

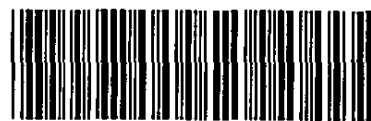
**Antonov plc**

**Annual Report and Financial Statements**

**Year Ended**

**31 December 2010**

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**Antonov plc**  
**Report and financial statements for the year ended 31 December 2010**

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**Country of incorporation of parent company**

England & Wales

**Legal form**

Public limited company

**Company number**

03003533

**Auditors**

Ernst & Young LLP  
No 1 Colmore Square  
Birmingham B4 6HQ

**Directors**

Jan Eeuwe Haag - Executive Chairman and Chief Executive Officer  
Mohammad Motabar - Interim Chief Financial Officer  
Bernd Ramler - Non-executive Director  
Claude Zimmer - Non-executive Director

**Secretary and registered office**

Mohammad Motabar - Company Secretary  
2 Hawkes Drive  
Heathcote Industrial Estate  
Warwick  
Warwickshire  
CV34 6LX

**Antonov plc**  
**Report and financial statements for the year ended 31 December 2010**

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### **Summary Report**

Antonov plc is engaged in innovation, development and marketing of products and solutions for the automotive industry. The Group holds a substantial intellectual property portfolio and is actively looking to identify and expand the commercial opportunities for its technology.

Key elements of the Group's commercial strategy are

- Primary focus on 6-speed automatic transmission technology, TX-6, for which start of production in China is planned for the end of 2011 and the first customer (Lifan, a fast growing Chinese OEM) has been secured.
- Following significant progress in 2010, further development of 2-speed and 3-speed transmission technology for applications such as electric vehicles
- Winning and delivering additional commercial engineering projects for both the European and North American markets

During 2010, Antonov generated revenues of £255k from a combination of professional design and development services and product sales.

### **Financial highlights**

- Total revenues for financial year 2010 amount to £255k (2009: £183k)
- Successful applications for Research & Development tax credits of £824k in 2010
- Loss for the year reduced to £1,198k (2009: £4,745k)
- Cash balance at the end of the year £130k (2009: £239k)
- Following substantial investment during the year, available equity funding facilities as at 31 December 2010 amounted to €9.4 million (£8.1 million) (2009: €16.1 million, £14.6 million)
- Available credit funding facilities as at 31 December 2010 amounted to €15 million, with approximately £12.8 million undrawn (2009: €15 million, with approximately £13.6 million undrawn).

## **Antonov plc**

### **Chairman and Chief Executive Officer's report**

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As 2009 was the year of restructuring and strengthening the organisation and revising the business strategy of Antonov, 2010 was the year of implementation and commercialisation. The Antonov organisation is now substantially larger than it was after the restructuring and specialist groups in all relevant segments of the industry, such as software & control, hydraulics and manufacturing have been appointed. The Group organisation has been strengthened by the appointment on 1 January 2011 of two additional Directors to Antonov Automotive Technologies Ltd, the wholly owned operating subsidiary of Antonov Plc, Mrs Jackie David as Finance Director and Mr Simon Roberts as Managing Director. The culture of the company is no nonsense, innovative, target focused and based on team spirit

The innovative character of the company's activities has been underlined by its successful applications for Research & Development tax credits for innovative development, amounting to £824k in 2010 and by winning the prestigious Institution of Engineering & Technology Innovation Award in November 2010 for the development of its 3-speed automatic transmission for electric vehicles

In China, we have made considerable progress in taking the TX-6 automatic transmission to the market. Technically we reached B-sample level in the summer of 2010, which means that we now have a transmission that is fit for production and which has been installed in VW Golf demonstration cars, which are available in China as well as in the UK. Testing programmes such as durability testing have been partially executed and are still continuing. Currently we are working on C-samples, where the focus of manufacture has been to use production tooling and components produced in China wherever possible.

Commercially, we have secured our first contract with Lifan, a car manufacturer in the Chong Qing area, who will buy an annual minimum of 20,000 units of the TX-6 from 1 January 2012, for its Lifan 620 and for its SUV. Additional OEM customers in China are presently under negotiation. The planned SOP (Start of Production) is for the end of 2011 when the Joint Venture will start with a manual assembly line with a capacity of 50,000 units per year to be followed by a partly automated line with an annual capacity of 200,000 units.

In the Chinese market the TX-6 is very competitive as a consequence of its size (325 mm transverse length), weight and price. Furthermore it is forecast that there will be a significant shift toward automatic transmissions in the Chinese market, whilst the total market for vehicles in China will more than double in the coming 5 years. For the FWD (front wheel drive) vehicles in the 1.5L to 1.8L range, which are suitable for the Antonov TX-6 automatic transmission, the number of vehicles is expected to be approximately 20 million in 2015.

Chong Qing EFA Transmission Co. Ltd (EFA), which is a 50/50 Joint Venture between our partner Chong Qing Landai Industry Co., Ltd (Landai) and Antonov Plc, has started effectively during 2010 with the first 7 people being appointed to the team. EFA has now taken over the supplier contacts in China, with support of people from Antonov China and Antonov in the UK. The EFA team will grow steadily as we get closer to setting up the assembly line and to SOP. The commercial activities in China are mainly a joint approach of Landai and Antonov, where the fact that Landai is a major component supplier to the automotive industry in China is a huge benefit.

Significant progress has been made with the development of a 3-speed automatic transmission for electric vehicles. Projects have been started up with Jaguar, in connection with the TSB (UK Government's Technology Strategy Board) and MIRA as well as with TM4, a large Canadian manufacturer of electric motors, where a 3-speed High Efficiency Transmission (HET) will be supplied for installation in an electric bus demonstration vehicle in conjunction with a TM4 electric motor. In 2010 these projects have resulted in revenue of £219k to be followed by more revenue in the coming years. Recently, Antonov has been selected by Smith Electric Vehicles Europe Ltd, the UK's leading manufacturer of commercial electric vehicles, to supply a transmission for their E-Van project, a TSB-funded programme to develop a more efficient power train solution for all-electric light commercial vehicles. In the longer term, there is a possibility of supplying this transmission

**Antonov plc**  
**Chairman and Chief Executive Officer's report**

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technology to both the European and North American markets. In general we can see that there is a wide interest in these developments for the electric vehicle market and the number of parties interested in working with Antonov in this field allows us to be selective in our choice of partners based on long term commercial expectations.

In February 2010, a new generation 2-speed project started with the MOD (Ministry of Defence in the UK) in conjunction with Prestolite Electric, a leading manufacturer of alternators. This has been followed by an agreement with UAV Engines Ltd for a 1-speed reduction gearbox on an unmanned vehicle.

Total revenues for the year were £255k relating to design and development services and product sales (2009: £183k). Although the operating expense was managed well, the process of taking the TX-6 automatic transmission to production has required and will require further very substantial investment in components and testing.

As a consequence of Lifan's commitment to buy an annual minimum of 20,000 units of the TX-6 from 1 January 2012 onwards, as well as of the interest of other OEM's, an amount of £4,970k of capitalised development costs has been included in intangible assets on the balance sheet. The loss for the year was £1,198k compared with a loss of £4,745k in 2009.

Cash balances as at 31 December 2010 were £130k (2009: £239k). We continue to rely on Quivest BV to fund our ongoing cash requirements. Quivest has continued with its strong support of the company during the period of its high requirement for funding in bringing the TX-6 to production.

We have made great progress on all levels, which would have been impossible without the support of our shareholders and our motivated employees who will continue to play a crucial role in delivering results to our stakeholders.

**Dr. Jos E. Haag**  
Chairman & CEO  
30 March 2011



## Antonov plc

### Directors' remuneration report

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#### Remuneration Committee (unaudited)

The Company's Remuneration Committee comprises J E Haag and B Ramler. The committee meets twice per year and at any other time that the chairman deems to be appropriate.

#### Remuneration policy (unaudited)

The Group's policy on Directors' remuneration for 2010 and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package consists of board and service fees, benefits, share options and discretionary performance related bonuses. In determining salary reviews for Directors, consideration is given to the annual pay review and employment policies for all employees within the Group.

*Executive remuneration package* The remuneration committee's policy is to align executive Directors' remuneration packages to support the Group's business strategy whilst ensuring that rewards are market competitive. The details of individual components of the remuneration package and service contracts are discussed below.

*Board and service fees and benefits* The board and service fees and benefits are reviewed annually, with the policy for 2010 and subsequent years being that board and service fees do not increase by more than the average increase for employees throughout the Group. These fees are paid to service companies. It is currently Group policy that no benefits are provided to the Directors. There are no pre-defined bonus schemes in place for Directors. However, the remuneration committee may decide at its discretion if bonus payments are appropriate.

In 2010, M Motabar received no increase in board and service fees. M Motabar's service fees are payable in cash up to 16 days per month. Additional days are paid 100% in shares of the company.

In 2010, J E Haag received no increase in board and service fees. Fees are payable in cash.

B Ramler's and C Zimmer's board and service fees are payable in cash up to 10 days per year. Additional days up to 30 days per year in total are paid 50% in cash and 50% in shares of the Company. Days billed in excess of 30 days per year are payable in shares of the Company.

*Share options* The share options are awarded on a discretionary basis by the remuneration committee. Exercising the awarded options is only subject to share price conditions and there are no further performance related criteria. The options awarded in 2010 are disclosed below.

#### Service contracts

The service contracts and letters of appointment of the Directors include the following terms:

	Date of contracts	Notice period ( months)
J E Haag	9 September 2005 and 21 January 2009	6
M Motabar	26 April 2007 and 23 November 2010	6
B Ramler	19 February 2009	6
C Zimmer	29 June 2010	6

J E Haag's contracts have no fixed expiry term. The consultancy agreement with M Motabar dated 26 April 2007 has no fixed expiry term. His service agreement dated 23 November 2010 expires on 31 March 2011. The contracts with B Ramler and C Zimmer are for a three year term. On termination, Directors are entitled to compensation in line with the terms of their individual service agreements. For each of the named Directors this amounts to board fees corresponding to their notice period.

**Antonov plc**  
**Directors' remuneration report**

**Other appointments (unaudited)**

The Directors of the Company are not employed on full time contracts and consequently may serve as Directors of other companies. Any remuneration for such appointments would be reported to the remuneration committee as a courtesy.

**Directors' remuneration (audited)**

The remuneration of the Directors for the year ended 31 December 2010 was as follows

Director	Board Fees	Service Fees	Bonus	Termination payments	Total	2009 Total
	£'000	£'000	£'000	£'000	£'000	£'000
J E Haag	35	207	-	-	242	241
M Motabar	20	212	-	-	232	217
B Ramler	20	18	-	-	38	46
C Zimmer	12	-	-	-	12	-
J W Moore	-	-	-	-	-	84
C G Ross	-	-	-	-	-	65
	87	437	-	-	524	653

M Motabar's service fees as stated above includes £39k to be paid in shares of Antonov plc, of which £27k was settled in 2010. B Ramler's service fees as stated above includes £1k to be paid in shares of Antonov plc, which has not been settled in 2010.

In 2009, M Motabar's service fees included £24k to be paid in shares on Antonov plc. £4k was settled in 2009 and £20k was settled in 2010. B Ramler's service fees included £6k to be paid in shares of Antonov plc, which has not been settled to date.

The maximum amount owed by Directors during the year was £nil (2009: nil)

**Pension entitlement**

The Group does not operate its own pension scheme. No contributions have been made into pension schemes on behalf of the Directors during the year (2009: nil)

**Interests in options**

Directors' options for the year ended 31 December 2010 were as follows:

	At the beginning of the year	Granted in the year	Exercised in the year	Lapsed in the year	At the end of the year	Exercise period	Exercise price
J E Haag	368,500	575,000	-	-	943,500	to 22 July 2015	45p to 620p*
M Motabar	155,000	475,000	-	-	630,000	to 22 July 2015	45p to 620p*
B Ramler	100,000	125,000	-	-	225,000	to 22 July 2015	45p to 65p
C Zimmer	-	100,000	-	-	100,000	to 22 July 2015	45p
<b>Total</b>	<b>623,500</b>	<b>1,275,000</b>	<b>-</b>	<b>-</b>	<b>1,898,500</b>		

\* Restated for share consolidation on 6 May 2009



**Antonov plc**  
**Directors' remuneration report**

These options have been issued on the following dates:

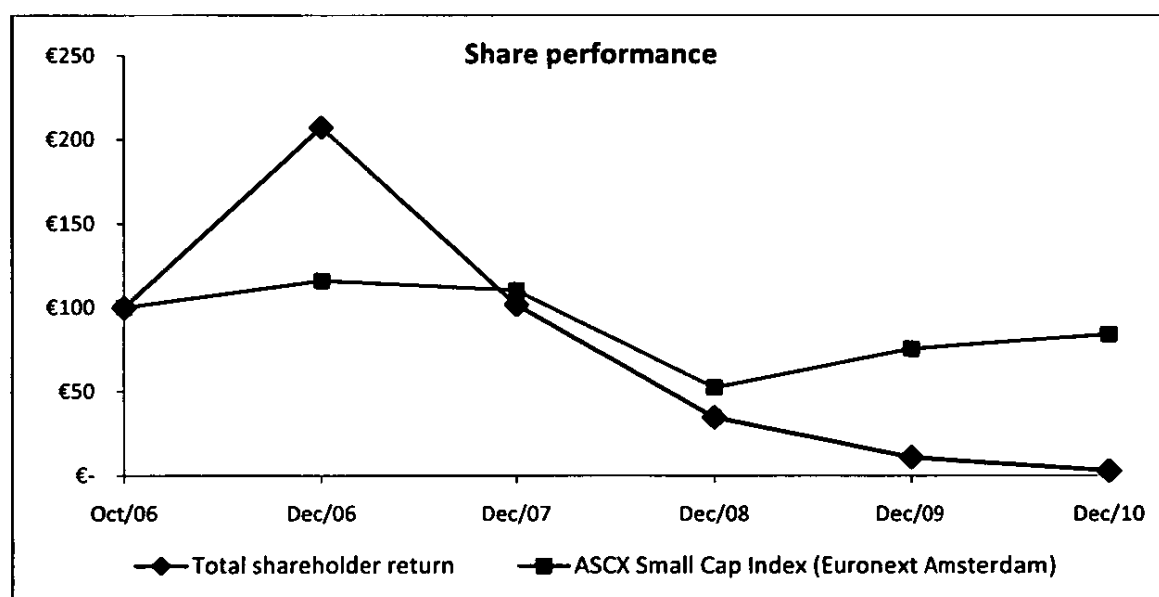
Issue date	At the beginning of the year	Granted in the year	Exercised in the year	Lapsed in the year	At the end of the year	Exercise period	Exercise price
16 October 2007	73,500	-	-	-	73,500	to 25 August 2014	620p*
26 August 2009	550,000	-	-	-	550,000	to 25 August 2014	65p
23 July 2010	-	1,275,000	-	-	1,275,000	to 22 July 2015	45p
<b>Total</b>	<b>623,500</b>	<b>1,275,000</b>	<b>-</b>	<b>-</b>	<b>1,898,500</b>		

Under the scheme, options are exercisable if the share price reaches or exceeds its exercise price. Of the total number of options outstanding at the end of the year, nil had vested and were exercisable. There were no options exercised during the year (2009: nil).

**Performance graph (unaudited)**

The graph below shows the total shareholder return for each of the last five financial years in terms of the change in value (with dividends reinvested) of an initial investment of €100 on 1 October 2006 in a holding of the Company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the Euronext Amsterdam Small Cap Index (ASCX).

The ASCX was selected as it represents the equity market index in which the company is a constituent member.



The share price at 31 December 2010 was €0.16 (2009: €0.60). During the year the highest price was €0.69 and the minimum price was €0.15.

**Antonov plc**  
**Directors' remuneration report**

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**Remuneration Committee**

The members of the Remuneration Committee during the year were

Dr J E Haag

B Ramler

There were no advisers to the committee during the year

On behalf of the Board



**B. Ramler**

**Chairman of the Remuneration Committee**

**30 March 2011**

## **Antonov plc**

### **Report of the Directors for the year ended 31 December 2010**

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The Directors present their report together with the audited financial statements for the year ended 31 December 2010.

#### **Results and dividends**

The Consolidated Statement of Comprehensive Income is set out on page 23 and shows the loss for the year of £1,198k (2009 £4,745k)

#### **Principal activities and review of the business**

The Group is engaged in the development and commercialisation of a range of transmission products for both automotive and non-automotive applications

In China, we have made considerable progress in taking the TX-6 automatic transmission to the market. Technically we reached B-sample level in the summer of 2010, which means that we now have a transmission that is fit for production and which has been installed in VW Golf demonstration cars, which are available in China as well as in the UK. Testing programmes such as durability testing have been partially executed and are still continuing. Currently we are working on C-samples, where the focus of manufacture has been to use production tooling and components produced in China wherever possible.

Commercially, we have secured our first contract with Lifan, a car manufacturer in the Chong Qing area, who will buy an annual minimum of 20,000 units of the TX-6 from 1 January 2012, for its Lifan 620 and for its SUV. Additional OEM customers in China are presently under negotiation. The planned SOP (Start of Production) is for the end of 2011 where we will start with a manual assembly line with a capacity of 50,000 units per year to be followed by a partly automated line with an annual capacity of 200,000 units.

In the Chinese market the TX-6 is very competitive as a consequence of its size (325 mm transverse length), weight and price. Furthermore it is forecast that there will be a significant shift toward automatic transmissions in the Chinese market, whilst the total market for vehicles in China will more than double in the coming 5 years. For the FWD (front wheel drive) vehicles in the 1.5L to 1.8L range, which are suitable for the Antonov TX-6 automatic transmission, the number of vehicles is expected to be approximately 20 million in 2015.

Significant progress has been made with the development of a 3-speed automatic transmission for electric vehicles. Projects have been started up with Jaguar, in connection with the TSB (UK Government's Technology Strategy Board) and MIRA as well as with TM4, a large Canadian manufacturer of electric motors, where a 3-speed High Efficiency Transmission (HET) will be supplied for installation in an electric bus demonstration vehicle in conjunction with a TM4 electric motor. In 2010 these projects have resulted in revenue of £219k to be followed by more revenue in the coming years. Recently, Antonov has been selected by Smith Electric Vehicles Europe Ltd, the UK's leading manufacturer of commercial electric vehicles, to supply a transmission for their E-Van project, a TSB-funded programme to develop a more efficient power train solution for all-electric light commercial vehicles. In the longer term on the possibility of supplying production systems for both the European and North American markets. In general we can see that there is a wide interest in these developments for the electric vehicle market and the number of parties interested in working with Antonov in this field allows us to be selective in our choice of partners based on long term commercial expectations.

No dividend (2009 £nil) is proposed and the loss of £1,198k (2009: £4,745k) has been transferred from reserves.

No political and charitable donations have been made during the year (2009 nil)

The Group's key financial and other performance indicators during the year were as follows:

	2010 £'000	2009 £'000
Revenue	255	183
Loss from operations before impairment charge	(2,022)	(2,010)
Loss before tax	(2,022)	(4,745)
Impairment charge	-	(2,735)
Loss per share (pence)	(3.7)	(36.2)
Cash and short-term deposits	130	239
Shareholders' funds	5,071	681

Further details of the business review and future developments are contained in the Chairman and Chief Executive Officer's Report

The Directors believe that they have more than adequately discharged their responsibilities under s417 of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

#### Capital management

The primary objective of the Group's capital management is to ensure that an appropriate level of liquid resources are available to fund the daily operations of the business. This has been achieved by a combination of funds received from draw downs under the financing facilities as well as revenue received from customers. The terms of the Group's financing facilities are detailed in Note 2 to the financial statements. At 31 December 2010 the unutilised equity financing facility available amounts to €9,445k, approximately £8,073k (2009: £14,600k approximately €16,060k) and total cash was £130k (2009: £239k). The credit facility amounts to €15,000k, approximately £12,821k (2009: €15,000k, approximately £13,636k).

#### Cash flow

Operating activities resulted in an inflow of £530k (2009: outflow £1,173k) of cash and cash equivalents. The Group anticipates a continuing need to support its cash requirements by funding provided through its share financing facilities. Investing activities resulted in net cash outflows of £6,284k (2009: £2,820k) during the year, which was primarily used to fund the development activities in addition to the initial capital contribution in the Joint Venture. The £5,654k net cash inflow from financing activities (2009: £3,764k) and the effect of exchange rates on cash and cash equivalents of £9k (2009: £32k) contributed to an overall net decrease in cash and cash equivalents of £100k (2009: decrease £229k) for the year.

#### Additional information for shareholders

At 31 December 2010, the Company's issued share capital comprised:

Class	Number	% of Share Capital	£'000
Ordinary shares of 10p each	48,246,348	22.4	4,825
Deferred shares of 19p each	88,076,193	77.6	16,734

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or transfers of voting rights.

**Antonov plc****Report of the Directors for the year ended 31 December 2010**

In 2010, the issued and fully paid up share capital was as follows

Issued and fully paid Ordinary shares of 10p	2010 Number	2010 £'000
At 1 January 2010	17,416,184	1,742
Converted from convertible shares	3,404,289	340
Issue of shares	27,425,875	2,743
At 31 December 2010	48,246,348	4,825

Issued and fully paid Deferred shares of 19p	2010 Number	2010 £'000
At 1 January 2010 and 31 December 2010	88,076,193	16,734

Issued and fully paid Convertible shares of 10p	2010 Number	2010 £'000
At 1 January 2010	355,843	36
Issue of shares	3,048,446	304
Converted to ordinary shares	(3,404,289)	(340)
At 31 December 2010	-	-

**Ordinary shares**

On a show of hands at a general meeting of the company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting which accompanies this report specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at a general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and published on the company's website after the meeting.

**Deferred Shares**

The Deferred Shares are effectively valueless as they carry no rights to vote or dividend rights. In addition, holders of Deferred Shares will only be entitled to a return of capital or on a winding up of the Company after each of the holders of Ordinary Shares has received a payment of £1,000,000 each on each such share. The Deferred Shares are not listed and are not transferable without prior written consent of the Directors of the Company.

**Convertible shares**

Convertible Shares have the same rights as Ordinary Shares under the Articles, including the entitlement to dividends and returns on capital. The convertible shareholders shall have no right to receive notice of, attend or vote at any General Meeting of the Company. The Convertible Shares are not listed and are convertible on a one for one basis, following a period of three weeks from the date of the notice of conversion.

**Significant shareholdings**

The Directors are aware of the following interests that represent three percent or more of the issued share capital of the company at 31 December 2010

Shareholder	Number of ordinary shares	Percentage of ordinary shares
Euroclear Nominees Ltd	25,778,105	53.4%
Nederlands Centraal Instituut	17,406,148	36.0%
HSBC Global Custody Nominee Ltd	4,523,366	9.4%

The regulations outlined in DTR7 require each shareholder in the Company to make an offer to acquire remaining shares in the Company as soon as the relevant shareholding in the Company is equal to or greater than 30% and to report the shareholding in the Company every time it changes by 1 percentage point. As shares are issued to Quivest under the Equity Facility, the Directors considered the possibility that Quivest could hold more than 30% of the shares and as such requested and obtained confirmation from Quivest of their shareholding. As at 31 December 2010, Quivest holds 28.76%. In respect of other shareholders, the Directors are not aware of any other significant shareholdings and are of the opinion that the Company is under no obligation to take any similar action.

*Voting restrictions*

If a member holding any shares or any other person appearing to be interested in any shares has been served a disclosure notice and the Company has not received (in accordance with the terms of such disclosure notice) the information required within 14 days after the service of such disclosure notice, the Directors may give the registered holder of such shares notice. This notice must state that in respect of those shares, the member is not entitled to attend or vote (either in person or by proxy) at any general meeting of the Company or at any separate general meeting of the holders of the shares of that class or upon any poll or to exercise any other right conferred by membership in relation to general meetings or meetings of the holders of any class of shares.

*Directors*

The Company's Articles of Association require a minimum number of three Directors, and a maximum of twelve. On 27 May 2010, C Zimmer was appointed as a Director. The Directors are authorised to appoint at anytime a person to the Board, and the person appointed may hold office until the annual meeting following the appointment, at which time they are required to be re-elected. If at any time there are fewer than the prescribed minimum number of Directors in office, the remaining Directors are permitted to convene a general meeting to appoint new Directors.

The Directors are authorised to act in a manner and exercise the general powers required to manage the business of the Company, and their actions are not restricted to the specific powers granted by the Articles of Association.

Subject to the provisions of the Statutes regarding pre-emption rights and any related resolution of the Company relating thereto or relating to any authority to allot relevant securities, all of the shares of the Company for the time being unissued shall be under the control of the Directors who may generally and unconditionally allot, grant options over, offer or otherwise deal with or dispose of the same to or in favour of such persons, on such terms and conditions, at a premium or at par and at such times as the Directors think fit.

*Articles of Association*

Any action that would result in an amendment to the Company's Articles of Association requires the approval of shareholders by way of a Special Resolution.

**Principal risks and uncertainties**

- **Foreign currency risk**  
The majority of the Group's revenues are denominated in Euros while its costs are principally denominated in sterling. As a result, the Group is subject to the risks of foreign currency movements. The Group does not operate any type of hedging program to mitigate this risk.
- **Market risk**  
Larger automotive-related companies are better placed and better resourced than the Group. It is possible that other companies may have competitive products in development, which are not known to the Group. Competitors may be able to develop more effective technologies which may be superior to those of the Group.
- **Technological Risk**  
The Group is exposed to future changes in technology which may make the market for products based on its particular designs less effective.
- **Patent Protection**  
The continuing ability to establish, protect and enforce our proprietary rights is fundamental to the Group. This is principally achieved through the process of patent application and establishing patent protection. However, should these applications or granted patents be challenged, then the defence of our rights could incur costs and the outcome cannot be predicted with certainty.
- **Relationships**  
Other than our shareholders, the Group's performance and value are influenced by other stakeholders, principally our customers, suppliers and employees, government and our strategic partners. The Group's approach with all these parties is founded on the principles of open and honest dialogue based on a mutual understanding of needs and objectives. Relationships are managed both on an individual basis, for example through our managed account programme for customers and performance development for employees, or via representative groups. Employee forums provide a communication route between employees and management. We participate in trade associations and industry groups where these give us genuine access to customer and supplier groups and decision makers in government and other regulatory bodies. Quivest B V, a significant shareholder, is also the primary provider of funding to the Group. Further details of this relationship are provided in note 2 and note 25 to the Group financial statements.
- **Commercialisation**  
The Group's commercial progress depends upon its ability to establish and maintain successful relationships with appropriate licensees and other third parties to exploit successfully the Antonov technologies through development, manufacturing and distribution agreements. The increased regulatory pressure on the automotive industry to increase efficiency and reduce CO<sup>2</sup> emissions provides ongoing commercial opportunities for the Group to secure applications of its technology.
- **Going concern and liquidity**  
The accounts have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future and will meet its liabilities as they fall due.

At 31 December 2010, the Group had cash of £130k (2009: £239k), an undrawn committed share finance facility of €9,445k, approximately £8,073k, (2009: €16,060k, approximately £14,600k), and an undrawn credit facility of €15,000k approximately £12,821k (2009: €15,000k, approximately £13,636k). The Group incurred a loss for the year after tax of £1,198k (2009: £4,745k). The revised business strategy and continued progress in the commercialisation process are described in the Chairman and Chief Executive Officer's Report. Long-term financial viability is dependent on the Group successfully exploiting its technology by taking its prototypes into full scale production and securing sufficient demand so that commercially sustainable volumes can be produced and sold.

Until then, the company's investment commitments and future funding requirements can only be met by further capital injections and loan funding from Quivest B V ("Quivest"), the Group's most significant shareholder.

## **Antonov plc**

### **Report of the Directors for the year ended 31 December 2010**

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The Group entered into its current share financing facility ("Equity Facility") with Quivest BV ("Quivest") on 18 February 2009. Under the terms of the Equity Facility, the Group is able to draw down a minimum of €250k per month and a maximum of €600k per month which was increased to a maximum of €1.1m per month for the period from 1 July 2010 to 31 December 2010. These facilities will be in place until at least 18 February 2013. Between 1 January 2011 and 15 March 2011 the Group has received £1,363k from its share finance facility agreement. The Directors have prepared cash flow forecasts to 31 March 2012 which show that the Group can operate within its finance facility.

Quivest's business is the provision of financing and acquiring and disposing of investments and the Equity Facility and Loan Facility as described above, are both being provided by Quivest acting as principal. In the current financial environment there can be no guarantee that future funding will be forthcoming from Quivest. The ability of Quivest to meet its obligations under the share finance facility and the credit facility is dependent in turn on it continuing to have access to sufficient funds. The Directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and companies ability to continue as a going concern. However, the board of Antonov plc takes comfort from Quivest's historical support and track record in providing the necessary funding to the Group when requested and the Directors are of the opinion that through its funding facilities with Quivest, it has access to sufficient working capital for its foreseeable requirements. Accordingly, the Directors have concluded that it is appropriate for the accounts to be prepared on a going concern basis.

The Group financial statements do not include the adjustments that would result if adequate funding ceased to be available and it was unable to continue as a going concern.

The Group aims to mitigate liquidity risk by generating cash from its operations, thereby reducing dependency on its funding facilities. Investment is carefully controlled, with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating. In its funding strategy, the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its share financing facility, credit facility, finance leases and hire purchase contracts.

#### **Post balance sheet events**

Post balance sheet events are set out in note 28 to the financial statements.

#### **Directors**

The Directors that held office during the year were

Dr J E Haag

M Motabar

B Ramler

C Zimmer (appointed 27 May 2010)



**Beneficial interests**

The Directors of the company during the year and their beneficial interests (unless otherwise stated) in the ordinary share capital of the parent company, options to purchase such shares and share based remuneration were as follows:

	Options and similar interests		Share based remuneration not yet settled		Shares	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	number	number	number	number	number	number
J E Haag	943,500	368,500	-	-	9,478	-
M Motabar	630,000	155,000	85,000	38,207	340,000	-
B Ramler	225,000	100,000	45,535	10,115	-	-
C Zimmer	100,000	-	-	-	-	-

The options and similar interests of the Directors are in addition to the entitlement to receive shares as part of their share based remuneration, the monetary value of which is disclosed in Note 9

**Research and development**

The Group continues to invest in research and development. This has resulted in improvements in current intellectual property and new ideas being developed which will benefit the Group going forward.

At 31 December 2010 the Group capitalised £4,970k of development costs for the TX-6 6 speed project. All expenditure to date for the 2 and 3 speed technologies has been expensed in the income statement.

**Disabled employees**

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.

**Directors' indemnity insurance**

The Group has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

**Financial instruments**

Details of the use of financial instruments by the company are contained in notes 18 and 19.

**Policy on the payment of creditors**

The Group and the Company's policy is that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

The number of average days purchases of the Company represented by trade creditors at 31 December 2010 was: 64 days (2009: 69 days), Group: 78 days (2009: 91 days).

**Directors' statement as to disclosure of information to auditors**

The Directors who were members of the board at the time of approving the Directors' report are listed on page 15. Having made enquiries of the Directors and of the company's auditors, each of the Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditors are unaware, and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

**Antonov plc**

**Report of the Directors for the year ended 31 December 2010**

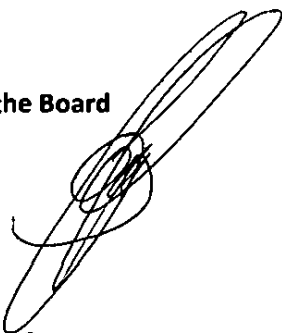
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**Auditors**

A resolution to reappoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting

**By order of the Board**

**JE Haag  
Director**

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

**30 MARCH 2011**

## **Corporate Governance**

The Board fully supports the underlying principles of good corporate governance contained in the 2008 Combined Code. The information required by Disclosure and Transparency Rule (DTR) 7.2 is set out below other than that required by DTR 7.2.6 which is set out in the Report of the Directors on pages 10 to 16. The Board recognises its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness.

The main features of the Company's corporate governance procedures are as follows:

- the Board has two independent non-executive Directors who take an active role in Board matters;
- the Company has an Audit Committee, the composition of which is detailed below and a Remuneration Committee, the composition of which is detailed in the Directors' Remuneration Report, each of which meets regularly. The Audit Committee has unrestricted access to the Group's auditors and ensures that the auditors' independence has not been compromised;
- all business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of "matters referred to the Board";
- regular monitoring of key performance indicators and financial results together with comparison of these against expectations, and
- the main features of the Company's internal control and risk management systems in relation to the process for preparing consolidated accounts comprise procedures to ensure adequate segregation of duties covering the preparation, review and approval of the information contained in the accounts.

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Combined Code, including clear operating procedures, lines of responsibility and delegated authority. These procedures are regularly reviewed by the Board.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. These systems include policies and procedures to facilitate the maintenance of records that accurately and fairly reflect transactions, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS') or UK Generally Accepted Accounting Principles ('UK GAAP'), as appropriate, and that require reported data to be reviewed and reconciled.

**Antonov plc**  
**Corporate governance and Audit committee statement**

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**Audit Committee**

The following is a summary of the terms of reference under which the Company's Audit Committee operates

The Audit Committee comprises C Zimmer and B Ramler

The Audit Committee comprises at least two members and each member is an independent non- executive Director. The Audit Committee meets at least three times in every year and any other time as required.

The Audit Committee functions shall be.

- monitor the integrity of the financial statements reviewing significant financial issues and judgements which they contain,
- review the effectiveness of its review and to monitor external auditor's independence and objectivity and the effectiveness of the audit process;
- approve the statements to be included in the annual report concerning the Company's internal financial controls and risk management systems,
- develop and implement policy on the engagement of external audit to supply non-audit services and to ensure that the objectivity and independence of the auditor is safeguarded;
- to have primary responsibility for recommending appointment, re-appointment or removal of external auditors;
- to review on an ongoing basis the need to introduce an internal audit function. This function is not in place to date due to the small size of the company; and
- oversee the relationship with the external auditor to ensure their independence as well as effective planning, execution and completion of the audit

The chairman of the Audit Committee shall report annually to the Board on all matters within its duties and responsibilities. The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Audit Committee is authorised to

- seek any information it requires from any employee of the Company in order to perform its duties and to review arrangements by which staff may in confidence raise concerns about possible improprieties,
- obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- call upon any employee to be questioned at a meeting of the Audit Committee as and when required

**Antonov plc**  
**Statement of Directors' responsibilities**

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The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

The Directors are required to prepare Group financial statements for each financial year. Under company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements the Directors are required to

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

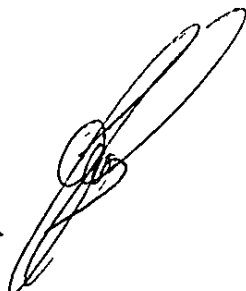
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Directors' statement pursuant to the Disclosure and Transparency Rules**

Each of the Directors who were members of the board at the time of approving the Directors' report and are listed on page 15 confirm that to the best of their knowledge

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company and the undertakings included in the consolidation taken as a whole, and
- the Directors' Report and the Chairman and Chief Executive Officer's Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

**J E Haag**  
**Director**  
**30 March 2011**



We have audited the group financial statements of Antonov plc for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated cash flow statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

#### **Opinion on financial statements**

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

#### **Emphasis of Matter – Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuing financial support of Quivest B V, the group's most significant shareholder. These conditions, along with the other matters explained in note 2 to the group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The group financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

## **Antonov plc**

### **Independent auditors' report to the members of Antonov plc**

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#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on page 18 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

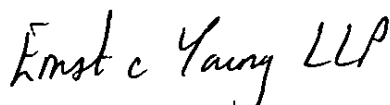
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company

#### **Other matter**

We have reported separately on the parent company financial statements of Antonov plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited. That report includes an emphasis of matter.



**Nigel Meredith (Senior Statutory Auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
**Birmingham**  
**Date 30 March 2011**

## Consolidated statement of comprehensive income for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Revenue	7	255	183
Cost of Sales		(586)	(42)
Gross (Loss)/Profit		(331)	141
Operating costs		(1,691)	(2,217)
Other income		-	66
Loss from operations before impairment charge		(2,022)	(2,010)
Impairment charge	14	-	(2,735)
Loss before tax	8	(2,022)	(4,745)
Tax credit	11	824	-
Loss for the year		(1,198)	(4,745)
Other comprehensive income			
Foreign exchange on liquidated subsidiaries		-	(66)
Exchange difference on translation of foreign operations		(8)	(3)
Total comprehensive loss		(1,206)	(4,814)
Loss per share			
Basic and diluted (pence)	12	(3.7)	(36.2)

The notes on pages 27 to 49 form part of these financial statements

All activities relate to continuing operations



**Antonov plc****Consolidated statement of changes in equity for the year ended 31 December 2010**

	Share Capital £'000	Share Premium Reserve £'000	Unlisted Warrant Reserve £'000	Capital Reserve £'000	Foreign Exchange Reserve £'000	Retained Losses £'000	Total Equity £'000
<b>Balance at 1 January 2009</b>	<b>17,425</b>	<b>30,279</b>	<b>1,085</b>	<b>2,587</b>	<b>120</b>	<b>(48,428)</b>	<b>3,068</b>
Loss for the year						(4,745)	(4,745)
Other comprehensive income	-	-	-	-	(66)	(3)	(69)
Increase in share capital	1,087	3,601	-	-	-	-	4,688
Unlisted warrants movement	-	(427)	427	-	-	-	-
Share issue costs	-	(2,494)	-	-	-	-	(2,494)
Adjustment on liquidation of subsidiary	-	-	-	(2,587)	-	2,599	12
Share based payment	-	-	-	-	-	221	221
<b>Balance at 31 December 2009</b>	<b>18,512</b>	<b>30,959</b>	<b>1,512</b>	<b>-</b>	<b>54</b>	<b>(50,356)</b>	<b>681</b>
Loss for the year						(1,198)	(1,198)
Other comprehensive income	-	-	-	-	-	(8)	(8)
Increase in share capital	3,047	3,822	-	-	-	-	6,869
Unlisted warrants movement	-	(758)	(32)	-	-	790	-
Share issue costs	-	(1,362)	-	-	-	-	(1,362)
Share based payment	-	-	-	-	-	89	89
<b>Balance at 31 December 2010</b>	<b>21,559</b>	<b>32,661</b>	<b>1,480</b>	<b>-</b>	<b>54</b>	<b>(50,683)</b>	<b>5,071</b>

All amounts are attributable to equity holders of the parent

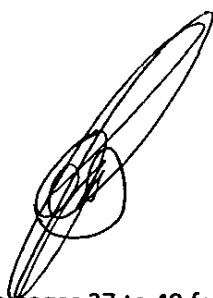
The notes on pages 27 to 49 form part of these financial statements

**Antonov plc****Consolidated statement of financial position at 31 December 2010**

	Note	2010 £'000	2009 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	158	190
Intangible assets	14	5,388	714
Investment in Joint Venture	15	352	-
<b>Total non-current assets</b>		<b>5,898</b>	<b>904</b>
<b>Current assets</b>			
Trade and other receivables	16	178	65
Current tax asset		244	-
Prepayments		887	1,435
Cash and short-term deposits		130	239
<b>Total current assets</b>		<b>1,439</b>	<b>1,739</b>
<b>Total assets</b>		<b>7,337</b>	<b>2,643</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	17	2,266	1,962
<b>Total current liabilities</b>		<b>2,266</b>	<b>1,962</b>
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	21	21,559	18,512
Share premium reserve		32,661	30,959
Unlisted warrant reserve		1,480	1,512
Foreign exchange reserve		54	54
Retained losses		(50,683)	(50,356)
<b>Total equity</b>		<b>5,071</b>	<b>681</b>
<b>Total liabilities and equity</b>		<b>7,337</b>	<b>2,643</b>

The financial statements on pages 23 to 49 were approved by the Board of Directors and authorised for issue on 30 March 2011 and were signed on its behalf by

**J E Haag**  
**Director**



The notes on pages 27 to 49 form part of these financial statements

**Antonov plc****Consolidated cash flow statement for the year ended 31 December 2010**

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
<b>Operating activities</b>				
Loss before tax		(2,022)		(4,745)
Adjustments for				
Depreciation	112		135	
Amortisation	76		80	
Loss on disposal of intangible assets	235		97	
Impairment of intangible assets	-		2,735	
Research & development costs	867		-	
Share based payments – stock options	117		221	
Share based payments – non cash payments	12		27	
Exchange movements	81		114	
Adjustments for non cash movements		1,500		3,409
<b>Cash outflow from operations before changes in working capital and provisions</b>		(522)		(1,336)
Increase in trade and other receivables	(1)		(149)	
Increase in trade and other payables	473		312	
Tax credit received	580		-	
		1,052		163
<b>Cash inflow/(outflow) from operating activities</b>		530		(1,173)
<b>Investing activities</b>				
Payments to acquire Property Plant Equipment	(80)		(10)	
Payments to acquire intangible assets	(15)		(75)	
Investment in Joint Venture	(352)		-	
Capitalisation of development costs	(5,837)		(2,735)	
		(6,284)		(2,820)
<b>Financing activities</b>				
Proceeds from issue of ordinary shares	5,654		3,764	
		5,654		3,764
<b>Decrease in cash and cash equivalents</b>		(100)		(229)
Effect of exchange rates on cash and cash equivalents		(9)		(32)
Cash and cash equivalents at the beginning of the year		239		500
Cash and cash equivalents at the end of the year		130		239

The notes on pages 27 to 49 form part of these financial statements.

**1 Corporate Information**

Antonov plc is a public limited liability company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is 2 Hawkes Drive, Heathcote Industrial Estate, Warwick, Warwickshire, CV34 6LX. The parent company's shares are publicly traded on Euronext Amsterdam. The Company's shares were delisted from AIM on 31 December 2009.

**2 Basis of preparation and statement of compliance**

The accounting policies in note 5 set out those policies which apply in preparing the financial statements for the year ended 31 December 2010.

These Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2010.

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated below, and are presented in Sterling. All values are rounded to the nearest thousand (£'000) except where otherwise stated.

***Going concern***

The financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future and will meet its liabilities as they fall due.

At 31 December 2010, the Group had cash of £130k (2009: £239k) and an undrawn committed share finance facility of €9,445k, approximately £8,073k, (2009: £14,600k), an undrawn credit facility of €15,000k, approximately £12,821k (2009: €15,000k, approximately £13,636k) and the Group incurred a loss for the year of £1,198k (2009: £4,745k). Long-term financial viability is dependent on the Group successfully exploiting its technology by taking its prototypes into full scale production and securing sufficient demand so that commercially sustainable volumes can be produced and sold.

Until then, the company's investment commitments and future funding requirements can only be met by further capital injections and loan funding from Quivest B.V. ("Quivest"), the Group's most significant shareholder.

The continued progress in the implementation of the Group's strategy and commercialisation process are described in the Chairman and Chief Executive Officer's Report. In addition, the principal risks and uncertainties within the Report of the Directors indicate the market risks faced by the Group in achieving the successful exploitation of its technology.

The Group entered into its current share financing facility ("Equity Facility") with Quivest BV ("Quivest") on 18 February 2009. Under the terms of the Equity Facility, the Group is able to draw down a minimum of €250k per month and a maximum of €600k per month which was increased to a maximum of €1.1m per month for the period from 1 July 2010 to 31 December 2010. These facilities will be in place until at least 18 February 2013. Between 1 January 2011 and 15 March 2011 the Group has received £1,363k from its share finance facility agreement. The Directors have prepared cash flow forecasts to 30 June 2012 which show that the Group can operate within its finance facility.

Quivest's business is the provision of financing and acquiring and disposing of investments and the Equity Facility and Loan Facility as described above are both being provided by Quivest acting as principal. In the current financial environment there can be no guarantee that future funding will be forthcoming from Quivest. The ability of Quivest to meet its obligations under the share finance facility and the credit facility is dependent in turn on it continuing to have access to sufficient funds. The Directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and Company's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the board of Antonov plc takes comfort from Quivest's historical support and track record in providing the

necessary funding to the Group when requested and the Directors are of the opinion that through its funding facilities with Quivest, it has access to sufficient working capital for its foreseeable requirements. Accordingly, the Directors have concluded that it is appropriate for the financial statements to be prepared on a going concern basis.

The Group financial statements do not include the adjustments that would result if adequate funding ceased to be available and it was unable to continue as a going concern.

### **3 Basis of consolidation**

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies.

### **4 Significant accounting estimates**

The key source of estimation uncertainty that has a significant risk of causing material adjustment to the carrying amounts of liabilities within the next financial year is the estimation of share-based payment costs and warrant liabilities. The estimation of share-based payment and warrant costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen (Note 24).

The key source of estimation uncertainty that has a significant risk of causing material adjustment to the carrying value of intangible assets are the assumptions underlying the Directors' assessment of probable future economic benefit to be derived from development costs capitalised, including lead time to production and future sales volumes (Note 14).

### **5 Accounting policies**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The following amendments to standards or interpretations are mandatory for the first time for financial years beginning on 1 January 2010 and have been endorsed for adoption by the EU, but have no financial impact on the Group:

- IFRS 1 - First time adoption for additional exemptions
- IFRS 2 - Share based payments
- IFRS 3 - Business combinations (revised)
- IFRIC 15 - Agreements for construction of real estate
- IFRS 5 - Non Current Assets held for sale and discontinued operations
- IAS 1 - Presentation of financial statements
- IAS 7 - Statement of cash flows
- IAS 17 - Leases
- IAS 18 - Revenue
- IAS 27 - Consolidated and separate financial statements
- IAS 36 - Impairment of Assets
- IAS 38 - Intangible Assets
- IAS 39 - Financial instruments Recognition and measurement

### **Revenue**

Revenue represents amounts receivable for goods and **services** provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Amounts receivable consist of royalties, licence fees, professional services and support and maintenance payments.

Revenue is recognised for any element of a sale when all of the basic criteria are met for that element. These are given below:

**Licence Fees and Royalties** – revenue is recognised when persuasive evidence for the arrangement exists, delivery has occurred, fees are fixed or determinable and require no further commitments with the collection being probable.

**Professional Services** – invoiced in line with customer contracts and recognised on the basis of work performed using the stage of completion method and based on achievement of key milestones defined in the project.

**Product Sales** – revenue is recognised when the significant risks and rewards of ownership of the products have passed to the buyer, usually on despatch.

Revenue is also accrued on the above elements when revenue can be recognised but has not been invoiced.

Revenue is deferred on the above elements when it has not been recognised but the invoice has been raised.

Revenue relating to contracts with multiple elements is allocated based on the fair value of each element and is recognised in accordance with the accounting principles for each element described above.

### **Foreign currencies**

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rate ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in administration expenses in the income statement.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in a separate component of other comprehensive income (the "foreign exchange reserve"). Exchange differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, are also taken to other comprehensive income.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

The presentational currency of the Group is sterling.

The significant intangibles assets recognised by the Group, their useful economic lives and the methods used to amortise these intangibles are as follows.

	Useful economic life	Amortisation method
Patent and trademark application costs	20 years	Straight line basis
Development costs	5 years	Straight line basis

Amortisation is recognised within administration expenses in the income statement.

#### **Research and development expenditure**

Development costs are capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold,
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product,
- the Group is able to sell the product;
- sale of the product will generate future economic benefits, and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use

Expenditure on research and development activities that does not meet the criteria as stated above, is recognised as an expense in the Income Statement in the period in which it is incurred

#### **Property, plant and equipment**

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on all items of property, plant and equipment to write off the cost, less estimated residual value, based on prices prevailing at the balance sheet date, evenly over their expected useful economic lives as follows

	Useful economic life	Amortisation method
Equipment	3 years	Straight line basis
Motor vehicles	3 years	Straight line basis
Leasehold property improvements	10 years	Straight line basis

#### **Impairment of assets**

The carrying values of property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value is not recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### **Equity Investment in Joint Venture**

The Group has a contractual arrangement with another party which represents a Joint Venture. This takes the form of agreement to share control over the entity, commercial collaboration and sharing of a production plant.

Where the joint venture is established through an interest in a company, the Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group income statement reflects the share of the jointly controlled entity's results after tax.

investments The Group income statement reflects the share of the jointly controlled entity's results after tax

Financial statements of jointly controlled entities are prepared for the same reporting period as a group Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group Adjustments are also made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entities The Group ceases to use the equity method on the date from which it no longer has joint control over, or significant influence in, the joint venture

#### ***Income tax***

The tax expense represents the sum of the tax currently payable and deferred tax, together with research and development tax credits received.

Income tax is charged or credited to other comprehensive income or directly to equity as appropriate for items that are credited or charged to other comprehensive income, or to equity respectively Otherwise income tax is recognised in the income statement

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantially enacted by the balance sheet date.

#### ***Deferred taxation***

Deferred tax assets and liabilities are recognised on all temporary differences arising when the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on

- the initial recognition of goodwill,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future

A deductible temporary difference arises on share-based payments calculated as the difference between the tax base of the remuneration expense (being the option's intrinsic value at its future exercise date) and its carrying value of nil on the balance sheet This gives rise to a deferred tax asset. As the tax deduction is based on the unknown future share price at the date of exercise, the tax base is estimated on the basis of the entity's share price at each balance sheet date Where this amount exceeds the cumulative amount of the remuneration expense on equity-settled transactions recognised in the income statement and credited to equity, the excess deferred tax is recognised in equity in accordance with the principle that the tax follows the item. The deferred tax effects of cash settled transactions are always recognised in the income statement

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered) Deferred tax balances are not discounted

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company, or different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the



***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

***Trade receivables***

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method where the time value of money is material.

Appropriate allowances for estimating irrecoverable amounts are recognised in the Income Statement when there is evidence that the asset is impaired. This impairment would be recognised within administrative expenses.

***Cash and cash equivalents***

Cash and short-term deposits in the balance sheet comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

***Share-based payments – equity settled transactions***

Where share options are awarded to employees, the cost is measured by reference to the fair value of the options at the date of grant and is charged to the income statement over the vesting period. Fair value is determined by an external valuer using an appropriate pricing model. Vesting conditions related to performance or service are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market and non-vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions related to performance or service are satisfied, a charge is made irrespective of whether the market or non-market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is charged to the income statement in the period in which the modification occurs. No reduction is recognised if the fair value decreases. Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. This includes any award where non-vesting conditions within the control of the Group or the employee are not met.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

***Retirement benefit costs***

The Group does not have a pension scheme for employees. However, the Group pays a contribution into personal pension schemes for certain employees on a salary-sacrifice basis, with contributions recognised as they become payable.

**Leased assets**

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term

**Financial assets**

**Loans and receivables**

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest method if the time value of money is significantly less than any provision for impairment.

**Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The carrying amount of the equity component is not re-measured in subsequent years.

**Warrants**

Where warrants are denominated in the functional currency of the parent entity, sterling, with a fixed price, they are treated as equity.

The warrants have been valued using an option pricing model. The model takes into account the risk free interest rate for the life of the warrant, the exercise price of the warrant, the current price of the underlying shares, the life of the warrant, the expected volatility of the share price and any market based vesting conditions.

**Financial liabilities**

**Trade payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

**Other financial liabilities**

These include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest method.

**6 Standards and interpretations not applied**

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements. These have not been adopted by the Group.

International Accounting Standards (IAS/IFRSs)		Effective Date
IFRS 1	Amendments to IFRS 1 - First time adoption on exemption of new fair value disclosures	1 July 2010
IFRS 7	Transfer of financial assets	1 July 2011
IFRS 9	Financial instruments . Classification & measurement	1 January 2013
IAS24	Related party disclosure (revised)	1 January 2011
IAS 12	Deferred tax Recovery of underlying assets	1 January 2012
IAS 32	Financial Instruments: Presentation on classification of rights issues	1 Feb 2010
Various	Improvements standard	Various

International Financial Reporting Interpretations Committee (IFRIC)		Effective Date
IFRIC 14	Amendment Prepayment of a minimum funding requirement	1 January 2011
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010

The Group has not yet completed a detailed evaluation of the impact of the above standards and interpretations on its financial position but does not currently expect the adoption of these to have a significant impact on its current financial condition

## 7 Revenue

	2010 £'000	2009 £'000
Revenue arises from		
Professional services – design and development	219	146
Product sales	36	37
	255	183

## 8 Loss before tax

This is stated after charging / (crediting)

	2010 £'000	2009 £'000
Depreciation of property, plant and equipment	112	135
Amortisation of intangible fixed assets	76	80
Impairment of intangible fixed assets	-	2,735
Research and development costs recognised as an expense	867	-
Loss on disposal of intangible fixed assets	235	97
Staff costs net of transfer to capitalised development costs	284	817
Foreign exchange differences	17	43
Operating lease expense*		
Property	115	115
Other	12	12
Auditors' remuneration		
Audit of the financial statements*	41	43
Local statutory audits for subsidiaries	3	3
Fees paid to the company's auditors for non-audit services		
Fees in respect of prospectus for working capital review	-	19
Fees in respect of other services	3	6
Fees in respect of taxation advice	-	34

\*£11k (2009: £11k) of this relates to the parent company

## **9 Staff costs**

Staff costs (including Directors) prior to transfer to capitalised development costs comprise

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	1,293	1,527
Share-based payment expense*	129	291
Social security costs	87	79
Pension costs	7	17
	<b>1,516</b>	<b>1,914</b>

\*The share-based payment expense comprises the following:-

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Share options (Note 24)	89	221
Share based remuneration	40	70
	<b>129</b>	<b>291</b>

The average number of employees (including Directors) during the year, analysed by category, was as follows

	<b>2010</b>	<b>2009</b>
	<b>Number</b>	<b>Number</b>
Commercial, marketing and administration	11	13
Research and development	16	11
	<b>27</b>	<b>24</b>

Details of the Directors' remuneration have been included in the Directors' Remuneration Report.

## **10 Segment information**

For management purposes, the Group is organised into business units based on their products and services but has one operating segment, which is the development and commercialisation of Antonov patented technologies. Results are reported to the Board members at each Board meeting on a consolidated basis.

All revenues and non-current assets, with the exception of the investment in the Joint Venture, are attributable to activities in the UK. Trade receivables represent balances due from two customers which are current and have been received after the year end.

**Antonov plc**  
**Notes forming part of the consolidated financial statements**

**11 Tax on loss from operations**

	2010 £'000	2009 £'000
<i>Current tax</i>		
Tax (credit) / charge	-	-
Prior year research & development tax credit	(824)	-
	(824)	-
<i>Deferred tax</i>		
Origination and reversal of temporary differences	-	-
<b>Total tax (credit) / charge</b>	<b>(824)</b>	<b>-</b>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to losses for the year are as follows

	2010 £'000	2009 £'000
Loss before tax	(2,022)	(4,745)
Expected tax credit based on the standard rate of corporation tax in the UK of 28% (2009 - 28%)	(566)	(1,329)
Expenses not deductible for tax purposes	90	156
Provisions - share based payment	38	62
Tax losses carried forward	414	1,089
Other adjustments	24	22
Prior year research & development tax credit	(824)	-
<b>Total tax (credit) / charge</b>	<b>(824)</b>	<b>-</b>

The 2010 computations containing these claims are still subject to finalisation by the local tax authorities

**Antonov plc**  
**Notes forming part of the consolidated financial statements**

**12 Loss per share**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
<b>Basic and diluted loss per share</b>	<b>(3 7p)</b>	<b>(36 2p)</b>
<i><b>Numerator</b></i>		
Loss for the year	(1,198)	(4,745)
Loss used in basic EPS and diluted EPS	(1,198)	(4,745)
	<b>Number of shares</b>	<b>Number of shares</b>
<i><b>Denominator</b></i>		
Weighted average number of shares used in basic and diluted EPS	32,649,305	13,112,410
	<b>Number of shares</b>	<b>Number of shares</b>
<i><b>Contingently issuable shares</b></i>		
Share options	2,173,500	708,500
Warrants	14,146,913	3,558,885
<b>Total contingently issuable shares</b>	<b>16,320,413</b>	<b>4,267,385</b>

All the contingently issuable shares (see note 21 for full details) have been excluded in the calculation of the weighted average number of shares for diluted EPS as they are anti-dilutive for the periods presented.

The ordinary shares issued after the year end to 15 March 2011 are detailed below

	<b>Number of shares</b>
<b>Issued under the terms of share finance facility agreements</b>	<b>11,898,667</b>

**Antonov plc**  
**Notes forming part of the consolidated financial statements**

**13 Property, plant and equipment**

	<b>Equipment</b>	<b>Motor vehicles</b>	<b>Leasehold property improvements</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>At 31 December 2009</i>				
Cost	303	100	200	603
Accumulated depreciation	(237)	(98)	(78)	(413)
Net book value	66	2	122	190
<i>At 31 December 2010</i>				
Cost	381	100	202	683
Accumulated depreciation	(307)	(100)	(118)	(525)
Net book value	74	-	84	158
<i>Year ended 31 December 2009</i>				
Opening net book value	144	12	159	315
Additions	7	-	3	10
Depreciation	(85)	(10)	(40)	(135)
Closing net book value	66	2	122	190
<i>Year ended 31 December 2010</i>				
Opening net book value	66	2	122	190
Additions	79	-	2	81
Disposals	(1)	-	-	(1)
Depreciation	(70)	(2)	(40)	(112)
Closing net book value	74	-	84	158

At 31 December 2010 the Group had no commitments to purchase tangible fixed assets (2009: £nil)

**Antonov plc**  
**Notes forming part of the consolidated financial statements**

**14 Intangible assets**

	Development costs £'000	Patent and trademark application costs £'000	Total £'000
<i>At 31 December 2009</i>			
Cost	9,721	1,508	11,229
Accumulated amortisation	(9,721)	(794)	(10,515)
Net book value	-	714	714
<i>At 31 December 2010</i>			
Cost	4,970	1,288	6,258
Accumulated amortisation	-	(870)	(870)
Net book value	4,970	418	5,388
<i>Year ended 31 December 2009</i>			
Opening net book value	-	872	872
Additions	2,735	75	2,810
Impaired during the year	(2,735)	-	(2,735)
Disposals in year	-	(97)	(97)
Amortisation	-	(80)	(80)
Exchange differences	-	(56)	(56)
Closing net book value	-	714	714
<i>Year ended 31 December 2010</i>			
Opening net book value	-	714	714
Additions	4,970	15	4,985
Disposals in year	-	(235)	(235)
Amortisation	-	(76)	(76)
Closing net book value	4,970	418	5,388

At 31 December 2010 the Group had £3,395k of contractual commitments for development or other intangible fixed assets (2009: £5,031), (note 26).

At 31 December 2010 the Group capitalised £4,970k of development costs for the TX-6 6 speed project. All expenditure to date for the 2 and 3 speed technologies has been expensed in the income statement.



**Antonov plc****Notes forming part of the consolidated financial statements****15 Subsidiaries and other undertakings**

The principal subsidiaries and other undertakings of Antonov plc, which have been included in these consolidated financial statements, are as follows

<b>Name</b>	<b>Country of incorporation and operation</b>	<b>Proportion of ownership interest</b>	<b>Nature of business</b>	<b>Parent</b>	<b>Status</b>
Antonov Automotive Technologies Ltd	England and Wales	100%	Design, research & development, sales & marketing	Antonov plc	Trading
Antonov Automotive Technologies (Chong Qing) Limited	China	100%	Sales & marketing	Antonov plc	Trading

The Joint Venture company, Chong Qing EFA Transmissions Co Ltd , is 50% owned by Antonov plc. The company has not traded during the year

**Investment in Joint Venture**

The investment in this company during the year is shown below and represents the initial payment of capital contribution.

	<b>£'000</b>
At 1 January 2010	-
Investment during the year	352
At 31 December 2010	352

**16 Trade and other receivables**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Trade receivables	85	-
VAT recoverable	93	65
	<b>178</b>	<b>65</b>

Trade receivables represent balances due from two customers which are current and have been received after the year end

**17 Trade and other payables**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	1,257	822
Other payables and accruals	1,009	1,140
	<b>2,266</b>	<b>1,962</b>

**18 Financial instruments - Risk Management**

The Group is exposed through its operations to one or more of the following financial risks

- Foreign currency risk
- Liquidity risk
- Credit risk

Policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below

*Foreign currency risk*

Foreign exchange risk arises under the following circumstances

- the Group has operations located in other parts of the world whose functional currency is not the same as the Group's primary functional currency (sterling). Although its global market penetration arguably reduces the Group's risk in that it has diversified into several markets, the net assets from such overseas operations are exposed to currency risk giving rise to gains or losses on retranslation into sterling. The Group does not consider hedging its net investments in overseas operations as generally it does not consider that the cash flow risk created from such hedging techniques is warranted by the small movements in the consolidated net assets
- Group operations enter into transactions denominated in a currency other than their functional currency. The foreign exchange risk is minimal and no hedging techniques have been considered appropriate, as it is intended that future contracts for services will be denominated in Sterling.
- the Company's shares are denominated in a currency other than its functional currency. The foreign exchange risk is minimal and no hedging techniques have been considered appropriate, as it does not consider that the cash flow risk created from hedging techniques warrants the reduction in the small movements in the consolidated net assets

*Liquidity risk*

The liquidity risk of each Group entity is managed centrally by management of Antonov plc in the UK. Management assess what funds are required on a monthly basis and ensure that adequate funds are available to all operations, primarily by drawing down on the funds available under the terms of its share financing facilities with Quinvest (note 21)

*Market price risk*

The Directors believe that the exposure to market price risk from activities is negligible

*Credit risk*

In 2010, the Group had a number of credit sales related to projects which exposed the Group to credit risk. It is the Group's policy to assess the credit risk of new customers before entering contracts.

The exposure to credit risk from trade receivables is not considered significant.

**19 Financial assets and liabilities**

*Maturity of financial assets*

The carrying amounts of financial assets, covering cash, trade and other receivables excluding prepayments, are repayable as follows:

	2010 £'000	2009 £'000
Within one year	552	239

*Maturity of financial liabilities*

The carrying amounts of financial liabilities, covering trade and other payables are repayable as follows:

	2010 £'000	2009 £'000
Within one year	2,266	980

These financial liabilities have a maturity date of less than 90 days.

*Borrowing facilities*

At 31 December 2010, the Group had an undrawn credit facility of €15,000k approximately £12,821k (2009 €15,000k, approximately £13,636k), committed to 18 February 2013.

*Interest rate risk*

The Group had no loans or other borrowings during the year.

*Fair values*

The book value and fair value of financial trading assets and liabilities are as follows:

	Book value 2010 £'000	Fair value 2010 £'000	Book value 2009 £'000	Fair value 2009 £'000
Cash	130	130	239	239
Trade and other payables excluding accruals	(1,364)	(1,364)	(980)	(980)
Trade and other receivables	422	422	65	65

The book value of each of the above approximates to fair value at 31 December 2010 and 2009, as a result of their short maturity.

## 20 Deferred tax

A deferred tax asset has not been recognised for the following

	2010 £'000	2009 £'000
Unused trading losses	4,639	4,606
Fixed asset temporary differences	163	143
Capital losses	103	-
<b>Total</b>	<b>4,905</b>	<b>4,749</b>

The movement in the Group's unrecognised deferred tax assets in the year relates to the loss arising in the year, movements in fixed asset timing differences, capital losses and a review of the brought forward tax position. If the Group generates profits in the future the unrecognised deferred tax assets are potentially recoverable.

At 31 December 2010 the value of unused trading losses amounts to £17,180k, the value of unused fixed asset temporary differences amounts to £605k and the value of unused capital losses amounts to £382k.

The 2010 balances have been disclosed at an effective rate of 27% (2009: 28%) which is the rate currently in force. It is proposed that this will be amended to 23% by 1 April 2014, which would reduce the total deferred tax asset to £4,178k.

## 21 Share capital

The Articles of Association have been amended to reflect the fact that under the Companies Act 2006 the Company is not required to, and does not have authorised share capital.

In 2010, the issued and fully paid up share capital was as follows:

<b>Issued and fully paid</b>	<b>2010</b>	<b>2010</b>
<b>Ordinary shares of 10p</b>	<b>Number</b>	<b>£'000</b>
At 1 January 2010	17,416,184	1,742
Converted from convertible shares	3,404,289	340
Issue of shares	27,425,875	2,743
<b>At 31 December 2010</b>	<b>48,246,348</b>	<b>4,825</b>
<b>Issued and fully paid</b>	<b>2010</b>	<b>2010</b>
<b>Deferred shares of 19p</b>	<b>Number</b>	<b>£'000</b>
At 1 January 2010 and 31 December 2010	88,076,193	16,734
<b>Issued and fully paid</b>	<b>2010</b>	<b>2010</b>
<b>Convertible shares of 10p</b>	<b>Number</b>	<b>£'000</b>
At 1 January 2010	355,843	36
Issue of shares	3,048,446	304
Converted to ordinary shares	(3,404,289)	(340)
<b>At 31 December 2010</b>	<b>-</b>	<b>-</b>

In 2009, a reorganisation of the company's share capital took place. On 16 February 2009 the shareholders approved the sub-division of existing Ordinary Shares of 20 pence each into one Ordinary Share of 1 pence each and one Deferred Share of 19 pence each.

On 6 May 2009 the shareholders approved a 1 for 10 share capital consolidation which resulted in existing Ordinary Shares of 1 pence each being consolidated into new Ordinary Shares of 10 pence each

On 17 December 2009 the shareholders approved the creation of a new class of Convertible Shares

The issued and fully paid share capital was as follows:

Before reorganisation on 16 February 2009

Issued and fully paid	2009	2009
Ordinary shares of 20p	Number	£'000
At 1 January 2009	87,123,812	17,425
Issued to 16 February 2009	952,381	190
At 16 February 2009	88,076,193	17,615

After reorganisation on 16 February 2009 and before share consolidation on 6 May 2009:

Issued and fully paid	2009	2009
Ordinary shares of 1p	Number	£'000
At 16 February 2009	88,076,193	881
Issued to 6 May 2009	29,553,897	295
At 6 May 2009	117,630,090	1,176

Issued and fully paid	2009	2009
Deferred shares of 19p	Number	£'000
At 16 February 2009 and 6 May 2009	88,076,193	16,734

After consolidation on 6 May 2009 and creation of convertible shares on 17 December 2009

Issued and fully paid	2009	2009
Ordinary shares of 10p/(2008 20p each)	Number	£'000
At 6 May 2009	117,630,090	1,176
Consolidation of shares	11,763,009	1,176
Issue of shares	5,653,175	566
At 31 December 2009	17,416,184	1,742

Issued and fully paid	2009	2009
Deferred shares of 19p	Number	£'000
At 6 May 2009 and 31 December 2009	88,076,193	16,734

Issued and fully paid	2009	2009
Convertible shares of 10p	Number	£'000
At 1 January 2009	-	-
Issue of shares	355,843	36
At 31 December 2009	355,843	36

The Group entered into its current share financing facility ("Equity Facility") with Quivest BV ("Quivest") on 18 February 2009. Under the terms of the Equity Facility, the Group is able to draw down funds to a maximum of €600k per month. In return, new ordinary shares of 10 pence each are issued at an effective price of 93.4% of the average closing price on Euronext over the five days preceding the draw down. A commission is also payable in new ordinary shares, equal to 8 per cent of the value of each individual draw down. Quivest also receive unlisted warrants on each draw down to subscribe for additional shares (being 40 per cent of those received under the draw down) at a 15 per cent premium to the then market price. On 1 June 2010, an addendum to this agreement was signed which covered the period from 1 June 2010 to 31 December 2010. This addendum gave the Group the facility to draw down funds of up to €1,100k each month and in return, the commission was increased from 8 per cent to 10 per cent for draw downs in excess of €400k during the month. Quivest are a substantial shareholder of the Group and are therefore classed as a related party (note 25).

During the year a total of 30,830,164 ordinary shares were issued, of which 28,668,364 shares were issued for cash, under the Equity Facility, 1,805,957 for non-cash consideration and 355,843 converted from convertible shares that were issued for cash in 2009. Total proceeds from the issue of shares amounted to £5.65m.

The Deferred Shares are effectively valueless as they carry no rights to vote or dividend rights. In addition, holders of Deferred Shares will only be entitled to a return of capital or on a winding up of the Company after each of the holders of New Ordinary Shares has received a payment of £1,000,000 each on each such share. The Deferred Shares are not listed on Euronext Amsterdam and are not transferable without prior written consent of the Directors of the Company.

The Convertible Shares have the same rights as those currently accruing to the existing Ordinary Shares under the Articles, including the entitlement to dividends and returns on capital. The convertible shareholders shall have no right to receive notice of, attend or vote at any General Meeting of the Company. The Convertible Shares are not listed and are convertible on a one for one basis, following a period of three weeks from the date of the notice of conversion.

Shares are issued under share option contracts. The terms and conditions are:

#### *Senior Executive Share Options*

At 31 December 2010 the following share options were outstanding in respect of the ordinary shares

Date of grant	Number of options	Period of option	Exercise price
2007	* 73,500	October 2007 – August 2014	620p*
2009	625,000	September 2009 – August 2014	65p
2010	1,475,000	July 2010 – July 2015	45p

\* Restated for share consolidation at 6 May 2009

**Contingently issuable shares**

Year ended 31 December 2010

	At the beginning of the year	Granted in the year	Exercised in the year	Lapsed in the year	At the end of the year	Exercise period	Exercise price
<b>Warrants issued pursuant to placings:</b>							
-unlisted	3,558,885	10,588,028	-	-	14,146,913	to 25 Aug 2014	15p to £11 90
<b>Options granted to Directors and Employees</b>							
J E Haag	368,500	575,000	-	-	943,500	To 22 July 2015	45p to 620p*
M Motabar	155,000	475,000	-	-	630,000	To 22 July 2015	45p to 620p*
B Ramler	100,000	125,000	-	-	225,000	To 22 July 2015	45p to 65p
C Zimmer	-	100,000	-	-	100,000	To 22 July 2015	45p
Employee share options	85,000	200,000	-	(10,000)	275,000	22 July 2015	45p to 65p
	708,500	1,475,000	-	(10,000)	2,173,500		
	4,267,385	12,063,028	-	(10,000)	16,320,413		

\* Restated for share consolidation at 6 May 2009

On 27 May 2010, the exercise expiry date of options issued in 2007 and all warrants issued and outstanding at that date was extended to 25 August 2014. This resulted in a revaluation of warrants and options which has been reflected through the unlisted warrant reserve on page 24.

## Year ended 31 December 2009

	At the beginning of the year (restated) *	Granted in the year	Exercis ed in the year	Lapsed in the year	At the end of the year	Exercise period	Exercise price
<b>Warrants issued pursuant to placings:</b>							
-unlisted	1,150,089	2,557,391	-	(148,595)	3,558,885	to Dec 2012	43p to £11.90
-listed	406,621	-	-	(406,621)	-	to Dec 2009	100p
	1,556,710	2,557,391	-	(555,216)	3,558,885		
<b>Options granted to Directors and Employees:</b>							
J E Haag	51,000	325,000	-	(7,500)	368,500	to 25 Aug 2014	65p to 620p*
J W Moore	53,500	-	-	(53,500)	-	-	-
C G Ross	51,000	-	-	(51,000)	-	-	-
M Motabar	30,000	125,000	-	-	155,000	to 25 Aug 2014	65p to 620p*
B Ramler	-	100,000	-	-	100,000	to 25 Aug 2014	65p
Employee share options (1)	20,000	75,000	-	(10,000)	85,000	to 25 Aug 2014	65p to 620p*
	205,500	625,000	-	(122,000)	708,500		
	1,762,210	3,182,391	-	(677,216)	4,267,385		

\* Restated for share consolidation at 6 May 2009

(1) 10,000 options held by an employee expired on 8 February 2010, six months following departure from office

**22 Reserves**

The following describes the nature and purpose of each reserve within owners' equity

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value
Unlisted warrant	Valuation of unlisted warrants in issue at the year end
Capital	Reserve arising on merger accounting
Foreign exchange	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Retained losses	Cumulative net losses recognised in the statement of comprehensive income



**23 Leases**

## Operating leases

The minimum total of future lease payments due are as follows

	2010 £'000	2009 £'000
Not later than one year	127	127
Later than one year and not later than five years	363	478
Later than five years	316	316
	<b>806</b>	<b>921</b>

**24 Share-based payments**

The company operates an equity-settled share based remuneration scheme for Directors and staff. At 31 December 2010, the following share options were in issue

	2010 Weighted average exercise price	2010 Number	2009 Weighted average exercise price	2009 Number
Outstanding at 1 January	131.0p	708,500	69.1p	2,055,000
Lapsed pre 2009 share consolidation	-	-	120.0p	(250,000)
Total		708,500		1,805,000
Restatement on 2009 share consolidation*			620.0p	180,500
Lapsed (2009 - post share consolidation)	62.0p	(10,000)	620.0p	(97,000)
Granted (2010 - post share consolidation)	45.0p	1,475,000	65.0p	625,000
Outstanding at 31 December	73.0p	2,173,500	131.0p	708,500

\* Restated at 6 May 2009

The exercise price of options outstanding at the end of the year ranged between 45p and 131p (2009 65p and 620p) and their weighted average contractual life was 4 years (2009 4 years). Options are valued by an external valuer using the Black-Scholes method. The key variables underlying the 2010 valuation are share price on date of grant 17.5p (2009 55p), vesting period 2010 and 2009 (nil), 2010 risk free rate of return 2.17% (2009 2.55%), 2010 and 2009 dividend yield (nil) and 2010 median share price volatility (65%) (2009 66%). The options are deemed to vest immediately on grant.

Under the scheme, options vest if the share price reaches or exceeds a value within the range of 45p to 131p, dependent on the option. Of the total number of options outstanding at the end of the year, nil (2009 nil) had vested and were exercisable at the end of the year. There were no options exercised during the year. Share options granted in 2010 are exercisable to 22 July 2015.

The Group recognised total expenses of £89k (2009 £221k) relating to stock option equity-based payments during the year. Expenses relating to the share based remuneration of Directors and other employees amounted to £40k (2009 £70k) (note 9).

During the year, two suppliers (2009: one) were paid in shares for services provided to the Group. The fair value of the services provided was £175k (2009 £76k).

Unlisted warrants are issued under the terms of the Group's share financing facilities (note 21). These warrants are valued using the Black-Scholes method by an independent third party. The key variables underlying the 2010 valuation are share price on date of grant (13p to 32p) (2009 55p to 150p), vesting period 2010 and 2009 (nil), 2010 risk free rate of return (0.58% to 1.21%) (2009 0.55% to 0.88%), 2010 and 2009 dividend yield (nil) and 2010 median share price volatility (76%) (2009 55%). The warrants are

deemed to vest immediately on grant and the unlisted warrant reserve of £1,797k (2009: £1,512k) reflects the full value of all warrants issued under the terms of the share finance facilities which remain outstanding as at 31 December 2010

## 25 Related party transactions

Details of Director's remuneration are given in the Directors' Remuneration Report. There are no additional key management personnel.

Details of subsidiaries are given in note 15.

The Group is dependent upon its significant shareholder for funding. The funds provided during the year by this shareholder were as follows:

Shareholder	2010 £'000	2009 £'000
Quinvest	5,654	3,764

## 26 Other commitments

At 31 December 2010, the Group had entered into commitments with suppliers as follows:

	2010 £'000	2009 £'000
Outstanding commitments at 1 January	5,031	-
Total value of new contracts	139	5,711
Expense recognised in year	(1,775)	(680)
Outstanding commitments at 31 December	3,395	5,031

## 27 Contingent liabilities

There are no contingent liabilities (2009: nil).

## 28 Post balance sheet events

There are no post balance sheet events.

## **Parent company financial statements: statement of Directors' responsibilities**

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### **PARENT COMPANY FINANCIAL STATEMENTS (prepared under UK GAAP)**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements which comply with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements. The Directors have elected to prepare the financial statements for the company in accordance with UK GAAP

#### *Parent company financial statements*

Company law requires the Directors to prepare financial statements for each financial year. Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Antonov plc**

### **Independent auditors' report to the members of Antonov plc**

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We have audited the parent company financial statements of Antonov plc for the year ended 31 December 2010 which comprise the Parent Company Balance Sheet and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 50, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

#### **Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of Matter – Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuing financial support of Quivest BV, the company's most significant shareholder. These conditions, along with the other matters explained in note 2 to the company's financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The parent company financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

## **Antonov plc**

### **Independent auditors' report to the members of Antonov plc**

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#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

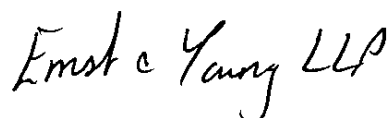
#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

#### **Other matter**

We have reported separately on the group financial statements of Antonov plc for the year ended 31 December 2010. That report includes an emphasis of matter.



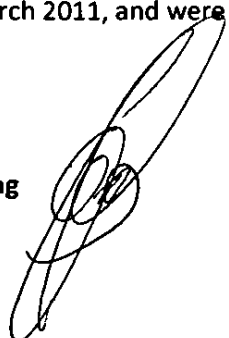
**Nigel Meredith (Senior Statutory Auditor)**  
**for and on behalf of Ernst & Young LLP**  
**Statutory Auditor**  
**Birmingham**  
**30 March 2011**

**Antonov plc**  
**Company balance sheet at 31 December 2010**

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investment in subsidiaries	6	1,100	1,015
Investment in associates	6	352	-
		<b>1,452</b>	<b>1,015</b>
<b>Current assets</b>			
Debtors amounts falling due within one year	7	7,921	3,736
Cash at bank and in hand		82	149
		<b>8,003</b>	<b>3,885</b>
<b>Creditors: amounts falling due within one year</b>	<b>8</b>	<b>(584)</b>	<b>(738)</b>
<b>Net current assets</b>		<b>7,419</b>	<b>3,147</b>
<b>Net assets</b>		<b>8,871</b>	<b>4,162</b>
<b>Capital and reserves</b>			
Share capital	10	21,559	18,512
Share premium reserve	10	32,661	30,959
Unlisted warrant reserve	10	1,480	1,512
Profit and loss account	10	(46,829)	(46,821)
<b>Equity Shareholders' funds</b>	<b>10</b>	<b>8,871</b>	<b>4,162</b>

The financial statements on pages 53 to 59 were approved by the Board of Directors and authorised for issue on 30 March 2011, and were signed on its behalf by

Dr J E Haag  
 Director



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**1 Corporate Information**

Antonov plc is a public limited liability company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is 2 Hawkes Drive, Heathcote Industrial Estate, Warwick, Warwickshire, CV34 6LX. Antonov's shares are publicly traded on Euronext Amsterdam.

**2 Basis of preparation and statement of compliance**

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2010.

The parent Company financial statements of Antonov plc have been prepared in accordance with UK GAAP.

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 *Financial Instruments: Disclosures* and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial Instruments: Disclosures*.

The financial statements have been prepared under the historical cost convention, unless otherwise stated below, and are presented in Sterling. All values are rounded to the nearest thousand (£'000) except where otherwise stated.

**Going concern**

The accounts have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and will meet its liabilities as they fall due.

At 31 December 2010, the Company had cash of £82k (2009: £149k) and an undrawn committed share finance facility of €9,445k, approximately £8,073k, (2009: £14,600k), an undrawn credit facility of €15,000k, approximately £12,821k (2009: €15,000k, approximately £13,363k) and the Company incurred a loss for the year of £881k (2009: £1,444k). The continued progress in the implementation of the Group's strategy and commercialisation process are described in the Chairman and Chief Executive Officer's Report. In addition, the principal risks and uncertainties within the Report of the Directors indicate the market risks faced by the Group in achieving the successful exploitation of its technology. Long-term financial viability is dependent on the Group successfully exploiting its technology by taking its prototypes into full scale production and securing sufficient demand so that commercially sustainable volumes can be produced and sold.

Until then, the company's investment commitments and future funding requirements can only be met by further capital injections and loan funding from Quivest B.V. ("Quivest"), the Group's most significant shareholder.

The Company entered into its current share financing facility ("Equity Facility") with Quivest B.V. ("Quivest") on 18 February 2009. Under the terms of the Equity Facility, the Company is able to draw down a minimum of €250k per month and a maximum of €600k per month which was increased to a maximum of €1.1m per month for the period from 1 July 2010 to 31 December 2010. These facilities will be in place until at least 18 February 2013. Between 1 January 2011 and 15 March 2011 the Company has received £1,363k from its share finance facility agreement. The Directors have prepared cash flow forecasts to 30 June 2012 which show that the Company can operate within its finance facility.

Quivest's business is the provision of financing and acquiring and disposing of investments and the Equity Facility and Loan Facility as described above are both being provided by Quivest acting as principal. In the current financial environment there can be no guarantee that future funding will be forthcoming from Quivest. The ability of Quivest to meet its obligations under the share finance facility and the credit facility is dependent in turn on it continuing to have access to sufficient funds. The Directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the board of Antonov plc

takes comfort from Quivest's historical support and track record in providing the necessary funding to the Company when requested and the Directors are of the opinion that through its funding facilities with Quivest, it has access to sufficient working capital for its foreseeable requirements. Accordingly, the Directors have concluded that it is appropriate for the accounts to be prepared on a going concern basis.

The Group financial statements do not include the adjustments that would result if adequate funding ceased to be available and it was unable to continue as a going concern.

### 3 Accounting policies

The following principal accounting policies have been applied consistently in the preparation of these financial statements:

#### *Foreign currencies*

Transactions entered into by the Company in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rate ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

The functional currency and the presentational currency of the company is sterling.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on all items of tangible fixed assets to write off the cost, less estimated residual value, based on prices prevailing at the balance sheet date, evenly over their expected useful economic lives as follows:-

	Useful economic life	Amortisation method
Motor vehicles	3 years	Straight line basis
Equipment	3 years	Straight line basis

#### *Impairment of assets*

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value is not recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### *Deferred taxation*

Deferred tax is measured in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable,
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Share-based payments – equity settled transactions*

Where share options are awarded to employees, the cost is measured by reference to the fair value of the options at the date of grant and is charged to the income statement over the vesting period. Fair value is determined by an external valuer using an appropriate pricing model. Vesting conditions related to



performance or service are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market and non-vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions related to performance or service are satisfied, a charge is made irrespective of whether the market or non-market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is charged to the income statement in the period. No reduction is recognised if the fair value decreases. Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. This includes any award where non-vesting conditions within the control of the Group or the employee are not met.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

***Leased assets***

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

***Financial assets – loans and receivables***

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest method if the time value of money is significant less any provision for impairment.

***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

***Equity instruments***

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. The carrying amount of the equity component is not re-measured in subsequent years.

***Warrants*** Where warrants are denominated in the functional currency of the parent entity, sterling, with a fixed price, they are treated as equity.

The warrants have been valued using an option pricing model. The model takes into account the risk free interest rate for the life of the option, the exercise price of the option, the current price of the underlying shares, the life of the option, the expected volatility of the option and any market based vesting conditions.

***Financial liabilities***

***Trade creditors*** Trade creditors are initially measured at fair value, and are subsequently measured at amortised cost.

***Other financial liabilities*** These include other short-term monetary liabilities, which are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest method.

**4 Loss for the financial year**

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The company recorded a loss after tax of £887k (2009: £1,444k).

**5 Tangible fixed assets**

	Plant and equipment £'000
<b>Cost:</b>	
At 1 January 2010 and 31 December 2010	53
<b>Depreciation</b>	
As at 1 January 2010 and 31 December 2010	53
<b>Net book value</b>	
At 1 January 2010 and 31 December 2010	-

**6 Fixed asset investments**

	Group undertakings £'000
At 1 January 2010	1,015
Additions	85
At 31 December 2010	1,100

**Subsidiary undertakings**

The principal undertakings in which the Company's interest at the year end is 20% or more are presented in the Group financial statements (Note 15).

**Investment in Joint Venture**

The investment in this company during the year is shown below and represents the initial payment of capital contribution

	£'000
At 1 January 2010	-
Investment during the year	352
At 31 December 2010	352

**7 Debtors**

Debtors: amounts falling due within one year	2010	2009
	£'000	£'000
Amounts owed by group undertakings	12,031	7,460
Provision in respect of amounts owed by group undertakings	(4,858)	(4,858)
Other debtors	-	14
Prepayments	748	1,120
	<b>7,921</b>	<b>3,736</b>
Debtors: amounts falling due after one year	2010	2009
	£'000	£'000
Amounts owed by group undertakings	3,000	3,000
Provision in respect of amounts owed by group undertakings	(3,000)	(3,000)
	<b>-</b>	<b>-</b>

**8 Creditors: amounts falling due within one year**

	2010	2009
	£'000	£'000
Trade creditors	174	233
Other creditors and accruals	410	505
	<b>584</b>	<b>738</b>

**9 Share capital**

Details of the share capital of the Company and the movements within the share capital are disclosed in note 21 to the Group Financial Statements. The share-based payment expense incurred by the Company under FRS 20 has been calculated in a consistent manner to the expense recorded in the Group financial statements (note 24 of the Group financial statements).

**10 Reconciliation of movements in shareholders' funds**

	Share Capital	Share Premium Reserve	Unlisted Warrant Reserve	Profit & loss account	Equity Shareholders' Funds
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2009</b>	<b>17,425</b>	<b>30,279</b>	<b>1,085</b>	<b>(45,598)</b>	<b>3,191</b>
Loss for the year	-	-	-	(1,444)	(1,444)
Share issue costs	-	(2,494)	-	-	(2,494)
Share based payment	-	-	-	221	221
Unlisted warrant movement	-	(427)	427	-	-
Increase in share capital	1,087	3,601	-	-	4,688
<b>Balance at 31 December 2009</b>	<b>18,512</b>	<b>30,959</b>	<b>1,512</b>	<b>(46,821)</b>	<b>4,162</b>
Loss for the year	-	-	-	(887)	(887)
Share issue costs	-	(1,362)	-	-	(1,362)
Share based payment	-	-	-	89	89
Unlisted warrant movement	-	(758)	(32)	790	-
Increase in share capital	3,047	3,822	-	-	6,869
<b>Balance at 31 December 2010</b>	<b>21,559</b>	<b>32,661</b>	<b>1,480</b>	<b>(46,829)</b>	<b>8,871</b>

**11 Leases**

The minimum total of future lease payments due is as follows

	2010 £'000	2009 £'000
Not later than one year	5	5
Later than one and not later than five years	14	14
	19	19

**12 Contingent liabilities**

There are no contingent liabilities (2009 nil).

**Antonov Plc**  
**Group five year record**

	2010 IFRS £'000	2009 IFRS £'000	2008 IFRS £'000	2007 IFRS £'000	Restated* 2006 IFRS £'000
Revenue	255	183	339	771	11
Loss before tax	(2,022)	(4,745)	(9,782)	(3,964)	(3,158)
Loss for the year	(1,198)	(4,745)	(9,782)	(4,073)	(3,396)
Loss per share	(3.7p)	(36.2p)	**(143 0p)	**(85.0p)	**(95 0p)

\* restated for correction of share issue costs

\*\*restated for share consolidation on 6 May 2009