

Report of the Auditing Committee on financial and economic activity of the joint stock company for 2012

Dear shareholders!

According to the audit of the financial and economic activity of the joint stock company for 2012, carried out in accordance with the Regulation on the Auditing Committee, financial situation of the company had been stable during the year. This enabled the company to effectively use current assets, to have a stable solvency ratio and to timely settle forward liabilities.

Decisions on the issues of financial and economic activity, taken by the Board of Directors, comply with the current Legislation of Ukraine, the Statute of the Joint Stock Company and the decisions of the General Shareholder Meeting.

Stable financial situation and successful loan policy of the company made it possible to build a loan portfolio as effectively as possible and obtain credits in case of emergency.

In 2012 loan capital was used for upgrading of machinery and all important property, plant and equipment, for effecting payments for aviation equipment production, for payment of salary and other payments, connected with the statutory activity.

Review of the status of current assets showed the increase in goods-in-process inventory by 37,1%.

It is caused by the increase in output growth rate, the development and launching of production of new products, the need of stocking the optimal volume of finished goods ready for shipment in the future, the aircraft engine production lead time, and the rise of prices for materials.

In 2012 growth rate of marketable products was 115,6% and the volume of goods sold was 22,9% higher than in the previous year. Export ratio of goods sold was 91,3%.

The main source of cash inflow is performance of contracts on export of aviation and ground technology. When compared to the previous year, in 2012 cash inflow from export contracts increased by 11,8%.

In 2012 as much as 116,6 mln. hrn. of own funds were allocated for the development of new types of aviation products, products of general industrial use and consumer goods and for their preparation for commercial production.

The company invested 31,9 mln. hrn. of own funds in social facilities and allocated 120,1 mln. hrn. for carrying out health-improving events and the maintenance of social facilities.

In 2012 the enterprise continued upgrading. Import contracts on purchase of equipment, its accessories and spare parts were concluded and performed as well as repair and modernization operations were carried out in accordance with the approved plan.

On the basis of the analysis of the quality and operational reliability of the products in service, in 2012 the company developed and implemented the activities to reduce losses, caused by scrap parts, improve quality and enhance reliability of goods produced.


Most activities were aimed at achieving the following goals:

- to improve production processes;
- to improve the design of parts and assembly units;
- to implement progressive industrial equipment and measuring tools;
- to certify production and products.

1244 activities were developed and 902 of them were implemented in production.

Unfortunately, the company failed to reduce losses, caused by scrap parts, and they reached a figure of 0,56 % from gross product value.

Main causes of scrap are violation of manufacturing methods by employees, the lack of tooling and jigs, used to manufacture newly launched products, insufficient qualification of employees.

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21.10.14 
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30 inspections and audits were carried out in accordance with the company audit plan for 2012.

Inspections and audits revealed:

- shortage of tangible assets amounting to - 493,528 hrn.
- surplus of tangible assets amounting to - 241,298 hrn.
- unreasonable retirement of materials amounting to - 28,187 hrn.
- late utilization of materials amounting to - 45,635 hrn.

Members of the Economic Security Department and the Department for Protection of Property Interests revealed 60 facts of theft and attempted theft of collective property with 56 of them solved and guilty persons detected. In accordance with the results of solved crimes 47 persons were brought to disciplinary responsibility and 12 applications were submitted to the law-enforcement agencies for making decisions on initiation of criminal cases. The work, that had been carried out, helped prevent infliction of damage to the enterprise to the extent of 600,000 hrn.

In 2012 the Division of Legal Support of the enterprise returned funds to the enterprise on economic, administrative and civil cases and prevented recovery for a total amount of about 150 mln. hrn.

The Auditing Committee pays attention of the General Shareholder Meeting, the Board of Directors, chief specialists and managers of business units of the joint stock company to the following:

- to aim all efforts at the increase in labor productivity, improvement of manufacturing process management, cutting loss of working hours, strengthening the labour discipline in order to assure a successful performance of the plan, formed for 2013;
- to enhance the responsibility of persons, responsible for the manufacture of defective products and to tighten the quality management of purchased materials and units in order to reduce losses, caused by scrap parts, and assure a stable quality of goods produced;
- for the managers of business units to take all necessary measures to prevent theft of tangible assets in their units, to eliminate a formal approach to the process of inventory, to take preventive measures and to carry out preventive and educational works in order to ensure safety of collective property;
- to effectively use the materials and purchased products, left in stock, to actively use them in production, to carry out work on reducing the surplus of goods-in-process inventory, that has a negative influence on production and economic activity of the enterprise;
- to keep carrying out works on modernization of equipment, production upgrading, to organize the second-shift work in order to effectively use high-performance equipment and to recruit a necessary number of employees for this purpose.

Due to the contracts, concluded for 2013, the growth rate of cash inflow is planned to be maintained. This will make it possible to continue launching the production of new products, upgrading the production and to ensure a stable operation of the enterprise.

Based on the aforesaid the Auditing Committee suggests that the results of the production and economic activity of the enterprise for 2012 should be approved.

Chairman of the Auditing Committee	(signed)	A.N. Polyviany
Vice-Chairman of the Committee	(signed)	L.A. Pirogov
Committee Members	(signed)	S.N. Vishnevsky
	(signed)	L.I. Zavgorodnyaya
	(signed)	A.V. Zinchenko
	(signed)	V.H. Pasternak
	(signed)	A.M. Pospelov

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