Fundamental Principles of Government Policy in Developing the Defense and Industry Complex of the Russian Federation for 2020 and Further Prospects, the Fundamental Principles of Military and Technical Policy of the Russian Federation for 2020 and Further Prospects, and the 2010 Fundamental Principles of Government Policy of the Russian Federation in Research and Technology and Further Prospects and was focused on the implementation of the 2011-2020 Government Arms Program, the Government Defense Order for 2011, 2012 and 2013, the program for military and technical cooperation between the Russian Federation and foreign states, the 2007-2010 Federal Targeted Program (FTP) for Development of the Defense Industry Complex and other FTPs.

The core business operations of the Corporation include the following:

- industrial production;
- research and development;
- design and construction; and
- performance of work and services, including transportation services (passenger air travel) and any other services.

Corporation's business areas cover the following:

- development, manufacture and maintenance of weapons and military and special-purpose equipment;
- post-sale maintenance, repairs and disposal of military and special equipment; and
- development, production and maintenance of civil industrial products.

The core areas of development and production (performance of work and services) by Corporate Companies by industry sectors are shown in the following table:

Weapons, military and special equipment (WMST)	Civil products	Exported products
<b>Aviation Industry</b>		
Aircraft hardware systems Aircraft units, power supply and life support systems Parachute equipment Ground support equipment Broad product range helicopters Aviation engines for military aircrafts and helicopters	Devices and equipment for sophisticated system integration projects Units and devices for transportation systems Medical equipment and devices Sports parachutes Unified cargo parachute systems Avionics systems Aviation engines for civil aircrafts Gas turbine power units and gas-compressor units	Export-oriented WMST samples and component parts Aircraft hardware units, systems and elements Parachute systems Ground support equipment Helicopters and helicopter engines
<b>Ammunition and special chemical agent industry</b>		
Different purpose artillery rounds Microcaliber ammunition	Industrial explosives Pyrotechnical products Fuel and energy sector	Export-oriented WMST samples and component parts Gunpowder and ammunition for

Multiple Launch Rocket Systems and ammunition Aviation bomb and close combat weapons Pyrotechnic products and materials	equipment, including petroleum field and mining equipment Pharmaceuticals Medical equipment Household appliances Paintwork materials	sports and hunting weapons Special-purpose medical equipment Equipment for oil extracting and coal mining industries Pyrotechnical products
Conventional weapons industry		
Army missile systems Precision weapons Optomechanical and optoelectron instruments Small arms and ammunition	Instrument engineering and medical equipment Metallurgy Motor transport Hi-tech units and components for agricultural, construction and road engineering and utility equipment Civil weapons and ammunition Optical surveillance devices Survey instruments Machine-tool equipment and instruments	Export-oriented WMST samples and component parts Hunting weapons (smooth-bore, rifled-bore and combined guns) Sports weapons (smooth-bore, rifled-bore and airguns) Pistols and revolvers Various ammunition
Radio-electronic industry		
Communication systems and facilities Radio measuring devices Radio-electronic warfare systems IFF equipment Automated information systems Electronic products and microwave engineering	Communication systems Security and safety equipment Radio detectors for different purposes Medical equipment Television and radio broadcasting systems, including digital equipment Navigation equipment	Export-oriented WMST samples and component parts Time and frequency standards Electricity meters and systems Electronic products
Motor industry		
Different-purpose automobile manufacture		
Metallurgy		
Ready-made metal products manufacturing Tools and equipment manufacturing Recycling of secondary raw materials		
Medical industry		
Manufacturing of medical equipment, surgical facilities, medical instruments and orthopedic devices		
Chemical and petrochemical industry		
Manufacturing of explosives and civil chemical products Development and manufacturing of composite materials and products Recycling of waste containing cellulose Production of biofuels, goods for agriculture, pharmaceutical and food markets and chemical industry Introduction of friction welding technology, supplies of electric drives for shutoff and control valves, beam pumping units, oil and oil product flow recording systems, energy flow recording systems		
Non-industry sector		
Transportation, logistics and other services		
Science and technology		

Research and development in natural sciences
Research and development in technical sciences
Other areas
Design and construction of power and industrial facilities and social-purpose projects

### *3. Strategic Business Areas of the Corporation*

#### *3.1. Reorganization of federal unitary enterprises into open joint stock companies 100% federally owned and transferred as a property contribution by the Russian Federation to the Corporation*

In accordance with regulations of the Russian Federation, 185 federal unitary enterprises (hereinafter, FGUPs) are subject to reorganization into open joint stock companies (hereinafter, OAOs) with further transfer of 100% of their shares to the Corporation as a property contribution by the Russian Federation.

As of early 2011, 18 FGUPs have been reorganized into OAOs and resolutions on privatization have been prepared for 102 FGUPs. In 2011, the Corporation made resolutions on privatization of 44 more FGUPs.

For FGUPs not reorganized into OAOs during 2011, the Corporation made specific efforts to issue orders of their privatization conditions, develop and approve FGUP transfer deeds and register new joint stock companies.

Primary efforts of the Corporation within its authority were focused on meeting challenges affecting FGUP reorganization time frame and granting support to FGUPs to complete their privatization procedures, including:

business relations with the Ministry of Economy and Development, the Federal Agency for State Property Management and its territorial divisions and agencies and any other federal executive bodies enabled the Corporation to make decisions to facilitate and simplify procedures for privatization and set-up of asset portfolios which meet Corporation's goals and objectives to the maximum extent;

the Corporation issued regulations and guidelines aimed at completing FGUP privatization; and

as set forth by law, the Corporation made proposals on improving the privatization legal framework.

Totally, 115 FGUPs have been reorganized into OAOs by the end of the reporting period and the state registration documents have been filed with the relevant registration bodies for 8 FGUPs.

In relation to all other FGUPs, the Corporation has reviewed draft resolutions on their privatization and submitted them to territorial agencies of the Federal Agency for State Property Management to further pursue their privatization.

*3.2. Development and Implementation of the Growth Strategy (long-term business program), Innovative Development Program and Investment Program for 2011-2015 and the period until 2020 and the 2011-2015 Science and Technology Development Program*

*The 2020 Growth Strategy Program of the Corporation*

The Supervisory Board of the Corporation approve the Growth Strategy Program with defines the following key issues.

Corporate mission: As an innovation and technology company, the Corporation pursues the government policy for innovative development of Russia's economy and advances industrial technologies and hi-tech world-class products with high intellectual value added by carrying out institutional reforms of economic sectors, setting up competitive world-class industrial companies, fund-raising for innovation projects, transferring technologies, effecting technological modernization of production facilities and developing research and human resources of Russia simultaneously ensuring social stability and improving the quality of life:

in automobile industry;

in helicopter, engine and aircraft engineering;

in composite and other sophisticated construction materials;

in medical equipment, pharmaceuticals and industrial biotechnology;

in radio-electronics, engineering, information technologies and telecommunications;

in machine-tool industry and equipment manufacturing for Russia's industry modernization; and

in manufacturing weapons and military equipment, and systems of general purpose weapon ordance.

According to Corporation's mission, its main business goal is broken down into the following strategic objectives:

a) commercial:

maintain a leading position on the hi-tech engineering products markets; and

increase business value and companies' capitalization.

b) special-purpose:

manufacture high quality weapons and military equipment outstripping their global equivalents by quality characteristics; and

maintain and strengthen positions of the Russian Federation on the global weapons and military equipment markets.

The Corporation selected a target business model: A development corporation (innovative – investment corporation) with the key focus for value creation on its subsidiaries (integrated entities) rather than the Corporation itself.

The following strategic priorities are defined for Corporation's transfer to its target business model and meeting its goals:

establish an efficient business model;

enhance competitive margin of Corporation's holding companies (integrated entities); and

promote investment appeal of Corporation's holding companies (integrated entities).

In order to implement the Growth Strategy:

the Supervisory Board approved Corporation's core business operations;

the Managing Board approved amendments to the Corporate Business Program;

the Managing Board meetings approved the Guidelines to Develop Growth Strategy for Holding Companies (Integrated entities) and Non-Corporate Organizations and the Time Schedule to Develop and Review Growth Strategy for Holding Companies (Integrated entities); and

the Strategic Planning Committee at the Supervisory Board approved the Corporate Growth Strategy of JSC Radio-electronic Technologies Concern.

#### *The 2011-2020 Innovative Development Program of the Corporation*

The Corporation has developed and launched the 2011-2020 Innovative Development Program approved by the Supervisory Board on March 31, 2011.

The efforts contemplated by the above program are aimed at stepping up research and development, advancing new consumer performance products, enhancing energy efficiency and sustainability of production processes, carrying out technological upgrading, and establishing a sophisticated innovation infrastructure.

The above program includes over 1,000 innovation projects with a total budget of almost RUR1 trillion rubles, including 500 R&D projects and 300 technical modernization projects.

#### *The Investment Program for 2011-2015 and the Period Until 2020*

In 2011, the Corporation has developed and approved investment programs for 18 holding companies (integrated entities) and 9 non-holding Corporate Companies, including over 480 investment projects launched or in the pipeline for 2012-2013, including:

investment programs for the following holding companies (integrated entities): JSC Concern Orion, JSC Concern Sirius, JSC Russian Helicopters, JSC MC ODK, LLC Prominvest, JSC RT-Metallurgia, JSC NPC Optical Systems and Technologies, JSC RT-Biotechprom, JSC Concern Aviapriborostroyeniye, JSC KBP Instrument Design Bureau, JSC RT-Khimkomposit, JSC NPO Mashinostroitel, JSC NPO Splav, JSC NPO Bazalt, JSC NPO High Precision Systems, JSC NPO Pribor, JSC NPO Parachute Engineering, and JSC Russian Electronics; and

investment programs for non-holding (non-integrated) companies: JSC Aviatechpriemka, JSC Corporation VSMPO-AVISMA, JSC Rosoboronexport, FGUP NPP Radiosvyaz, LLC RT-Energo, and TVC Russia.

The total investment budget of the above projects was RUR740.3 billion.

In order to carry out more detailed feasibility study of Corporate Companies' projects implemented by raising budget funds, the Corporation made amendments to its internal regulations which govern the

approval by the Corporation of competitive bids filed to the government customer for entering the Corporate Companies' investment projects in the federal target programs.

#### *The 2011-2015 Science and Technology Development Program*

For the purposes of Paragraph 2, Article 18.1 of Federal Law No. 270-FZ of November 23, 2007, the Corporation approved the 2011-2015 Science and Technology Development Program (hereinafter, STD-2015) developed by the Science and Technology Board of the Corporation as a collective body in partnership with Corporation's holding companies (integrated entities) and non-holding Corporate Companies.

STD-2015 is focused on the acceleration of technical modernization and innovative development of the Corporation by generating its scientific and technical priorities to design, manufacture and distribute hi-tech competitive innovative products.

STD-2015 efforts are aimed at meeting the following challenges:

develop forecasts for scientific, technology and technical progress within Corporation's responsibility areas as underlying information to select and implement the priority goals of long-term scientific, technical and innovative growth, consolidation and resource concentration;

identify priorities of scientific, technical and innovative development based on defining and selecting advanced areas of science, technology and innovation with strong application capacity to design, produce and distribute on the domestic and global markets its competitive hi-tech innovation products;

make a list of the key innovation products of Corporate Companies which may be reasonably distributed within the innovation projects aimed at hi-tech innovative products, their industrial production and marketing for commercial use; and

make a list of key industrial basic and critical technologies (up-to-date, advanced, leading-edge and breakthrough) of Corporate Companies which enable the Corporation to develop critical innovative products and hi-tech production facilities.

STD-2015 uses forecasts for scientific, technology and technical progress within and outside Russia, analysis of trends and principles of global science and technology development, comparative assessment of the current and projected science, technical and technology levels of the Corporation to domestic and global levels to define priorities of Corporation's research and development activities for 2011-2015 documented as the following lists:

the list of priority areas for Corporation's scientific, technical and technological activities for 2011-2015 and for the period until 2020, including 43 priority trends;

the list of key innovative products of Corporate Companies for 2011-2015 and for the period until 2020, including 76 group items;

the list of industrial basic technologies for 2011-2015 and for the period until 2020 to develop the key innovative products of the Corporation, totally, 209 sophisticated, advanced and leading-edge technologies for procuring, processing and assembly production, design, testing and quality control of hi-tech products, automation and IT support of design and technology procedures. The development and implementation of such basic technologies will allow the Corporation to set up sophisticated hi-tech production facilities to issue a broad range of competitive goods for various uses; and

the list of industrial critical technologies for 2011-2015 and for the period until 2020 to ensure development of the key innovative products of the Corporation, totally over 160 advanced and breakthrough technologies which development and implementation may solve technical challenges in design and industrial production of priority or brand new weapons, military and special equipment and any other hi-tech products of civil and combined use.

STD-2015 is a knowledge foundation for selecting and launching the key long-term objectives of scientific, technical and innovative growth, consolidation and concentration of resources to meet them and ensure technical upgrading of research and industrial basis of its organizations.

### *3.3. Efforts to Reform Corporate Companies, Including Efforts to Set Up Holding Companies (Integrated entities)*

The programs to reform Corporate Companies within the Defense and Industry Complex and civil industrial sectors contemplate set-up of 25 holding companies (integrated entities), including 19 companies within the defense and industrial complex and 6 companies within the civil industries.

The Supervisory Board approved amendments to the above reform programs in order to make efforts to integrate the Corporate Companies and enhance their performance by optimization of holding companies (integrated entities). Subject to the approved amendments, the Corporation made the following efforts to change the composition and list of the holding companies (integrated entities) and set up new holding companies:

within the defense and industrial complex:

appointed JSC Concern Radio-Electronic Technologies a parent company of the holding company (integrated structure) in the metering equipment sector;

set up of unified management company JSC NPC Engineering Technologies in the ammunitions and special chemical agents industry;

established a special entity within JSC Concern Radio-Electronic Technologies which brings together organizations focused on electric connectors and cable systems;

appointed JSC Aggregate Design Bureau Yakor a parent company of the holding company (integrated structure) in the sector of military and civil parachute systems and components; and

specified the list of non-holding Corporate Companies.

within the civil industries:

integrated in the holding company (integrated structure) focused on composite materials and technologies six new companies involved in manufacturing technical chemical products, installation and upgrading of equipment for chemical facilities and not included in the holding structures before (in particular, FGUP VO Sojuzkhimexport, JSC VOA O Khimprom, JSC Vereshagin Altaikhimprom, JSC NIIC Khimprom with a pilot plant and JSC Volgogradkhimreactiv);

appointed LLC Prominvest a management company replacing JSC RT-Construction Technologies;

transferred several companies from JSC RT-Mashinostroyeniye, a holding company (integrated structure) (JSC NPC Rigel, JSC Litiy-Element, JSC NPP Thermophysical Engineering OSTERM Spb) to JSC Russian Electronics, a holding company (integrated structure); and



transferred JSC NII Electric Metering Units to JSC Concern Radio-Electronic Technologies, a holding company (integrated structure).

The holding companies (integrated entities) are formed by investment (disposal) of the stakes in the Corporate Companies into the share capital of parent holding companies (integrated entities).

Subject to Order No. 1052 of the President of the Russian Federation, the shares in the Corporate Companies, including by setting up holding companies (integrated entities) should be disposed in 2011 in accordance with the program for disposal of Corporation-owned shares in organizations approved by the Supervisory Board as agreed upon with the Government of the Russian Federation.

In order to improve the procedure for share disposal, the Corporation developed a draft order of the President of the Russian Federation to amend Order No. 1052 of the President of the Russian Federation as agreed upon with the affected federal executive bodies and submitted as established by law to the Government of the Russian Federation.

The Corporation prepared and launched programs for restructuring and optimization of industrial capacities and fixed assets of Corporation's holding companies (integrated entities) (hereinafter, restructuring programs) and approved the relevant guidelines to develop the restructuring programs.

The restructuring programs were reviewed and approved by the Managing Board as appropriate.

The key performance indicators of the restructuring programs were included as separate sections in the business programs of the holding companies (integrated entities) for 2011 and the period of 2012-2013 approved by the Supervisory Board of the Corporation on March 31, 2011.

The restructuring programs are approved and launched for the following holding companies (integrated entities):

in the aviation industry: JSC Concern Aircraft Engineering (including JSC NPO Parachute Engineering), JSC Russian Helicopters, and JSC MC Unified Engine Engineering Corporation;

in the ammunition and special chemical agents industry: JSC NPO Bazalt, JSC NPO Mashinostoitel, JSC Pyrotechnical Systems, JSC NPO Pribor, and JSC NPO Splav;

in the conventional weapons industry: JSC KBP Instrument Design Bureau, JSC High Precision Systems, and JSC NPC Optical Systems and Technologies;

in the radio-electronic industry: JSC Concern Orion, JSC Concern Sirius, JSC Russian Electronics, and JSC Concern Radio-Electronic Technologies (including restructuring efforts related to JSC Concern Radiopribor); and

in civil industries: JSC RT-Metallurgy, JSC RT-Biotechprom and JSC RT-Chimcomposit.

### *3.4. Maintenance of and Control over Mid-Term Business Programs of Holding Companies (Integrated entities)*

Business programs of the holding companies (integrated entities) of the Corporation for 2011 and the planned period of 2012-2013 are developed and agreed upon with the Managing Board and approved by the Supervisory Board of the Corporation, except for the business programs of JSC Izhevsk Engineering Plant, JSC RT-Mashinostroyeniye and JSC Concern Radio-Electronic Technologies.

The business programs of the holding companies (integrated entities) are controlled on the basis of analysis of reports on meeting performance indicators set forth by such programs.

In order to make the key efforts contemplated by the business programs, identify challenges and develop the necessary decisions related to the relevant sections of business programs, their progress is reviewed by the advisory bodies of the Corporation (the commission for investment, innovation and modernization, the commission for SDO, FTP and DIC contracts, the budget committee and the committee for HR and social matters.)

In 2011, Corporation's holding companies have fulfilled the efforts contemplated by the business programs.

### *3.5. Assistance to Companies across Different Industries, including DIC, in the Development and Production of Hi-Tech Industrial Products, Advanced Research and Technology Development*

The support was granted in accordance with the Regulation approved by the Supervisory Board on December 17, 2009 on granting support to companies within different industries, including companies of the defense industry complex, in the development, production and export of hi-tech industrial products, applied research in the advanced areas of science and technologies and introduction of cutting-edge technologies.

STD-2015 is launched to generate consistent and focused efforts of the Corporation and Corporate Companies to select the advanced scientific, technical and technological growth areas to boost quality and competitive advantages of their hi-tech industrial products.

Subject to STD-2015, the Science and Engineering Board of the Corporation organized and supervised in 2011 comprehensive forecast research of science and technology growth for the period until 2025 related to scientific and technical operations and equipment within Corporation's area of responsibility.

The Corporation developed guidelines for Corporate Companies on carrying out forecasts of scientific, technical and technological growth for the period until 2025 in order to give them scientific and methodical support.

In 2011, the Corporation pursued cooperation with Russia's leading universities in science and technology sectors, development and introduction of advanced technologies and establishing hi-tech industrial production.

Thus, the Corporate Companies worked together with Russia's leading universities to implement 18 comprehensive projects to establish hi-tech industrial production in accordance with Decree No. 218 of April 9, 2010 of the Government of the Russian Federation on the government support of cooperation of Russian higher educational institutions and organizations which implement comprehensive projects to establish hi-tech industrial production.

In 2011, the Corporation was engaged in setting up and operation of technological platforms viewed as an important vehicle of the government science, technology and innovation policy.

Five technological platforms operated by the Corporate Companies are included on the list of technological platforms approved by the Government Commission for High Technologies and Innovation (minutes No. 2 of April 1, 2011), including:

Bioindustry and Bioresources (BioTech2030) (operated by JSC RT-Biotechprom);

National Program Platform (operated by JSC Concern Sirius);

Aviation Mobility and Aviation Technologies (operated by FGUP TsAGI, the Corporation and JSC UAC);

Microwave-Electronics (operated by JSC Russian Electronics); and

New Materials and Technologies in Metallurgy (operated by JSC RT-Metallurgy).

The Corporate Companies are also involved in the following technological platforms:

Development of Russian LED-technologies;

The Future Medicine;

New Polymer Composite Materials and Technologies;

Comprehensive Security in Industry and Energy Production;

Smart Energy System of Russia;

Small-Scale Distributed Energy Production;

Solid Mineral Deposits;

Hydrocarbon Production and Application Technologies;

Advanced Processing of Hydrocarbon Resources; and

Simulation and Technologies of Hi-Tech System Operation.

In 2011, the Corporate Companies initiated practical application of mainstream and critical technologies included in the relevant 2011-2020 lists of industrial mainstream and critical technologies approved by the Military and Industrial Commission at the Government of the Russian Federation to implement the 2011-2020 Government Arms Program.

The partnership agreement between the Corporation and JSC UAC was executed on August 17, 2011 in order to ensure efficient cooperation between the Corporation and its holding companies (integrated entities), including JSC Concern Aviation Engineering, JSC Concern Aviation Equipment, JSC United Engine Corporation, JSC RT-Chimcomposit and JSC United Aircraft Corporation (hereinafter, UAC) to develop and implement joint programs, plans and projects for production of competitive aviation equipment, strategy and business plan coordination.

The exhibits to the above agreement included extended business plans of holding companies (integrated entities) to implement projects for aviation equipment design operated by JSC UAC.

The joint working group of the Corporation and JSC UAC and working groups engaged in such sectors as aviation instrument engineering, aviation device engineering, aviation engine engineering and composite materials for aviation equipment defined the scope and method of involvement of the relevant holding companies (integrated entities) in specific projects to generate the aviation equipment product line, including such jet designs as MC-21, MTA, SSJ-NG, SSJ-100, and “advanced jet 2020”.

The outcomes of operations performed by the above joint working group are documented by the relevant agreements of the holding companies (integrated entities) with JSC UAC which contemplate mutual obligations of parties and the scope, deadlines and financing conditions of specific work.

### *3.6. Implementation of the State Arms Program, the State Defense Order, the Mobilization Plan, the Federal Target Programs and Military and Technical Cooperation Programs*

The Corporation established the Commission for Implementing State Defense Orders, Federal Target Programs and Military and Technical Cooperation Contracts, an advisory body responsible for reviewing proposals and developing guidelines to the Corporation related to the performance of the State Defense Orders (SDO), the Federal Target Programs (FTP) and contracts for military and technical cooperation (MTC).

The Corporation expanded responsibilities of the Corporate Companies for their performance of SDO, FTP and MTC contracts and adopted the relevant regulations on imposing disciplinary measures on Corporation’s executives.

#### *3.6.1. State Defense Orders*

The Corporate Companies implemented the 2011-2020 State Arms Program in accordance with the SDO tasks.

The Corporate Companies have generally fulfilled the SDO tasks for 2011.

The scope of work completed by the Corporate Companies under SDO-2011 totaled RUR 138.5 billion and the scope of work under the contracts with the state customers was RUR 81.4 billion (58.8%) and the scope of work to provide cooperated product (work, service) deliveries was RUR 57.1 billion (41.2%).

The scope of work performed by sectors:

Industry	Scope of work performed in 2011, RUR million
Total scope	138,455.4
Aviation industry	62,778.0
Ammunition and special chemical agents	10,253.0
Conventional weapons	27,100.5
Radio-electronics	26,286.5
Civil industries	12,037.4

SDO scope of work performed by the Corporate Companies in 2011 went up 23.5% from 2010.

#### *3.6.2. Federal Target Programs*

In 2011, the Corporation performed the tasks of the Federal Target Programs (hereinafter, FTP) in accordance with its obligations under the government contracts (agreements) entered into with the state customers.

The volume of work performed was RUR 27.1 billion (RUR 25.3 billion in 2010).

The efforts to allocate state capital investments totaled RUR 8.6 billion (31.7% of the total value), research and development work totaled RUR 17.3 billion (63.9%) and efforts falling under “other” section totaled RUR 1.2 billion rubles (4.4%).

The Corporate Companies performed the tasks of the following FTPs:

The Development of the Defense and Industry Complex of the Russian Federation for 2007-2010 and the period until 2015, with a view to a new program “Development of Electronic Component Base for Systems, Complexes and Samples of Weapons, Military and Special Equipment”;

The Development, Recovery and Organization of Manufacturing Strategic, Deficient and Import-Substituting Materials and Low-Tonnage Chemistry for Weapons, Military and Special Equipment for 2009-2011 and the period until 2015;

The Development of Civil Aviation Equipment in the Russian Federation for 2002-2010 and the period until 2015;

The Development of Electronic Component Base and Radio-Electronics for 2008-2015;

The Development of Civil Naval Equipment for 2009-2016;

The Global Navigation System;

The Development of Pharmaceutical and Healthcare Industry of the Russian Federation for 2020 and further perspective;

The National Technology Base;

The 2006-2015 Federal Space Program of Russia; and

Research and Development in Priority Growth Areas of the Science and Technology Complex of Russia for 2007-2012.

Along with the above FTP, the Corporate Companies were engaged in some specific tasks under other FTPs, including:

2009-2012 Antiterror;

The Research and Education Human Resources of Innovative Russia in 2009-2012; and

The Development of Nanotech Industry Infrastructure of the Russian Federation for 2008-2010.

Along with the above FTP tasks, the Corporation, its holding companies (integrated entities) and individual organizations in the reporting year worked together with the state customers to prepare materials, develop concepts and program documents for new federal target programs, subprograms and specific innovation projects.

Specific emphasis was given to preparing proposals on follow-up revision of the FTP project the 2011-2020 Development of the Defense and Industry Complex of the Russian Federation and its subprogram to develop the special-purpose electronic component base.

In order to develop the above FTP project, the Corporation carried out research and prepared measures to introduce over 450 new industrial (mainstream and critical) technologies aimed at production of advanced systems, complexes and samples of weapons, military and special equipment.

The Corporation also developed and filed with the state customers its proposals on efforts to be included in FTPs related to:

counter-terrorism;

the 2020 development of civil aviation equipment of the Russian Federation;

the 2012-2020 development of the state border infrastructure in the Russian Federation;

the 2012-2020 GLONASS development and use;

the industrial recycling of weapons and military equipment for 2011-2015 and the period until 2020;

the 2012-2020 environmental security of the Russian Federation; and

energy efficiency, energy consumption optimization and Russian energy production development.

### *3.6.3. Programs for Military and Technical Cooperation of the Russian Federation with Foreign States*

The operations of the Corporation in the military and technical cooperation (MTC) was focused on supporting exporters of the military products (MPs), improving the WMST quality and the post-sale service system, including set up of the service center network in foreign states. The Corporation performed continuous control over foreign trade contracts in MTC, promoted hi-tech products on the foreign markets and was engaged in improving a legal framework in MTC.

During the reporting period, the state agent JSC Rosoboronexport supplied MPs to foreign customers for \$10.9 billion (\$8.9 billion in 2010).

The Corporate Companies supplied MPs to foreign customers both under the commission agency agreements with JSC Rosoboronexport and independently in accordance with the rights granted as appropriate to some Corporate Companies involved in MTC.

In 2011, the MP export supplies by the Corporate Companies totaled US\$4.88 billion (US\$2.835 billion in 2010).

Product supplies under the commission agency agreements with JSC Rosoboronexport totaled US\$3.85 billion.

The share of Corporate Companies' products in the total MP value exported by JSC Rosoboronexport was 35.5%.

The Corporate MTC entities supplied MPs under direct contracts with foreign customers for US\$1.03 billion, a 83% increase from 2010 (US\$563.06 million). The best progress was made by JSC OPC Oboronprom and JSC Corporation Airspace Equipment (114% and 111% planned performance, respectively).

The share of MTC entities under direct contracts in the total value of military products produced for export by the Corporate Companies was 21.1%.

Totally, the approved planned obligations of the MTC entities to foreign customers were performed by 93% in 2011.

Failure to perform some of their contractual obligations resulted from UN Security Council sanctions against Libya (resolution No. 1970) including an arms embargo and, thus, the performance of the executed contracts was suspended. Besides, some foreign customers failed to make advance payments and open letters of credit and some of them asked to delay the supplies of assets.

Of 75 Corporate Companies involved in MPs foreign trade in this reporting year, the major MP exporters included JSC KBP Instrument Design Bureau, JSC Engineering Design Bureau, JSC NPO Saturn, JSC Rostvertol, JSC Chernyshov Moscow Engineering Company, JSC Kumertau Aircraft Enterprise, JSC Kazan Helicopter Plant and JSC NPO Mashinostroitel (about 60% of the total supply volume).

As in previous years, the main 2011 export volumes accounted for helicopters and air defense facilities (46% of the total export supply).

MPs were supplied to 63 countries worldwide. Geographically, MPs were mainly exported to Latin America, Africa and Middle East, South East and Central Asia.

In recent years, Venezuela remained a stable MTC partner. In 2011, it accounted for the largest supply volume (26%). Other large importers of Corporation's MPs included Algeria (15%), China (13%) and India (11%).

MP supplies to CSTO member states totaled US\$240.5 million (4.9% of the total supply volume).

The order portfolio for MP export of JSC Rosoboronexport in late 2011 was US\$34.6 billion.

### *3.7. Engagement in the Government Policy for Military and Technical Cooperation of the Russian Federation with Foreign States*

The Corporation was involved in implementing the government MTC policy of the Russian Federation working together with the state agent JSC Rosoboronexport.

The Corporation was engaged in performing commissions of the President of the Russian Federation and the Government of the Russian Federation and FSMTC assignments within the whole scope of MTC. Emphasis was given to perform the decisions made at the meetings of the Commission for Military and Technical Cooperation of the Russian Federation with Foreign States.

The Corporation made a focused technical and business proposal under the SU-35 program to Vice-President of Brazil. Under the off-set program, the Brazil party was proposed the project "Safe City" of JSC Russian Communications Corporation.

The corporate representative offices in the constituents of the Russian Federation provided maintenance and control for the benefit of the government agent over 1,200 master agreements and commission's agreement performed by 230 industrial entities, including non-corporate organization, which were concluded for supply of military, civil and double-purpose products for US\$26 billion.

For proper and due performance of MTC agreements, the Corporation assisted the Russian exporters in supplying components and materials needed for MP production by principal manufacturers and in improving quality of such products.

The institute of foreign representatives of the Corporation was established as an instrument to meet the challenges of export promotion of hi-tech MPs.

Currently, Corporation's foreign representative offices operate in 50 countries worldwide. Some offices perform regional functions which materially extends the foreign trade geography of the Corporation (up to 90 countries).

The list of representatives (representative offices) in foreign states is set forth in Appendix No. 2 hereto.

Performance indicators of the government agent related to foreign trade MP transactions are set forth in Appendix No. 3 hereto.

### *3.8. Maintenance and Development of Research and Production Capacity*

In order to maintain and develop its research and production capacity, the Corporation approved the program for science and technology development for 2011-2015 and the period until 2025. The program sets forth priority avenues to develop science and technology, its major innovation products and mainstream and critical technologies aimed at production of hi-tech sophisticated products and hi-tech production.

In order to fulfill the resolution of the Presidium of the Government Commission for Advanced Technology and Innovation (Minutes No. 16 of December 16, 2010), the Corporation developed the programs for the State Research Centers in accordance with the Guidelines for the Structure and Contents of the Programs to Operate the State Research Center (RSC) of the Russian Federation, agreed them with the Ministry for Science and Education of Russia and approved with the General Director for Operation Program of RSCs which are affiliated with the Corporation, such as:

OJSC «ORPE «Technologiya»

FGUP State Research Institute of Chemistry and Technology of Organoelement Compounds;

FGUP NPO Astrophysics; and

FGUP NPO Orion.

The above organizations are engaged in implementation of Russia's 12 critical technologies which are approved by Decree No. 899 of July 7, 2011 of the President of the Russian Federation on Approval of Priority Development Areas of Science and Technology in the Russian Federation and the Critical Technologies List of the Russian Federation, including:

mainstream and critical military and industrial technologies to develop advanced types of weapons, military and special equipment;

mainstream technologies for power electric engineering;

technologies for rocket and space and transport equipment of a new generation;

biomedical and veterinary technologies;



nano-, bio-, information and cognitive technologies;

technologies for new and renewable energy sources, including hydrogen energetics;

technologies for production and processing engineering nanomaterials;

technologies for production and processing functional nanomaterials;

technologies for monitoring and forecasting environment and pollution prevention and liquidation;

technologies for nuclear energy, nuclear fuel cycle, safe treatment of nuclear waste and spent nuclear fuel;

technologies for information, control and navigation systems; and

technologies for electronic component base and energy-efficient lighting systems.

### *3.9. Encouraging investments in Corporate Companies, including those generated to develop competitive industrial and military products*

The Corporation encouraged investments in the Corporate Companies in two main avenues:

raising investments in Corporation's investment programs aimed at developing competitive industrial products for civil, military and combined purposes; and

preparing holding companies (integrated entities) and non-holding Corporate Companies to IPO.

In order to raise investments in its investment programs, the Corporation streamlined financial sources for specific investment projects, assisted Corporate Companies in obtaining loans on the most beneficial terms by issuing guarantees for loans taken for investment projects, among other things.

During the reporting year, the Corporation assisted in obtaining loans totaling RUR21 billion.

### *3.10 Promotion and sale of hi-tech industrial products and related intellectual property on the domestic and foreign markets*

During the reporting period, the Corporation facilitated the Corporate Companies in promoting their hi-tech products on the foreign markets using its representatives in many foreign states.

In particular, the Corporation assisted such companies as JSC AvtoVAZ, JSC KAMAZ, JSC Corporation VSMPO-AVISMA, JSC PA UOMZ, JSC Oboronprom Corporation, JSC Russian Helicopters, JSC RT-Mettalurgy, and JSC Vyatskie Polyany Machine Building Plant.

The Corporation was involved in preparing and holding the Intergovernmental Commissions (IGC) for trade and economic and science and technology cooperation with Argentina, Brazil, Venezuela, Canada, Nicaragua, Panama, Peru and Guatemala. Its proposals were included in the final documents of Commission's meetings.

Corporation's consistent efforts resulted in signing a master agreement between IO Incorporated and JSC Molot in August 2011 for supply to the US of hunting weapons for total US\$10 million.

The Corporation further pursued its project to set up manufacturing of hi-tech equipment for wind-generating units in partnership with Siemens AG and JSC RusHydro. Siemens AG started working

together with JSC RT-Metallurgy and JSC ODK to carry out evaluation and certification of the plants affiliated with the above JSCs as prospective equipment suppliers.

The Corporation submitted to the Ministry for Economic Development of Russia its proposals for country programme action plans of the Russian Federation for cooperation with the Latin American countries, such as Venezuela, Cuba, Nicaragua, Brazil, Ecuador, Peru, Columbia, Argentina, Chili, Uruguay, and the US and Canada.

In 2011, the Corporation opened its representative office in Uganda.

The Corporation made many business contacts to promote its hi-tech industrial products on the domestic and foreign markets at the 2011 International Aviation and Space Salon MAKS.

In 2011 the Corporation entered into several agreements with Russian and foreign companies which have both strong economic and image-building potential, in particular, agreements to develop hi-tech products for further sale on the domestic and foreign markets (for more detail see the list of key agreements in Sector 1.4 hereof).

In order to build communications channels to promote corporate products on the foreign market, the Corporation prepared and held presentations of the Corporation and its hi-tech products at the following international events:

Science, Technology and Innovation in Russia 2011, an exhibition dedicated to the Year of the Russian Federation in Spain and the Year of Spain in the Russian Federation. In follow-up to Corporate presentations, Indra, a global technology, innovation and talent company which operates in 118 countries, expressed its interest in cooperation on various projects with such Corporate Companies as JSC Concern Sirius, JSC Russian Electronics, JSC Prominvest, JSC Technopromexport and JSC Rosoboronexport;

The 7th Baikal International Economic Forum

The Corporation made image-building efforts to promote its Corporate Companies on the global market. Its international projects got foreign media coverage. The Corporate Companies promoted their hi-tech products under Russian Technologies, a joint TV project with VGTRK.

The number of patent applications for intellectual property of the Corporate Companies in 2011 totaled 476 (19 were made abroad). The number of issued patents was 344 (6 issued abroad). The number of know-how solutions was 141. The number of patented innovation products is 231 (7 foreign patents).

### *3.11. Advertising, exhibition and marketing activities for the benefit of the Corporation*

The Corporation arranged uniform Russian displays of military products at the international exhibitions held abroad in accordance with the FSMTC Order No. 98-od of July 6, 2010.

Subject to the above Order, the Corporation arranged the uniform Russian displays at the following 12 foreign international exhibitions:

No.	Time and location	Exhibition name and scope	No. of participants
1	9-13 February, Bengaluru, India	Aero India 2011 The International Exhibition on Aerospace, Defence & Civil Aviation	10
2	20-24 February, Abu Dhabi, UAE	IDEX 2011	25

		The International Defence Exhibition and Conference	
3	12-15 April, Rio de Janeiro, Brazil	LAAD 2011 Latin America Aero and Defence	4
4	10-13 May, Istanbul, Turkey	IDEF'11 10th INTERNATIONAL DEFENCE INDUSTRY FAIR	3
5	24-27 May, Lima, Peru	SITDEF PERU 2011 The International Defense Technology Exhibition and Prevention of Natural Disasters	3
6	24-27 May, Minsk, Belarus	MILEX 2011 6th International Exhibition of Arms and Military Machinery	10
7	20-26 June, Paris, France	Paris Air Show 2011 International Aerospace Salon	7
8	6-9 July, Brunei	BRIDEX 2011 International Defence Exhibition and Conference	1
9	13-16 September, London, Great Britain	DSEI 2011 International Defence and Security Show	3
10	18-21 October, Paris, France	MILIPOL 2011 Worldwide Exhibition of Internal State Security	7
11	13-17 November, Dubai, UAE	DUBAI AIRSHOW 2011 International Aerospace Show	3
12	6-10 December, Langkawi, Malaysia	LIMA 2011 Langkawi International Maritime and Aerospace Exhibition	8

The total number of direct Russian companies and participants was 138; and taking into account enterprises exhibiting under the auspices of their management entities, their number totaled 200. The number of exhibits displayed in various forms was 3,000.

The Corporation participated in several MP exhibitions held in the Russian Federation to display products of the Corporate Companies, including:

No.	Time and location	Exhibition name and scope	No. of participants
1	10-13 May, Moscow, Expocentre	SVIAZ-EXPOCOMM 2011 25th International Exhibition for Telecommunications, Control Systems, IT and Communication Services	3 holding companies (9 enterprises)
2	17-20 May, Moscow, All-Russian Exhibition Centre	INTEGRATED SAFETY AND SECURITY 2011	6
3	29 June – 3 July, Saint Petersburg	IMDS 2011 International Maritime Defence Show	10
4	6-9 July, Omsk	IEEW 2011 International Exhibition of Hi-Tech Equipment and Weapons	5 holding companies (14 enterprises)
5	16-21 August, Zhukovsky	MAKS 2011 11th International Aerospace Show	19
6	12-14 September, Irkutsk	BEF 2011	7

		Baikal Economic Forum	
7	25-28 October, Moscow, All-Russian Exhibition Centre	INTERPOLITEX 2011 International Exhibition of Means for Provision of State Security	3
8	1-3 November, Moscow, Expocentre	CHIPEXPO 2011 International Exhibition	2 holding companies (9 enterprises)
9	15-18 November, Moscow, All-Russian Exhibition Centre	METALEXPO 2011 International Industrial Exhibition	2 holding companies (3 enterprises)

Together with the Omsk Regional Government, the Corporation initiated IEEW 2011, the International Exhibition of Hi-Tech Equipment and Weapons which showed displays of Russian regions, a uniform display of the Corporate Companies and independent displays of other participants.

The Corporation's display at the 11th International Aviation and Space Salon MAKS 2011 presented the most advanced developments and ready-made hi-tech products. The exhibition events were broadcast live on Corporation's website during MAKS 2011.

### *3.12. Construction and commissioning of federal centers of high medical technologies under the Zdoroviye (Health) National Project*

Subject to Order No. 243 of March 6, 2009 of the President of the Russian Federation on the State Corporation's Property to Promote Development, Production and Export of Hi-Tech Industrial Products of Russian Technologies, the Corporation acts as a customer for construction of the federal centers of high medical technologies in such cities as Astrakhan, Krasnoyarsk, Tyumen, Chelyabinsk, Khabarovsk, Krasnodar, Novosibirsk, Barnaul, Perm, Kaliningrad, Smolensk and Vladivostok.

In 2011, the above centers were constructed and prepared for commissioning in 1Q 2012 in Novosibirsk, Kaliningrad, Smolensk and Perm.

Pursuant to Order No. 771 of June 11, 2011 of the President of the Russian Federation on financing and facilities of medical centers in the Primorsk Region, the construction of the federal medical center in Vladivostok was terminated. The following related efforts were made:

the Corporation entered into cooperation agreement with the Primorsk Region Administration concerning the construction of the regional medical center. The agreement contemplates co-financing by the Corporation of such construction and equipment of the regional medical center and allocates up to RUR 1.3 billion for the above purposes;

the Corporation and the Ministry of Regional Development drafted a comprehensive construction and equipment plan for Far Eastern Federal University (FEFU);

the Corporation and JSC Crocus International entered into an investment agreement to construct a hotel and FEFU rehabilitation center where the Corporation will invest RUR 1.0 billion;

the Corporation and JSC Unified Developer's Office made an agency agreement to purchase and supply medical equipment to the FEFU medical center. The parties held a tender to select equipment suppliers (total purchase amount is RUR 1.5 billion).

#### 4. Main Areas of Corporation's Responsibilities

##### 4.1. The 2011 Corporate Business Program and the Planning Period of 2012 and 2013; development and implementation of mid-term Corporation's innovation development program

###### *The 2011 Corporate Business Program and the Planning Period of 2012 and 2013*

Corporation's Business Program for 2011 and the Planning Period of 2012 and 2013 (hereinafter, "Business Program") approved by the Supervisory Board of the Corporation on December 23, 2010 is based on Corporation's areas of business activity in 2011.

In order to pursue its key business avenues, the Corporation made 117 strategic efforts in 2011, of which the following key efforts have been completed:

the Supervisory Board developed and approved the 2011-2020 Growth Strategy and Innovation Program for State Corporation Russian Technologies;

the Managing Board and the Strategic Planning Committee at the Supervisory Committee developed and approved the growth strategy for JSC Concern Radio-Electronic Technologies;

the Corporation approved the innovation development programs for its holding companies (integrated entities);

the Corporation developed and submitted to the concerned federal executive bodies the reorganization program for the ammunition and special chemical agents sector;

the Corporation prepared and submitted to the FSMTC of Russia its proposals on amendments to the Regulation on Military and Technical Cooperation of the Russian Federation with Foreign States; and

the Corporation prepared and submitted to the Military and Industrial Commission at the Government of the Russian Federation its proposals on training qualified personnel and their retaining at the companies of the Defence and Industrial Complex.

Based on Corporate performance in 2010 and the 2011 innovation development program, the Managing Board of the Corporation adjusted the performance targets under the Business Program for 2011. The adjusted targets are shown in the table below:

Adjusted performance targets of the Corporation related to 2011	As adjusted on 23/12/2010	As adjusted on 01/06/2011
The share of civil products in the total revenues from product (work/services) sales by Corporate Companies related to DIC, %	32	42
The share of innovation products in the total salable product, work and services output, %	5.5	7.5
Relative increase in output per one employee, %	12	10
Relative increase in registered rights for intellectual assets of the Corporate Companies, %	5	20
Amount of financing allocated for applied research in advanced areas of science and technology of the total revenues of the Corporation	2	5.6

In order to approve Corporation's business areas for 2012, the Supervisory Board made the relevant amendments to the Business Program.

*The Mid-Term Innovation Development Program for State-Owned Corporation Russian Technologies*

The 2011-2020 Innovation Development Program of the Corporation (hereinafter, IDP) was developed and approved by the Supervisory Board on March 31, 2011.

Despite some intrinsic challenges related to insufficient financing of projects implemented under the FTP and restructuring of a number of Corporate Companies, the Corporation pursued the strategic efforts under the IDP in all areas, such as R&D, technical upgrading, launching management technologies and information systems to control business processes and product quality, boosting production performance and personnel productivity, upgrading skills of employees responsible for technological growth, setting up an innovative infrastructure, including intellectual property rights control and other areas.

The IDP financing in 2011 amounted to RUR 55.7 billion, including:

federal budget funds – RUR 34.6 billion; and

equity capital – RUR 21.1 billion.

The amount of funds allocated for strategically important activities:

R&D: RUR 35.8 billion, including RUR25.5 billion of budget funds and RUR10.3 billion equity capital;

Technical upgrading: RUR14.0 billion, including RUR7.1 billion of budget funds and RUR6.9 billion of equity capital; and

Other efforts: RUR5.9 billion.

The key performance indicators under the IDP in 2011:

the share of R&D costs in the total revenues – 7%;

the share of equity-financed R&D in the total revenues – 2.3%; and

the share of innovation product sales in the total sales of product, work and services – 7.8%.

The R&D projects were implemented in the advanced areas of innovation development of the Corporate Companies. Most R&D projects were pursued by the Corporate Companies under the SDO and FTP.

The technical modernization (technical upgrading) efforts were aimed at expanding technological resources of the Corporation, cutting production costs, enhancing productivity and ensuring an efficient growth in product quality.

Failure to approve the FTP for the 2011-2020 Development of the Defence and Industry Complex of the Russian Federation in 2011 materially affected performance (financing) of the technical upgrading efforts. This resulted in low financing of technical upgrading projects for the Corporate Companies.

Subject to the Growth Strategy and the IDP, the Corporation formed a new business area focused on commercialization of the R&D deliverables for small- and medium-sized innovation businesses.

In 2011, the Corporation made a preparatory work to establish the corporate system for small- and medium-sized innovation businesses:

developed guidelines on inventory of the innovation projects aimed at commercialization under small venture companies and initiated the procedure to select the most advanced projects; and

prepared tender documents for the first open tender for civil innovation projects designed for DIC companies.

The Corporation and its companies were involved in development and introduction of the national technological platforms (see Section 3.5 hereof).

The Corporate innovation structure was established under the IDP in the following key areas:

1) Management structures responsible for innovation development of the Corporation and its holding companies (integrated entities).

In 2010-2011, the Corporation opened new positions of deputy general directors of holding companies (integrated entities) responsible for innovation development and set up new innovation development units within its holding companies (integrated entities). The Corporation developed and approved a standard regulation on committees for strategic growth, investment, innovation and modernization at the board of directors of its holding companies (integrated entities). The Corporation proceeded with establishing such committees.

2) Management system for intellectual property rights within the Corporate Companies.

The resolution of the Managing Board appointed the head organization to develop, introduce and control operations of the management system for intellectual property rights (MS IPR) within the Corporation and its Companies and defined the main business avenues within the above area which include:

set up the MS IPR within the Corporate Companies with a focus on management standard and guidelines to ensure management of intellectual property rights on three levels: Company, Integrated Entity and Corporation;

calculate the share of Corporate Companies in the intellectual property rights;

develop and monitor efforts aimed and increasing the number of IPRs, including the rights exercised by the Corporation in foreign states.

The Corporation developed the system for establishing its regulations, standards and IPR management methods and their distribution across the Corporate Companies. In particular, the Corporation is currently testing its IPR management standard at the Company level.

3) The Center for shared use of laboratory and industrial equipment

The Corporation drafted a regulation on the center for shared use of laboratory and industrial equipment.

4) Regulations on innovation development

In 2011, the Corporation provided additional training to employees of innovation development subdivisions of the Corporate Companies in the area related to project selection, expert evaluation and preparing for investment. For this purpose, the Corporation held over 10 practical seminars Technology Commercialization in Small-Sized Investment Companies to provide short-term training to 150 employees of the Corporate Companies.

Within IDP projects focused on energy saving and energy efficiency technologies, the Commission for Investment, Innovation and Modernization developed and approved in 2011 the relevant regulations related to carrying out energy inspections in the Corporate Companies.

The Corporation carried out selection and certification of prospective contractors for energy inspections in the Corporate Companies. The Corporation engages 50 energy auditors of which it selects contractors for energy inspections on the basis of competitive bidding. The Corporation held 80 calls for bids.

Due to its efforts in this area in 2011, the Corporation completed its preparatory work to carry out wide-scale energy inspections across the Corporate Companies and further develop energy saving and energy efficiency programs for the Corporate Companies.

In 2011, Corporation's holding companies (integrated entities) and non-holding Corporate Companies were working together with universities and research institutions to carry out applied research and R&D. Universities and research institutions were engaged as co-contractors in R&D under FTP or any other work. Total financing under the agreements with universities and research institutions was RUR 3.8 billion.

#### *4.2. Improving corporate governance of holding companies (integrated entities) and Corporate Companies*

The following work was made in 2011 to improve the corporate governance system for holding companies (integrated entities) and non-holding Corporate Companies.

separation of powers between the Corporation and the management companies (principals) of holding companies (integrated entities) in terms of stake (interest) management of companies owned by the Corporation and in terms of execution of the ownership rights for the assets of federal unitary enterprises;

monitoring of management personnel of the Corporate Companies and resulting agreements to represent the Corporation in the boards of directors (supervisory boards) concluded with persons who are not Corporation's employees (totally, 337 agreements); and

transfer of the chief executive officer's authority at JSC Izhevsk Machinebuilding Plant to JSC FCC Izhmash and CEO's authority at JSC Aviapribor-Holding to JSC Concern Aviapriborostroyeniye.

#### *4.3. Measures to enhance efficient use of assets owned by the Corporation and the Corporate Companies*

The Corporation has a multi-sector structure represented by research and industrial entities most of which belong to the defence and industry complex. As such, the current status of Corporation's assets is marked by a set of specific features: a large number of real estate property located in different regions across Russia and abroad; a large number of facilities designed to perform government programs and mobilization plans; and property owned (operated) by entities of different legal forms governed by different regulations.



Business operations aimed at enhancing efficient use of assets owned by the Corporation and the Corporate Companies are focused on the following:

1) Record of assets owned by the Corporation and Corporate Companies by keeping registers

Management reporting of assets is carried out by the Corporation under the regulation on maintaining the property and intellectual property register.

During 2011, the Corporation collected and filed information and maintained property registers of the Corporation and the Corporate Companies.

The above register has been completely formed to include various descriptions and parameters of over 28,000 items.

In order to improve the property reporting system, the Corporation launched a pilot project in 2011 to introduce an automated information management system for assets, non-core assets and intellectual property of the Corporation and the Corporate Companies.

2) Development and implementation of asset disposal and use programs, including non-core assets

The non-core asset register is formed and maintained in accordance with the concept for management of non-core assets of the Corporation and the Corporate Companies approved by the Supervisory Board of the Corporation. Subject to this concept, the Corporation improved its regulatory and procedural structure of non-core asset operation (in particular, the Corporation approved the methods of operating its non-core assets). The Supervisory Board approved the procedure of non-core asset sale and established a working group to identify real estate property which is not used for core business activities.

The disposal program for non-core assets owned by the Corporation and the Corporate Companies was established and approved in 2011 on the basis of disposal, reorganization and optimization programs for production facilities developed by the holding companies (integrated entities).

The relevant procedures to prepare, distribute and use assets in the investment and any other activities were carried out under the above program.

3) Control over intended use and safekeeping of assets is carried out by the following:

approval of real estate transactions (including writing off) within delegated authority;

documentary or any other inspections of real estate use;

asset inventory of the Corporate Companies in accordance with the approved rules;

identifying real estate property not used in core business operations and selecting the proper methods of its marketing in accordance with the established procedure; and

opening of register and verifying data contained therein.

4) Privatization of federal unitary enterprises, registration and distribution of corporate rights for real estate property and land, maintaining corporate interest in companies' management bodies and participation in corporate governance of companies which shares (stakes) are owned by the Corporation

#### *4.4. Development and improvement of monitoring system related to financial status of the Corporate Companies*

In 2011, the Company pursued further development and improvement of the monitoring and analysis system for financial performance of the Corporate Companies.

The Corporation updated its internal regulatory structure which governs the above matters and the list of items to be monitored.

The Corporation made the relevant corporate decisions and administrative steps to establish a uniform information system which will develop a software and hardware system to automate both monitoring of financial status of the Corporation and further control of budget implementation by the Corporation and the Corporate Companies.

#### *4.5. Efforts to prevent bankruptcy of the Corporate Companies; Plans for financial restructuring of the Corporate Companies*

In 2011, the Corporation made regular efforts to identify bankruptcy risks within the Corporate Companies and ensure their financial restructuring. As of late 2011, the bankruptcy risk register contains information on 188 Corporate Companies, of which 116 were found to be toxic assets of the Corporation. The Corporation carries out regular monitoring of financial status of toxic assets and companies included in the bankruptcy risk register.

In 2011, the Corporation assessed its toxic assets both in terms of holding companies (integrated entities) and in terms of individual companies. Totally, the Corporation assessed toxic assets of 12 holding companies (integrated assets).

In 2011, the Corporation made decisions on financial restructuring of 32 toxic assets, including:  
reorganization and restructuring of Izhmash Group;

approval of financial restructuring programs for JSC Khimprom and FGUP GNPP Bazalt;

approval of financial restructuring programs for 7 Corporate Companies which claimed government subsidies for preventing bankruptcy of such strategically-important companies as JSC NPO Sibselmash, JSC Tomsk Measurement Equipment Plant, FGUP Elastik Synthetic Fiber Plant, FGUP NII Poisk, JSC Novosibirsk Production Association Luch, FGUP Ufa Engineering Production Association, and JSC Kursk Mayak Plant.

The Corporation also made regular and urgent efforts to prevent bankruptcy of other toxic assets, in particular, arguing its position in court sessions, sitting on the board of directors, negotiations with creditors, maintaining relations with concerned government authorities, working together with management bodies, and developing growth concepts of toxic assets.

Subject to the bailout plan of the Government of the Russian Federation, the Corporation acted on behalf of the Corporate Companies sitting on the Government Commission for Bankruptcy Prevention of Strategic Enterprises and Organizations and DIC Companies and Working Groups.

In 2011, the Government Commission made a resolution to subsidize bankruptcy prevention of 4 Corporate Companies, including:

Company name	Subsidy amount, RUR thousand	Resolution of the Russian Federation Government
FGUP NII Poisk	218,860	order of the Government of the Russian Federation No. 2264-r of December 20, 2011
JSC Novosibirsk Production Association Luch	218,340	order of the Government of the Russian Federation No. 2384-r of December 26, 2011
FGUP Ufa Engineering Production Association	329,515	order of the Government of the Russian Federation No. 2385 of December 26, 2011
JSC Kursk Mayak Plant	41,100	order of the Government of the Russian Federation No. 2400-r of December 28, 2011
	Total: 807,815	

In 2011, the Corporation controlled and monitored the implementation of financial restructuring programs for 25 Corporate Companies approved for obtaining subsidies of the Russian Federation Government in 2009-2010.

The Corporation initiated amendments to Federal Law No. 357-FZ on Federal Budget for 2011 and the Planning Period of 2012 and 2013 made in 2011 concerning the asset contribution by the Russian Federation to the Corporation in order to extend an interest-free loan of RUR 722 million to FGUP NPP Istok. The above funds were transferred to FGUP NPP Istok as an interest-free loan for repayment of tax and insurance debts, penalties and fees and other liabilities. FGUP NPP Istok used the above funds in accordance with their intended purpose.

In 2011, the Corporation established a specialized subsidiary to handle specific toxic assets of the Corporation, JSC RT-Design Technologies. It made a decision to engage JSC RT-Design Technologies in financial restructuring of 28 toxic assets of the Corporation.

As long as the situation has leveled off in 2011, the Corporation removed three companies from its toxic asset register: JSC Kalinovskiy Chemical Plant, FGUP ChPO Chapayev and FGUP Research Institute of Applied Chemistry.

One Corporate Company (JSC NPO Sibselmash) emerged from bankruptcy in 2011 – the final settlement agreement was approved and the proceeding in case was terminated on December 26, 2011.

Bankruptcy proceedings were prevented against 10 companies in 2011 at the stage of insolvency filing by creditors or at the stage of court hearing the proof of claim.

In order to take measures on financial restructuring of toxic assets in 2011, the Corporate Companies entered into loan agreements to raise credit facilities under Corporation's guarantee for the amount of RUR3,840 million.

#### *4.6. Improvement of the budgeting system of the Corporation and the Corporate Companies*

In 2011, the Corporation continued to expand the analytical feature set of the unified budgeting system of the Corporation and the Corporate Companies.

The budgeting system incorporates analytical support of programs pursued by the Corporate Companies, including business, restructuring, innovation and investment programs.

The Corporation developed and introduced additional analytical forms for planning and supervising programs for energy efficiency, technical upgrading and nonmanufacturing cost cutting.

The Corporation expanded the budgeting system functions in terms of analytical support of Corporation's infrastructure projects which ensure management of and control over the system costs of the Corporate Companies.

In 2011, the Corporation was involved in consolidated budgeting for its holding companies (integrated entities) and the Corporation. It developed planning and reporting forms and the key guidelines for fiscal consolidation.

In order to organize budgeting for 2012, the Corporation held a set of training seminars for employees of 500 Corporate Companies, members of the unified budgeting system.

#### *4.7. Building internal audit and control systems in the Corporate Companies and establishing divisions for internal audit and control within newly-formed holding companies (integrated entities)*

The audit and internal control department for subsidiaries and associate companies was reorganized in 2011 into the Internal Audit and Control Department of the Corporate Companies.

In 2011, the Department carried out 15 audits and 24 inspections of business and financial performance of the Corporate Companies. Based on the outcomes of such inspections, the Corporation maintained control over elimination of the revealed defects and violations, development and introduction of financial restructuring and bankruptcy prevention and enhancing performance of some Corporate Companies. The results of some audits and inspections were referred to the law enforcement agencies.

The structure for internal and audit control system in the holding companies (integrated entities) was developed and approved by the Managing Board of the Corporation in February 2011. Pursuant to that structure, the functions of internal audit and control are distributed among the Corporation and the management (principal) companies of holding companies (integrated entities) subject to their powers. The Corporation will communicate with the management (principal) companies of holding companies (integrated structures) on the matters of internal audit and control through the audit committees at the board of directors of the management (principal) companies. The Corporation made efforts to build the internal control system aimed at minimizing internal and external risks, prevention of major abuse methods and damage caused to the company (owner) by regulating each business process step and toughening the liability of contractors and executives.

In 2011, the Corporation established the audit committees at the boards of directors of the management (principal) companies and developed guidelines for internal audit and control. The Managing Board of the Corporation approved the standard regulation on the audit committee at the board of directors of the management (principal) company of the holding company (integrated entity), which was used by the boards of directors of the management (principal) companies to approve the relevant regulations on the audit committees at the boards of directors of the management (principal) companies of holding companies (integrated entities).

The Corporation developed and approved the standard guidelines on internal audit of and control over the management (principal) companies of the holding companies (integrated entities), including:

the regulation on internal control system;

the regulation on the internal audit and/or control subdivision;

the methods of inspection and audit of companies' business performance;

corporate audit standards; and

internal auditors' code of conduct.

The Corporation developed a standard regulation on a request for tender to select an audit company for carrying out annual mandatory audit of financial (accounting) statements for which purpose there will be an open tender to facilitate transparency in selecting an auditor. The Corporation developed the methods to assess auditors' bids together with self-regulated auditors' associations in order to prevent unfair competition on the audit services market.

#### *4.8. Introduction of the system to prepare and carry out technology audits in the Corporate Companies*

The Corporation established to system to prepare and carry out technology audits in order to improve implementation of technical upgrading investment projects.

Subject to the Business Program for 2011 and the Planning Period of 2012 and 2013 and in order to introduce the system to prepare and carry out technology audits in the Corporate Companies, the Corporation developed and approved the pilot project plan for technology audits to be carried out in the Corporate Companies in 2012. The plan was drafted with a view to proposals made by holding companies (integrated entities) and the Corporate Companies on the projects focused on technical upgrading and renovation of industrial facilities planned to be included in the FTP "The 2011-2020 Development Plan of the Defence and Industry Complex".

The plan contemplates efforts to assess technical upgrading projects of the following Corporate Companies:

JSC Serpukhov Plant Metallist

FGUP GNPP Bazalt

FGUP VNII Gradient

FGUP NII Ekran

JSC Meteor Plant

FGUP Science and Production Company Pulsar

In order to implement the plant and define the methods of technology audits, the Corporation developed and approved the operating schedules of work to carry out technology audits.

The Investment, Innovation and Modernization Commission is responsible for reviewing such schedules and certifying special organizations for the right to carry out technology audits.

Nine companies are certified to carry out technology audits in the Corporate Companies and included in the register of the companies certified to carry out technology audits.

*4.9. Development and implementation of the program for quality control of the Corporate Companies' products supplied under the state defence order and for export. Assistance to the Corporate Companies in introduction and certification of quality management systems.*

The Corporation drafted the quality control program for military products manufactured by the Corporate Companies and supplied under the state defence order and for export.

The Corporation was engaged in drafting the order of the Government of the Russian Federation on priority measures for quality control of MPs manufactured under the state defence order and for export and the concept of the information and analytical monitoring system for MPs supplied under the state defence order and for export.

The Managing Board of the Corporation appointed JSC Aviatechpriemka (the quality monitoring and audit center) to be responsible for quality control of the military, civil and double-purpose products. The company has the following areas of responsibility:

create a corporate information and analytical system for quality monitoring of the military, civil and double-purpose products manufactured by the Corporate Companies;

control the systems for quality management, environmental safety and job safety within the Corporate Companies;

monitor quality of materials and semi-finished goods used by the Corporate Companies to manufacture hi-tech military, civil and double-purpose products;

introduce the system of marking and accounting of materials and semi-finished goods used by the Corporate Companies to manufacture hi-tech military, civil and double-purpose products across the Corporate Companies;

develop the list of MP integral performance indices defined by assessment of the reasons of defects in materials, elements and components and the cost of their remedy and the list of performance indices of each MP;

monitor efforts aimed at quality control over MPs manufactured by the Corporate Companies; and

develop and introduce across the Corporate Companies of the electronic product support throughout their life cycle (IPI technologies).

In order to make the quality monitoring and audit center operative, the Corporation drafted corporate regulatory documents on MP quality control and submitted them for review by the Investment, Innovation and Modernization Commission. Such documents include the following:

the concept of the corporate information and analytical system for MP quality monitoring;

guidelines "Development of a Unified System for Quality Management, Environmental and Job Safety";

guidelines "Calculation of Initial Price for Consulting and Certification Services Related to Quality Management Systems";

the methods for information sharing within the corporate information and analytical quality monitoring system;

the procedure for providing information (materials) by holding companies (integrated entities) and non-holding companies to the corporate information and analytical quality monitoring system;

the standard agreement on communication among the Corporate Companies; and

guidelines “Integrated Safety Management System for Aviation Business of Developers and Manufacturers of Aircraft Equipment; General Requirements”.

#### *4.10. Corporation’s involvement in the investment projects of the Corporate Companies. Incorporation (acquisition) and interest in commercial and non-commercial companies within and outside the Russian Federation*

The Corporation and Pirelli set up a joint venture for tyre manufacturing. The joint venture (estimated output of 11 million tyres per year) became the owner of JSC Kirovsky Tyre Plant in December 2011.

The Corporation acquired 20% of shares in JSC ACB NOVIKOMBANK.

The Corporation increased its stake in JSC AVTOVAZ to 28.98% of the share capital.

The Corporation acquired a 25%+1 share stake in JSC Corporation VSMPO-AVISMA.

#### *4.11. The procedure for consolidated financial statements of the Corporation and its holding companies (integrated entities)*

The Corporation prepared its consolidated financial statements for 2010 in accordance with sub-clause k, Clause 4 of Order No. 1052 and the resolution of the Supervisory Board of September 23, 2009.

The Corporation performed initial configuration of the automated system for consolidated financial statements under RAS set up on the basis of 1C:Consolidation software. The system enables the holding companies (integrated entities) to automatically prepare their consolidated financial statements.

The 2010 consolidated financial statements of the Corporation and its holding companies (integrated entities) were prepared and submitted for review to the Managing Board and the Supervisory Board.

As a preliminary work before preparing the 2011 consolidated financial statements, the Corporation made sure that some reporting items are expanded to provide more details and the procedures for preparing consolidated financial statements are improved.

With a view to amendments made to the regulations governing accounting in the Russian Federation, the Corporation developed new forms of consolidated financial statements. Moreover, it restated the local corporate regulations governing the methods for preparing consolidated financial statements.

The Corporation defined further objectives to develop the automated system and improve the methods of preparing consolidated financial statements of the Corporation and its holding companies (integrated entities).

#### *4.12. Development of HR policy of the Corporation for further growth and improvement of HR management across the Corporate Companies*

The Corporation drafted the 2012-2020 HR Policy Concept and the action plan to implement the 2012-2020 HR Policy Concept which are approved by the Commission for HR and Social Matters. The above

concept was adopted to meet the key business objective of the Corporation, i.e. to support the development, production and export of hi-tech industrial products.

The concept is a system of theoretical and methodical vision of the goals, objectives and priorities in HR management and the most efficient use of human resources in specific corporate environment.

The main goal of the corporate HR policy is to satisfy the demand for human resources which are able to efficiently meet the challenges of the Corporation and its Corporate Companies.

The concept addresses new avenues of HR policy and the principles of its implementation. The action plan features the progress and expected outcomes of HR policy implementation.

*4.13. Agreements between the Corporation and higher educational institutions to establish and improve the system for advanced professional training; and further cooperation on field-specific contractual training of specialists for the Corporation and the Corporate Companies*

The Corporation continued its cooperation with Russia's leading higher educational institutions in education and research sectors. The joint work was performed on the basis of long-term agreements made to establish and improve the system for field-specific contractual training and advanced professional training of employees for the Corporation and its Corporate Companies.

Main partners of the Corporation include, among others, the Moscow State Institute of International Relations (MGIMO), Bauman Moscow State Technical University, the Plekhanov Russian University of Economy, St. Petersburg State Polytechnical University, and the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation.

In accordance with the agreements to establish and improve the advanced professional training system, the Corporate Companies worked together with 56 educational institutions across the Russian regions. Two basic (field-specific) departments were established with direct support of the corporate executives and employees in Moscow:

the department for management in the military and technical cooperation area, the Moscow State Institute of International Relations (MGIMO): educate managers majoring in promotion of advanced hi-tech military, civil and double-purpose products and carry out research on joint international project implementation;

the department for economic analysis and corporate governance of production and export of hi-tech products, the Plekhanov Russian University of Economy: advanced training of corporate employees, carry out research and feasibility studies of the state industrial and military policies.

In 2011, yet another year of master's degree holders graduated from the Moscow State Institute of International Relations (MGIMO) under the program for field-specific contractual training on management in military and technical cooperation and high technologies. Today, the Corporation employs over 40 graduates under this joint program.

Over 460 corporate employees completed the advanced training program, 870 employees completed specialized investment management programs and 3,200 employees upgraded their skills in higher educational institutions across the Russian Federation in the reporting year.

Such joint work to establish and improve the advanced professional training system and field-specific contractual training is viewed by the Corporation as its strategic focus to integrate resources and



potential of education, science and production for the benefit of companies within the defence and industry complex.

#### *4.14. Corporate brand management*

The Corporation continued its work to build the brands of its holding companies (integrated entities) in accordance with the approved corporate brand architecture.

In 2011, the Corporation developed, agreed and approved individual identity for the following holding companies (integrated entities) in compliance with the brand-building elements of the parent brand: JSC Russian Electronics, JSC Concern Radio-Electronic Technologies, JSC RT-Khimkompozit, JSC High Precision Systems, JSC RT-Metallurgy, LLC RT-Energo and LLC RT-Insurance.

The Corporation's logo was used to design the uniform Russian displays at the MP exhibitions abroad and the unified corporate displays at the Russian-based exhibitions. It was also designated on the vehicles of the LADA Granta Cup, on Russia' biathletes' guns, the website of the Russian Hockey Federation and in promotional materials of may festivals, exhibitions and performances. The Corporation drafted guidelines on using corporate identity symbols in design of corporate representative offices abroad.

The Corporation pursued cooperation with the Boeing communications and branding working group for the purposes of using American experience in building its brand and the system of internal and external communications.

The leading Boeing experts delivered lectures and held master classes for the corporate employees. Based on the lecture program, the Corporation decided to use the experience of Boeing Investor Relations Department in planning its corporate IPOs as a good example of communication with the international investors community and to review proposals on efficient use of new media and social networks in the corporate media strategy with a view to the track record of the Boeing communications department.

In 2011, the combined corporate trademark was granted legal protection in 9 countries which is confirmed by titles of protection (certificates). The Corporation continues to file applications for legal protection of Corporation's trademark in foreign states.

#### *4.15. Proposals to improve legal framework within the business scope of the Corporation and the Corporate Companies*

1) In 2011, the Corporation pursued efforts to improve the legal framework which governs its corporate business operations, in particular, to meet a set of legal challenges related to the transfer of the asset contribution by the Russian Federation to the Corporation and reorganization of the federal unitary enterprises in joint stock companies which shares are subject to transfer as the asset contribution by the Russian Federation.

In 2011, the Corporation drafted or was engaged in drafting the following statutory acts:

federal laws:

No. 61-FZ of April 5, 2011 "On Amendments to the Federal Law on Military and Technical Cooperation of the Russian Federation with Foreign States";

No. 105-FZ of June 1, 2011 "On Amendments to the Federal Law on the Federal Budget for 2011 and the Planned Period of 2012 and 2013";

No. 158-FZ of June 27, 2011 "On Amendments to Article 18.1 of the Federal Law on State-Owned Corporation Rostekhnologii";

No. 223-FZ of July 18, 2011 "On Procurement of Goods, Works, and Services by Specific Types of Legal Persons";

No. 302-FZ of November 6, 2011 "On Amendments to the Federal Law on the Federal Budget for 2011 and the Planned Period of 2012 and 2013";

No. 371-FZ of November 30, 2011 "On the Federal Budget for 2012 and the Planned Period of 2013 and 2014";

President's decrees:

No. 638 of May 16, 2011 "On Amendments to the Regulation on the Federal Service for Military and Technical Cooperation approved by the Decree No. 1083 of August 16, 2004 of the President of the Russian Federation and to the Regulation on Reviewing Applications of Foreign Customers and Approval of Draft Resolutions of the President of the Russian Federation, the Government of the Russian Federation and the Federal Service for Military and Technical Cooperation Relative to Supplies of Military Products Approved by the Decree No. 1062 of September 10, 2005 of the President of the Russian Federation";

No. 673 of May 24, 2011 "On the Federal Intellectual Property Service";

No. 771 of June 11, 2011 "On Financing Construction and Equipment of the Medical Centers in the Primorsk Region";

No. 862 of June 27, 2011 "Question of the Supervisory Board of the State-Owned Corporation on Supporting the Development, Production and Export of Hi-Tech Industrial Products of Russian Technologies";

No. 1435 of October 27, 2011 "On Amendments to the Regulation on the Military and Technical Cooperation of the Russian Federation with Foreign States Approved by the Decree No. 1062 of September 10, 2005 of the President of the Russian Federation";

No. 1548 of November 26, 2011 "On Amendments to the Regulation on the Military and Technical Cooperation of the Russian Federation with Foreign States Approved by the Decree No. 1062 of September 10, 2005 of the President of the Russian Federation";

decrees of the Government of the Russian Federation:

No. 134 of March 1, 2011 "On the Execution by State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product "Rostekhnologii" of Property Ownership Rights Related to the Federal Unitary Enterprises Reorganized into Joint Stock Companies in which One Hundred Percent of Shares are Federally Owned with their Further Transfer to the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product "Rostekhnologii" as an Asset Contribution Made by the Russian Federation";

No. 397 of May 18, 2011 "On Amendments to the List of Assets under the Economic Jurisdiction of the Federal Unitary Enterprise Rosoboronexport to be Transferred to the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product "Rostekhnologii" as an Asset Contribution Made by the Russian Federation";

No. 580 of July 15, 2011 "On Measures to Implement the Decree No. 771 of June 11, 2011 of the President of the Russian Federation "On Measures to Finance Constructions and Equipment of the Medical Centers in the Primorsk Region";

No. 966 of November 23, 2011 "On Amendments to the List of Land Plots Federally Owned and to be Transferred to the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product "Rostekhnologii" as an Asset Contribution Made by the Russian Federation";

No. 1024 of December 8, 2011 "On Amendments to the Decree No. 342 of April 22, 2009 of the Government of the Russian Federation";

No. 1080 of December 21, 2011 "On Investment of Temporarily Surplus Funds of State-Owned Corporations and State-Owned Companies";

orders of the Government of the Russian Federation:

No. 21-r of January 14, 2011 relative to foreign citizens' access to restricted access premises of FGUP GNPP Splav";

No. 210-r of February 15, 2011 relative to the transfer of shares in JSC United Industrial Corporation Oboronprom to the Corporation as an asset contribution by the Russian Federation;

No. 318-r of March 1, 2011 relative to the approval of the disposal program for shares in JSC Foreign Economic Association Technopromexport transferred to the Corporation as an asset contribution by the Russian Federation;

No. 744-r of April 28, 2011 relative to the transfer of right for use of 680.3 hectares of the standard hevea field to the Corporation as an asset contribution by the Russian Federation;

2) The Corporation approved the plan to prepare proposals to improve the laws governing assistance to development, production and export of hi-tech industrial products for 2012 which contemplates the following measures:

make amendments to federal laws No. 270-FZ of November 23, 2007 "On State-Owned Corporation Rostekhnologii; No. 329-FZ of December 4, 2007 "On Physical Fitness and Sports in the Russian Federation"; No. 135-FZ of July 29, 1998 "On Valuation Activities in the Russian Federation"; and No. 114-FZ of July 19, 1998 "On Military and Technical Cooperation of the Russian Federation with Foreign States" which are related to the transfer of federally owned shares in the open joint stock companies and federally owned other assets of the Corporation as an asset contribution by the Russian Federation and facilitating performance of the Corporation. The above proposals will be supported in the Federal Assembly of the Russian Federation;

prepare statutory regulations of the President of the Russian Federation and the Government of the Russian Federation related to improving governance of the Corporation and the Corporate Companies, in particular to the issues concerning specifying the facilities and assets to be transferred to the

Corporation as an asset contribution by the Russian Federation, as well as improving procedures for disposal of shares in the Corporate Companies to any third parties; and

sit on the collegiate and advisory bodies of the Federal Assembly of the Russian Federation, the Government of the Russian Federation and the federal executive bodies to prepare proposals aimed at improving the legal framework in terms of corporate activities.

#### *4.16. Improvement of the legal framework of the Corporation and set up of an information system for statutory acts of the Corporation*

In 2011, the Corporation commissioned in the testing mode an automated information system for statutory acts of the Corporation based on ConsultantPlus (hereinafter, ISPA). The order of the Corporation approved the regulation on ISPA and the schedule of the phased ISPA commissioning in the testing mode.

The ISPA goal is to provide corporate executives and employees with up-to-date, relevant and valid information on statutory acts issued by the Corporation and any other legal documents related to business operations of the Corporation and the Corporate Companies.

Currently, ISPA contains 1,630 statutory acts of the Corporation.

#### *4.17. Organization and improvement of Arbitration operations at the Corporation*

For further improvement of the procedure for settlement of any economic disputes arising from civil relations in any business and any other economic operations by the Corporation of the Corporate Companies, the Corporation established the Arbitration at the Corporation, approved the regulation on the Arbitration at the Corporation and the rules of the Arbitration at the Corporation and the list of arbiters.

The first court session of the Arbitration at the Corporation was held on July 1, 2011 chaired by Professor Boris Puginsky, a member of the Expert Board at the Government of the Russian Federation, a member of scientific advisory councils at the Supreme Arbitration Court of the Russian Federation and the Ministry of Justice of the Russian Federation.

In 2011, seven civil cases were referred to the Arbitration at the Corporation, and the judgment was made on two of them.

#### *4.18. Improvement of the state secret security and protection system within the Corporation and its holding companies (integrated entities)*

The Corporation developed and launched the Corporate Security Concept which underlies the development of programs and action plans for subdivisions, holding companies (integrated entities) and non-holding Corporate Companies in various areas related to security sector and enhances security of the Corporation and the Corporate Companies against external and internal threats.

The Corporation developed the algorithm of information communications and reporting methods for subdivisions of holding companies (integrated structures). The efforts were made across the holding companies (integrated entities) to set up a vertically integrated security system of the Corporation, introduce unified corporate security standards, improve communication with the law enforcement bodies and special services, and other areas of responsibility were pursued as well.

In order to enhance the existing progress in cooperation with the Ministry for Internal Affairs of the Russian Federation and its bodies, the Corporation held a joint meeting with the Ministry executives in December 2011 to approve the 2012 joint action plan for cooperation and communications to identify and prevent offences within the Corporate Companies (approved by Director General of the Corporation and the Minister for Internal Affairs of the Russian Federation).

Subject to the established procedure, the Corporation made the relevant efforts to strengthen corporate security, observing commercial secrets and confidential information and countermeasures against foreign technical intelligence.

The Corporation set up a commission for classification of personal data systems within the Corporation and established requirements to personal data security as they are processed by the data systems. The Corporation allocated special premises for the above purposes.

The Corporation implemented the regulation on the methods of selection and engagement of companies to work at corporate facilities and their equipment with technical security means.

The Corporation carried out specific test efforts to inspect security level across the Corporate Companies against terrorism. Besides, a corporate representative joined the expert and advisory council at the National Anti-Terrorist Committee for the purpose of increasing efficiency of corporate communication with the anti-terrorist bodies and direct involvement of the Corporation with the anti-terrorism activities.

The Corporation further developed and improved its security guards service and security systems of the corporate facilities and companies. The Corporation completed the legal framework governing its security guards service and approved the list of corporate facilities and companies to be secured by JSC RT-Security.

All state secret information was handled within the Corporation in strict compliance with the laws of the Russian Federation related to the protection of state secrets.

Within its competence, the Corporation assisted its holding companies (integrated entities) and non-holding Corporate Companies in making efforts and handling security matters.

#### *4.19. Information support to the Corporate Companies in promoting hi-tech industrial products on the domestic and foreign markets*

The Corporation organized PR events to promote the most competitive hi-tech products manufactured by the Corporate Companies on the domestic and foreign markets.

The Corporation made promotional efforts to provide foreign and domestic media coverage to the most advanced projects of the Corporate Companies involving foreign partners.

Information support to the Corporate Companies also involved Russian Technologies, a joint television project with VGTRC to promote hi-tech developments of the Corporate Companies.

#### 4.20. Improvement of corporate communications with the constituents of the Russian Federation

The Corporation operates 26 representative offices in the constituents of the Russian Federation for the purposes of facilitating development, production and export of hi-tech industrial products by ensuring support to Russian developers and manufacturers of hi-tech industrial products on the domestic and foreign markets and raising investment in different industrial sectors, including the defence and industry complex.

The list of corporate representative offices in the constituents of the Russian Federation is enclosed in Appendix 4 hereto.

During the reporting period, the representative offices operated in 58 regions of Russia.

In order to facilitate development, production and export of hi-tech industrial products and boost advanced research and technologies, the Corporation enters into the relevant agreements. In 2011, it concluded agreements with 5 Russian Federation constituents, in particular, Vladimir, Volgograd, Pskov and Sakhalin Regions and Moscow.

Currently, the Corporation cooperates with the executive bodies of 30 constituents under the relevant agreements:

1. Republic of Bashkortostan	16. Novosibirsk Region
2. Republic of Mordovia	17. Omsk Region
3. Republic of Tatarstan	18. Pskov Region
4. Republic of Udmurtia	19. Rostov Region
5. Perm Krai	20. Ryazan Region
6. Khabarovsk Krai	21. Samara Region
7. Archangelsk Region	22. Saratov Region
8. Vladimir Region	23. Sakhalin Region
9. Volgograd Region	24. Sverdlovsk Region
10. Voronezh Region	25. Smolensk Region
11. Irkutsk Region	26. Tver Region
12. Kaluga Region	27. Ulyanovsk Region
13. Kirovsk Region	28. Yaroslavl Region
14. Moscow Region	29. Moscow
15. Nizhny Novgorod Region	30. Saint Petersburg

In pursuing relations with the Russian Federation constituents, the Corporation analyzed the status and challenges of their legislative framework in defence industry sectors, the measures to boost their investment and innovation operations for the benefit of modernization and technical upgrading of DIC companies and agreed upon any further forms and methods of bilateral relations, including communication through its representative offices.

Subject to the resolutions made by the corporate management bodies and the agreements made with the Corporation, the constituents in direct communication with the executive authorities provided support to the Corporate Companies in promoting the following hi-tech projects:

regional (municipal) programs in energy saving and energy efficiency sectors;

construction of facilities for small distributed energy industry;

promotion of energy saving lighting systems;  
promotion of software and radio-electronic products; and  
introduction of sophisticated information technologies.

#### *5. Financial (accounting) statements of the Corporation*

The 2011 financial (accounting) statements of the Corporation are enclosed in Appendix 5 hereto.

Subject to the audit report, such financial (accounting) statements fairly represents the financial status of the Corporation and its financial performance in accordance with the applicable accounting standards.

#### *6. Corporate goals and objectives for 2012*

##### *6.1. Pursuant to priority: Building an efficient business model of the Corporation*

6.1.1. Reform Corporate Companies, in particular, set up holding companies (integrated entities) and transfer shares to them.

6.1.2. Reorganize the federal unitary enterprises into open joint stock companies which shares to be transferred to the Corporation as an asset contribution by the Russian Federation.

6.1.3. Develop and implement measures for efficient use of property owned by the Corporation and the Corporate Companies.

6.1.4. Establish the management unit for the holding companies (integrated entities);

6.1.5. Generate the key elements of the corporate innovation system.

6.1.6. Control the implementation of growth strategies, innovation growth programs, mid-term business programs, investment and all other programs of the Corporation, its holding companies (integrated entities) and non-holding Corporate Companies.

6.1.7. Improve the statutory regulation within the scope of business operations of the Corporation and its Corporate Companies.

6.1.8. Improve the financial planning system (budgeting), monitoring and analysis of financial performance of the Corporation and its holding companies (integrated entities).

6.1.9. Arrange the procedure to prepare consolidated financial statements of the Corporation and its holding companies (integrated entities);

6.1.10. Implement the HR Policy Concept for further organizational growth and better HR management, including incentive programs for the personnel of the Corporation and the Corporate Companies where compensation is dependent on the key performance indicators.

6.1.11. Corporate brand management.

6.1.12. Operating the Arbitration at the Corporation.

6.1.13. Develop and implement measures aimed at the Corporate Security Concept and improving security of state secrets across the Corporation and the Corporate Companies.

6.1.14. Improve relations of the Corporation with the federal authorities and the authorities of the constituents of the Russian Federation.

6.1.15. Develop the package of new advanced (innovation) business avenues of the Corporation.

6.1.16. Develop the package of reorganization and financial restructuring.

6.1.18. Complete the construction and commissioning of the federal centers for high medical technologies under the National Health Project.

*6.2. Pursuant to priority: Boosting competitive advantage of the holding companies (integrated entities) and Corporate Companies*

6.2.1. Assist organisations in various industry sectors, including DIC, in development and production of he-tech industrial products and advanced research and technology development.

6.2.2. Cause the Corporate Companies to implement the state arms program, the state defence order and mobilization plan, the federal target programs and programs for military and technical cooperation.

6.2.3. Pursue the government policy in military and technical cooperation of the Russian Federation with foreign states.

6.2.4. Support the organization which is the government agent for foreign trade activity related to the military products.

6.2.5. Promote and distribute on the domestic and foreign markets hi-tech industrial products and intellectual property related to such products, including exhibition, promotional and marketing activities.

6.2.6. Maintain and develop scientific and production resources of the Corporation.

6.2.7. Develop and approve strategies for development of the holding companies (integrated entities) and non-holding companies in accordance with the Growth Strategy of the Corporation and streamline asset portfolios of the holding companies (integrated entities) of the Corporation.

6.2.8. Make efforts to implement innovation development programs of the Corporation and its holding companies (integrated entities).

6.2.9. Implement the non-core asset disposal programs of the Corporation and its holding companies (integrated entities).

6.2.10. Assist Corporate Companies in introduction and certification of quality management systems.



6.2.11. Improve the professional training and advanced training programs and cooperation programs with Russia's leading higher educational institutions, including the field-specific contractual training of specialists for the Corporation and the Corporate Companies based on long-term agreements.

6.2.12. Set up the center for optimization of production systems and implement pilot projects to enhance performance of the holding companies (integrated entities).

*6.3. Pursuant to priority: Ensure investment potential of the holding companies (integrated entities) and Corporate Companies*

6.3.1. Assist in raising investments in the Corporate Companies, in particular, for the benefit of producing competitive industrial products, including military products.

6.3.2. Assist the Corporate Companies in implementing investment projects and participate in capitals of commercial and non-commercial organizations within and outside of the Russian Federation.

6.3.3. Make efforts to prepare the advanced holding companies (integrated entities) and Corporate Companies for IPO.

6.3.4. Establish the internal audit and control system across the Corporate Companies and set up internal audit and control subdivisions across the holding companies (integrated entities) and the Corporate Companies.

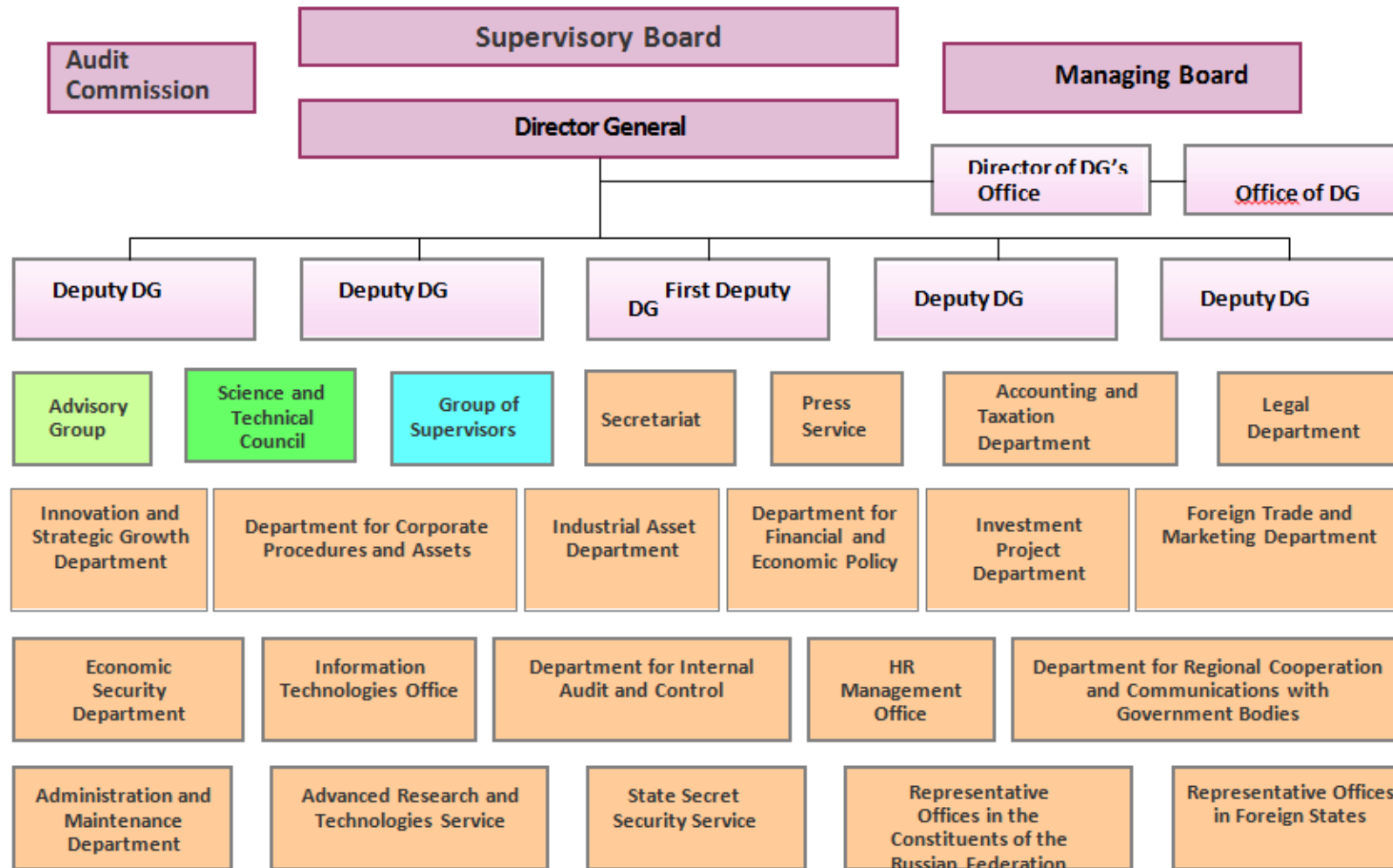
6.3.5. Improve the corporate governance system of the holding companies (integrated entities) and the Corporate Companies.

6.3.6. Develop and implement measures for financial restructuring of Corporation's toxic assets.

6.3.7. Develop and implement strategic management systems across the holding companies (integrated entities) and the Corporate Companies.

6.3.8. Build up the risk management system within the Corporation and the Corporate Companies.

## Corporate Structure



## LIST

## OF REPRESENTATIVES (REPRESENTATIVE OFFICES) OF THE CORPORATION

in foreign states

(as of December 31, 2011)

**1. Corporate representatives in foreign states**

No.	Country	Corporate representative as part of Russian embassy (trade mission)
1	Republic of Austria	trade mission
2	Republic of Azerbaijan	trade mission
3	Democratic People's Republic of Algeria	trade mission
4	Republic of Angola	embassy
5	Argentine Republic	trade mission
6	Republic of Armenia	trade mission
7	Republic of Belarus	trade mission
8	Kingdom of Belgium	trade mission
9	Republic of Bulgaria	trade mission
10	Federal Republic of Brazil	trade mission
11	Republic of Hungary	trade mission
12	Republic of Venezuela	embassy
13	Socialist Republic of Vietnam	trade mission
14	Republic of Greece	embassy
15	Arab Republic of Egypt	trade mission
16	Republic of India	trade mission
17	Republic of Indonesia	trade mission
18	Hashemite Kingdom of Jordan	embassy
19	Islam Republic of Iran	trade mission
20	Republic of Italy	trade mission
21	Arab Republic of Yemen	trade mission
22	Republic of Kazakhstan	trade mission
23	Republic of Cyprus	embassy
24	Republic of Kirgizia	trade mission
25	Chinese Peoples Republic	trade mission
26	Republic of Colombia	trade mission
27	Republic of Korea	trade mission
28	Republic of Cuba	embassy
29	State of Kuwait	embassy
30	Lao People's Democratic Republic	embassy
31	Libya	embassy
32	Malaysia	trade mission
33	United Mexican States	embassy
34	Union of Myanmar	embassy
35	United Arab Emirates	embassy
36	Republic of Peru	embassy
37	Republic of Poland	trade mission

38	Republic of Serbia	trade mission
39	Syrian Arab Republic	embassy
40	Kingdom of Thailand	trade mission
41	Turkmenistan	trade mission
42	Republic of Turkey	embassy
43	Republic of Uganda	embassy
44	Republic of Uzbekistan	trade mission
45	Ukraine	trade mission
46	Republic of Finland	trade mission
47	Czech Republic	trade mission
48	Federal Democratic Republic of Ethiopia	embassy

## **2. Representative offices of the Corporation in foreign states**

No.	Country
1	Federal Republic of Germany
2	Republic of France

*PERFORMANCE INDICATORS*

*of the government agent in foreign trade operations related to military products*

No.	Performance Indicator	Value, US\$ million
1	Export volume of military products	10.9665
2	Funds received as payment for export transactions	8.9392
3	Order portfolio	34.6

### **Trade Barriers**

In 2011, the UN Security Council pursued international sanctions imposed in relation to the ban and/or restriction of MP supplies in Iran, Cote d'Ivoire, Liberia, Libya, Somali, Sudan and Eritrea.

The European Union and the US imposed restrictions of MP supply to Syria and Turkey banned transportation of military property to Syria across its territory.

From 2011, the supervisory bodies of the EU pursue the policy of restricting Greece from purchasing basic weapons due to economic crisis in the country. Non-tariff import regulation affects the weapons and military equipment purchase prospects for the benefit of the Greek Ministry of Defence for 2011-2012.

In 2011, the national trade barriers imposed by the government of Venezuela continued, in particular, regulations contemplating collection of 2% of the total payment amount of welfare costs in violation of foreign trade agreements and mandatory financial guarantees of settlements executed with insurance companies certified in Venezuela only (which impaired preparation of documents required for payment receipt by the Russian party.) The Russian proposal to facilitate the payment procedure by using a joint bank failed to find support with the Venezuela party.

The above barriers to trade and sanctions affected performance by the government agent JSC Rosoboronprom of its contractual obligations.

The following facts of unfair competition were recorded in 2011:

1. China extended beneficial loans to the Venezuela government for \$32 billion which enabled it to conclude contracts with Venezuela for supply of K-8 flight trainers and U-8 military transport aircrafts.
2. In 2008, China supplied to Venezuela 10 Western-made JYL-1E/F radar stations with a friend-or-foe identification which are equivalent to the Russian-made system MK-10/12.

In this context, Venezuela demanded the supply of contracted with Russia Antei-2500 and Buk air missile defence systems with an integrated similar Western-made identification system. The above demand may be met technically but will delay the delivery terms and cause additional costs. The Russian and Venezuelan parties discussed the matter during their meeting, but it was suspended by the initiative of the Venezuelan party.

## **Improvement of laws related to the military and technical cooperation of Russia with foreign states**

JSC Rosoboronexport was engaged in preparing and approval of regulation adopted in 2011, in particular:

Federal Law No. 61-FZ of April 5, 2011 "On Amendments to the Federal Law on Military and Technical Cooperation of the Russian Federation with Foreign States";

President's decrees:

No. 638 of May 16, 2011 "On Amendments to the Regulation on the Federal Service for Military and Technical Cooperation and to the Regulation on Reviewing Applications of Foreign Customers and Approval of Draft Resolutions of the President of the Russian Federation, the Government of the Russian Federation and the Federal Service for Military and Technical Cooperation Relative to Supplies of Military Products";

No. 1435 of October 27, 2011 "On Amendments to the Regulation on the Military and Technical Cooperation of the Russian Federation with Foreign States";

No. 1548 of November 26, 2011 "On Amendments to the Regulation on the Military and Technical Cooperation of the Russian Federation with Foreign States";

No. 1559 of November 30, 2011 "On Amendments to Decree No. 1062 of September 10, 2005 of the President of the Russian Federation "Issues of Military and Technical Cooperation of the Russian Federation with Foreign States" and to regulations approved by this Decree."

## LIST

*of corporate representative offices in the Russian Federation**(as of December 31, 2011)*

No.	Name of representative office <sup>1</sup>	Location	Regions of responsibility
1	Representative Office in the Republic of Bashkortostan	Ufa	Republic of Bashkortostan; Orenburg Region
2	Representative Office in the Republic of Tatarstan	Kazan	Republic of Tatarstan; Republic of Mariy-El
3	Representative Office in the Republic of Udmurtia	Izhevsk	Republic of Udmurtia
4	Representative Office in the Krasnodar Krai	Krasnodar	Krasnodar Krai; Stavropol Krai
5	Representative Office in the Perm Krai	Perm	Perm Krai
6	Representative Office in the Primorsk Region	Vladivostok	Primorsk Region
7	Representative Office in the Khabarovsk Krai	Khabarovsk	Khabarovsk Krai; Sakhalin Region
8	Representative Office in the Archangelsk Region	Severodvinsk	Archangelsk Region
9	Representative Office in the Vladimir Region	Vladimir	Vladimir Region; Ryazan Region
10	Representative Office in the Volgograd Region	Volgograd	Volgograd Region; Astrakhan Region
11	Representative Office in the Voronezh Region	Voronezh	Voronezh Region; Belgorod Region; Kursk Region; Lipetsk Region; Tambov Region
12	Representative Office in the Irkutsk Region	Irkutsk	Irkutsk Region; Republic of Buryatia Krasnoyarsk Krai
13	Representative Office in the Kaluga Region	Kaluga	Kaluga Region Bryansk Region
14	Representative Office in the Kirovsk Region	Kirov	Kirovsk Region
15	Representative Office in the Nizhny Novgorod Region	Nizhny Novgorod	Nizhny Novgorod Region; Chuvash Republic
16	Representative Office in the Novosibirsk Region	Novosibirsk	Novosibirsk Region; Altai Krai; Kemerovo Region; Tomsk Region
17	Representative Office in the Omsk Region	Omsk	Omsk Region

<sup>1</sup> The Table shows only short names of the representative offices (example of the full name: Representative Office of the State-Owned Corporation Russian Technologies in the Republic of Bashkortostan.)

18	Representative Office in the Rostov Region	Rostov-on-Don	Rostov Region; Republic of Dagestan; Kabardino-Balkarian Republic; Republic of Northern Ossetia - Alania
19	Representative Office in the Samara Region	Samara	Samara Region
20	Representative Office in the Saratov Region	Saratov	Saratov Region; Penza Region
21	Representative Office in the Sverdlovsk Region	Yekaterinburg	Sverdlovsk Region; Chelyabinsk Region; Kurgan Region
22	Representative Office in the Smolensk Region	Smolensk	Smolensk Region
23	Representative Office in the Tula Region	Tula	Tula Region Orel Region
24	Representative Office in the Ulyanovsk Region	Ulyanovsk	Ulyanovsk Region; Republic of Mordovia
25	Representative Office in the Yaroslavl Region	Yaroslavl	Yaroslavl Region; Ivanovo Region; Tver Region
26	Representative Office in Saint Petersburg	Saint Petersburg	Saint Petersburg; Leningrad Region; Vologda Region; Kaliningrad Region; Novgorod Region; Pskov Region



**Financial (Accounting) Statements of the Corporation**

Contents:

auditor's report on the accounting statements of the Corporation for 2011 to the Supervisory Body of the Corporation;

accounting balance sheet as of December 31, 2011;

profit and loss statement for 2011;

notes to the accounting balance sheet and the profit and loss statement for 2011;

report on the execution of the financial plan for income and expenditure for 2011; and

executive summary to the report on the execution of the financial plan for income and expenditure for 2011.