OPEN JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

Consolidated Financial Statements
as at and for the year ended 31 December 2012

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Aeroflot – Russian Airlines and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2012, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been complied with, subject to any material departures being disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements as at and for the year ended 31 December 2012 were approved on 25 April 2013 by:

V. G. Saveliev	**Sh. R. Kurmashov**
General Director	Deputy General Director
	Finance and Investment

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Independent Auditors' Report

(All amounts in millions of US dollars)

	Note	2012	2011
Traffic revenue	5	7,118.2	4,465.7
Other revenue	6	1,019.9	912.2
Revenue		**8,138.1**	**5,377.9**
Operating costs	7	(6,191.4)	(4,006.4)
Staff costs	8	(1,241.8)	(870.1)
Depreciation and amortisation	22, 23	(269.1)	(221.1)
Other income/(expenses), net	9	(78.1)	108.0
Operating costs		**(7,780.4)**	**(4,989.6)**
Operating profit		**357.7**	**388.3**
Finance income	10	166.4	440.3
Finance costs	10	(166.7)	(244.2)
Share of results of equity accounted investments	18	0.3	0.9
Profit before income tax		**357.7**	**585.3**
Income tax	11	(191.4)	(94.0)
Profit for the year		**166.3**	**491.3**
Attributable to:			
Shareholders of the Company		222.1	524.6
Non-controlling interest		(55.8)	(33.3)
		166.3	**491.3**
Basic earnings per share (US cents)		**21.3**	**51.9**
Diluted earnings per share (US cents)		**21.1**	**51.0**
Weighted average number of shares outstanding (millions)		**1,044.2**	**1,010.7**
Weighted average number of diluted shares outstanding (millions)		**1,054.9**	**1,010.7**

V. G. Saveliev
General Director

Sh. R. Kurmashov
Deputy General Director
Finance and Investment

The consolidated statement of income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 50.

(All amounts in millions of US dollars)

	Note	2012	2011
Profit for the year		**166.3**	**491.3**
Other comprehensive income:			
Net change in fair value of available-for-sale financial assets transferred to profit and loss		-	(0.3)
Exchange differences on translating to presentation currency		93.2	(108.3)
Loss on hedge instrument	25	26.1	(6.3)
Deferred tax related to the loss on hedge instrument	11	(2.3)	3.8
Other comprehensive income for the year		**117.0**	**(111.1)**
Total comprehensive income for the year		**283.3**	**380.2**
Total comprehensive income attributable to:			
Shareholders of the Company		345.3	403.5
Non-controlling interest		(62.0)	(23.3)

The consolidated statement of comprehensive income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 50.

(All amounts in millions of US dollars)

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	12	496.2	393.1
Short-term investments	13	4.8	21.0
Accounts receivable and prepayments	14	1,622.2	1,467.4
Aircraft lease deposits		8.1	2.7
Expendable spare parts and inventories	15	141.1	118.3
Assets of disposal group classified as held for sale	16	60.1	-
		2,332.5	**2,002.5**
Non-current assets			
Equity accounted investments	18	3.2	7.3
Long-term investments	19	200.2	191.2
Aircraft lease deposits		35.4	29.1
Deferred tax assets	11	95.7	140.1
Other non-current assets	20	270.4	205.9
Prepayments for aircraft	21	445.6	432.9
Property, plant and equipment	22	2,435.9	1,970.2
Derivative instrument	25	92.5	1.3
Intangible assets	23	108.7	100.3
Goodwill	24	225.8	255.1
		3,913.4	**3,333.4**
TOTAL ASSETS		**6,245.9**	**5,335.9**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	26	989.1	1,052.7
Unearned transportation revenue	27	502.9	371.4
Deferred revenue related to frequent flyer programme, current	28	11.8	8.1
Provisions	29	4.4	2.5
Short-term borrowings	31	466.0	378.2
Finance lease liabilities	30	246.3	202.8
Liabilities associated with assets of a disposal group classified as held for sale	16	25.5	-
		2,246.0	**2,015.7**
Non-current liabilities			
Long-term borrowings	32	240.0	388.3
Finance lease liabilities	30	1,635.4	1,296.7
Provisions	29	3.0	6.1
Deferred tax liabilities	11	73.7	41.2
Deferred revenue related to frequent flyer programme, non-current	28	45.2	32.5
Derivative instruments	25	145.4	30.8
Other non-current liabilities	33	230.9	120.4
		2,373.6	**1,916.0**
Equity			
Share capital	34	51.6	51.6
Treasury stock	34	(129.5)	(131.7)
Accumulated gain on disposal of treasury shares		54.2	48.3
Investment revaluation reserve		(0.4)	(0.3)
Cumulative translation reserve		(174.6)	(274.1)
Hedge reserve	25	17.0	(6.8)
Share based payment reserve	38	6.8	10.7
Retained earnings		1,950.1	1,790.7
Equity attributable to shareholders of the Company		**1,775.2**	**1,488.4**
Non-controlling interest		(148.9)	(84.2)
Total equity		**1,626.3**	**1,404.2**
TOTAL LIABILITIES AND EQUITY		**6,245.9**	**5,335.9**

The consolidated statement of income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 50.

(All amounts in millions of US dollars)

	Notes	2012	2011
Cash flows from operating activities:			
Profit before income tax		357.7	585.3
Adjustments to reconcile profit before taxation to net cash provided by operating activities:			
Depreciation and amortisation	22, 23	269.1	221.1
Change in impairment allowance for bad and doubtful debts	14	12.3	23.1
Accounts receivable write off	9	12.3	5.0
Change in impairment allowance for obsolete inventory		(0.5)	1.8
Change in impairment of property, plant and equipment	22	(0.3)	(2.8)
Non-cash operations, related to assets held for sale		-	19.1
Loss on disposal of property, plant and equipment		9.3	15.2
Accounts payable write off	9	(9.2)	(5.2)
Share of results in equity accounted investments	18	(0.3)	(0.9)
Loss/(Gain) on disposal and impairment of investments	10	10.0	(424.0)
Change in tax and legal provisions	29	(1.7)	(8.2)
Gain/loss on revaluation of hedging instrument	10	33.0	(1.5)
Interest expense	10	110.9	130.4
Unrealised foreign exchange (gain)/loss	10	(89.2)	113.8
VAT write off	9	3.3	4.4
VAT recovery	9	-	(55.1)
Share based payment reserve	38	0.2	4.9
Increase (decrease) in other provisions and other assets impairments		(1.7)	(1.3)
Custom duty recovery	9	-	(38.9)
Other non-cash income		(4.7)	(1.6)
Other financial (income)/financial expense net		(48.4)	-
Gain/loss on hedging instrument, net		(2.1)	-
Dividend income		(3.6)	(0.6)
Goodwill write off	9	43.6	-
Operating profit before working capital changes		**700.0**	**584.0**
Change in accounts receivable and prepayments and other non-current assets		64.7	(207.2)
Change in expendable spare parts and inventories		(44.9)	(13.3)
Change in accounts payable and accrued liabilities		232.7	131.0
		952.5	**494.5**
Income tax paid		(153.0)	(125.7)
Income tax received		21.9	0.4
Net cash flows from operating activities		**821.4**	**369.2**

The consolidated statement of income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 50.

(All amounts in millions of US dollars)

	Notes	2012	2011
Cash flows from investing activities:			
Proceeds from sale of investments		23.0	14.0
Purchases of investments		(12.7)	(17.8)
Proceeds from sale of equity accounted investments		1.8	78.9
Proceeds from sale of subsidiary company, net		36.2	89.1
Proceeds from sale of property, plant and equipment		87.5	6.8
Purchases of property, plant and equipment and intangible assets		(167.1)	(128.2)
Dividends received		3.4	1.0
Predelivery lease (prepayments)/return, net		(212.3)	(477.8)
Net cash flows used in investing activities		**(240.2)**	**(434.0)**
Cash flows from financing activities:			
Proceeds from borrowings		605.5	530.5
Repayment of borrowing		(703.9)	(389.6)
Sale of treasury stock		9.9	17.0
Purchases of treasury stock		(0.2)	(102.9)
Repayment of the principal element of finance lease liabilities		(291.9)	(122.6)
Interest paid		(75.3)	(100.4)
Dividends paid		(62.2)	(35.5)
Proceeds from hedging instrument		16.5	14.3
Net cash flows (used in)/from financing activities		**(501.6)**	**(189.2)**
Effect of exchange rate fluctuations		23.5	(13.3)
Net increase in cash and cash equivalents		**103.1**	**(267.3)**
Cash and cash equivalents at the beginning of the period		393.1	660.4
Cash and cash equivalents at the end of the period	**12**	**496.2**	**393.1**
Supplemental cash flow information:			
Interest received	9	13.9	14.8
Non-cash investing and financing activities:			
Property, plant and equipment acquired under finance leases		685.2	292.8

The consolidated statement of income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 50.

(All amounts in millions of US dollars)

	Share capital	Treasury stock	Investment revaluation reserve	Cumulative translation reserve	Hedge reserve	Share based payment reserve	Retained earnings	Attributable to sharehol-ders of the Company	Non-control-ling interest	Total
1 January 2011	**51.6**	**(79.1)**	-	**(155.8)**	**(4.3)**	**12.7**	**1,302.5**	**1,127.6**	**27.3**	**1,154.9**
Profit/(loss) for the period	-	-	-	-	-	-	524.6	524.6	(33.3)	491.3
Foreign currency translation for the period	-	-	-	(118.3)	-	-	-	(118.3)	10.0	(108.3)
Gain on investments available-for-sale	-	-	(0.3)	-	-	-	-	(0.3)	-	(0.3)
Gain on hedging instrument	-	-	-	-	(2.5)	-	-	(2.5)	-	(2.5)
Total comprehensive income								**403.5**	**(23.3)**	**380.2**
Acquisition of subsidiary	-	-	-	-	-	-	-	-	(92.7)	(92.7)
Disposal of subsidiary	-	-	-	-	-	-	-	-	2.7	2.7
Share based compensation	-	-	-	-	-	(2.0)	-	(2.0)	-	(2.0)
Gain on disposal of treasury stock	-	20.3	-	-	-	-	-	20.3	-	20.3
Purchases of treasury stock	-	(23.5)	-	-	-	-	-	(23.5)	-	(23.5)
Foreign currency translation for the period	-	(1.1)	-	-	-	-	3.6	2.5	-	2.5
Dividends	-	-	-	-	-	-	(40.0)	(40.0)	1.8	(38.2)
31 December 2011	**51.6**	**(83.4)**	**(0.3)**	**(274.1)**	**(6.8)**	**10.7**	**1,790.7**	**1,488.4**	**(84.2)**	**1,404.2**
1 January 2012	**51.6**	**(83.4)**	**(0.3)**	**(274.1)**	**(6.8)**	**10.7**	**1,790.7**	**1,488.4**	**(84.2)**	**1,404.2**
Profit/(loss) for the period	-	-	-	-	-	-	222.1	222.1	(55.8)	166.3
Foreign currency translation for the period	-	-	(0.1)	99.5	-	-	-	99.4	(6.2)	93.2
Gain on hedging instrument	-	-	-	-	23.8	-	-	23.8	-	23.8
Total comprehensive income								**345.3**	**(62.0)**	**283.3**
Share based compensation	-	-	-	-	-	(3.9)	-	(3.9)	-	(3.9)
Gain on disposal of treasury stock	-	4.6	-	-	-	-	-	4.6	-	4.6
Other movements in treasury stock	-	9.8	-	-	-	-	-	9.8	-	9.8
Foreign currency translation for the period	-	(6.3)	-	-	-	0.0	-	(6.3)	-	(6.3)
Dividends	-	-	-	-	-	-	(62.7)	(62.7)	(2.7)	(65.4)
31 December 2012	**51.6**	**(75.3)**	**(0.4)**	**(174.6)**	**17.0**	**6.8**	**1,950.1**	**1,775.2**	**(148.9)**	**1,626.3**

The consolidated statement of changes in equity should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 50.

(All amounts in millions of US dollars)

1. NATURE OF THE BUSINESS

OJSC Aeroflot – Russian Airlines (the "Company" or "Aeroflot") was formed as a joint stock company following a government decree in 1992. The 1992 decree conferred all the rights and obligations of Aeroflot - Soviet Airlines and its structural units, excluding its operations in Russia and Sheremetyevo Airport, upon the Company, including inter-governmental bilateral agreements and agreements signed with foreign airlines and enterprises in the field of civil aviation.

The principal activities of the Company are the provision of passenger and cargo air transportation services, both domestically and internationally, and other aviation services from its base at Moscow Sheremetyevo Airport. The Company and its subsidiaries (the "Group") also conduct activities comprising airline catering, hotel operations, trading and the airport business. Associated entities mainly comprise cargo-handling and aviation security services.

As at 31 December 2012 and 2011 the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, Russian Federation.

The principal subsidiary companies are:

Company name	Place of incorporation and operation	Activity	31 December 2012	31 December 2011
OJSC Donavia (Donavia)	Rostov-on-Don	Airline	100.00%	100.00%
OJSC AK Rossiya (Rossiya)	St. Petersburg	Airline	75% minus one share	75% minus one share
OJSC Vladivostok Avia (Vladavia)	Vladivostok region	Airline	52.156%	52.156%
OJSC AK Sahalinskiye aviatrassi (SAT)	Yuzhno Sakhalinsk	Airline	100.00%	100.00%
OJSC Orenburgskie avialinii (Orenavia)	Orenburg	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo (Aeroflot-Cargo)	Moscow	Cargo transportation services	100.00%	100.00%
LLC Aeroflot-Finance (Aeroflot-Finance)	Moscow	Finance services	100.00%	100.00%
CJSC Aeromar (Aeromar)	Moscow region	Catering	51.00%	51.00%
CJSC Aerofirst (Aerofirst)	Moscow region	Trading	66.67%*	66.67%
CJSC Sherotel (Sherotel)	Moscow region	Hotel	100.00%	100.00%

*As of December 31, 2012 subsidiary CJSC "Aerofirst" is classified as held-for-sale asset (Note 16).

The significant entities in which the Group holds more than 20% but less than 50% of the equity are:

Company name	Place of incorporation and operation	Activity	31 December 2012	31 December 2011
LLC Airport Moscow	Moscow region	Cargo handling	50.00%	50.00%
CJSC AeroMASH – AB	Moscow region	Aviation security	45.00%	45.00%
CJSC Jetalliance East	Moscow	Airline	49.00%	49.00%

All the companies listed above are incorporated in the Russian Federation.

The table below provides information on the Group's aircraft fleet as at 31 December 2012:

Type of aircraft	Ownership	Aeroflot (number)	Donavia (number)	Rossiya (number)	Orenavia (number)	Vladavia (number)	SAT (number)	Group total (number)
Il-96-300	Owned	6	-	-	-	-	-	6
Tu-154	Owned	-	-	5*	-	-	-	5
An-24	Owned	-	-	-	-	-	4#	4
Mil- Mi-8	Owned	-	-	-	-	3	1	4
Yak 40	Owned	-	-	-	-	2	-	2
Total owned		**6**	**-**	**5**	**-**	**5**	**5**	**21**
Airbus A-319	Finance lease	4	-	9	-	-	-	13
Airbus A-320	Finance lease	1	-	-	-	-	-	1
Airbus A-321	Finance lease	21	-	-	-	-	-	21
Airbus A-330	Finance lease	8	-	-	-	-	-	8
Boeing 737	Finance lease	-	3#	-	-	-	2	5
An-148	Finance lease	-	-	6	-	-	-	6
Tu-204	Finance lease	-	-	-	-	6	-	6
Total finance lease		**34**	**3**	**15**	**-**	**6**	**2**	**60**
SSJ 100	Operating lease	10	-	-	-	-	-	10
Airbus A-319	Operating lease	11	4	3	-	-	-	18
Airbus A-320	Operating lease	43	-	8	-	6	-	57
Airbus A-330	Operating lease	14	-	-	-	1ˆ	-	15
Boeing B-737	Operating lease	-	3	1	24	-	1	29
Boeing B-767	Operating lease	7	-	3	-	-	-	10
Boeing B-777	Operating lease	-	-	-	3	-	-	3
MD-11	Operating lease	3	-	-	-	-	-	3
DHC 8 S-300	Operating lease	-	-	-	-	-	4	4
DHC 8 S-200	Operating lease	-	-	-	-	-	2	2
An 12	Operating lease	-	-	-	-	-	1	1
Total operating lease		**88**	**7**	**15**	**27**	**7**	**8**	**152**
Total fleet		**128**	**10**	**35**	**27**	**18**	**15**	**233**

* - All of these aircrafts are not operated as at 31 December 2012.
# - 1 of these aircrafts is not operated as at 31 December 2012.
ˆ - this aircraft is on maintenance as at 31 December 2012, handover is planned.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are presented in millions of US dollars ("USD"), except where specifically noted otherwise.

All significant subsidiaries directly or indirectly controlled by the Group are included in the consolidated financial statements. A listing of the Group's principal subsidiary companies is set out in Note 1.

The Group maintains its accounting records in Russian roubles ("RUB") and in accordance with Russian accounting legislation and regulations. The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with IFRS.

Functional and presentation currency – Since 1 January 2007 the functional currency of the

(All amounts in millions of US dollars)

Company is the Russian rouble. These consolidated financial statements are presented in US dollar for the convenience of foreign users, including the major lessors.

The assets and liabilities, both monetary and non-monetary, have been translated at the closing rate at the date of each consolidated statement of financial position presented in accordance with International Accounting Standard ("IAS") 21 *The Effect of Changes in Foreign Exchange Rates*. Income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates. All exchange differences resulting from translation have been classified as other comprehensive income and transferred to the Group's translation reserve.

Any conversion of Russian rouble amounts to US dollars should not be considered as a representation that Russian rouble amounts have been, could be or will be in the future, converted into US dollars at the exchange rate shown or at any other exchange rate.

The assets and liabilities, both monetary and non-monetary, of the subsidiaries of the Company with functional currencies other than the Russian rouble have been translated at the closing rate at the date of each consolidated statement of financial position presented; income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates. All exchange differences resulting from translation have been classified as equity and transferred to the Group's translation reserve.

The following table details the exchange rates used to translate Russian roubles to US dollars:

	Exchange rate
As at 31 December 2012	30.37
Average rate in 2012	31.09
As at 31 December 2011	32.20
Average rate in 2011	29.39
As at 31 December 2010	30.48

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. There have been no significant changes to accounting policies.

Consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Subsidiaries comprise entities in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over their operations. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which effective control is obtained by the Group and are no longer consolidated from the date of disposal or loss of control.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is stated at the non-controlling proportion of the fair values of the assets and liabilities acquired adjusted by subsequent changes in the carrying value of net assets of those entities. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

Business combinations – Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus,
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Purchases of non-controlling interests – From 1 January 2010 the Group has applied IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interest.

Acquisition of non-controlling interests is accounted for as transactions with owners in their capacity, as owners and therefore no goodwill is recognised as a result of such transaction.

The adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates – Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group's owning, directly or indirectly, between 20% and 50% of the voting share capital or by exerting significant influence through other means.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. The Group's share of the net income or losses of associates is included in the consolidated statement of income. An assessment of impairment of investments in associates is performed when there is an indication that the asset has been impaired or that the impairment losses recognised in prior years no longer exist. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Where a group entity enters into a transaction with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. A listing of the Group's principal associated entities is included in Note 1.

Foreign currency translation – Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the reporting date are translated into the functional currency at the year end exchange rate. Exchange differences arising from such translation are included in the consolidated statement of income.

Non-current assets and disposal groups held for sale – Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Any liabilities related to non-current assets to be sold are also presented separately as liabilities in the consolidated statement of financial position. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes.

Passenger revenue: Ticket sales are reported as traffic revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported as unearned transportation revenue. This item is reduced either when the Group completes the transportation service or when the passenger requests a refund. Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the date the tickets are issued based on an analysis of historical patterns of actual sales data. Commissions, which are payable to the sales agents are recognised as sales and marketing expenses at the same time as revenue from the air transportation to which they relate.

Passenger revenue includes revenue from code-share agreements with certain other airlines. Under these agreements, the Group sells seats on these airlines' flights and those other airlines sell seats on the Group's flights. Revenue from the sale of code-share seats on other airlines are recorded net in Group's passenger revenue in the consolidated statement of income. The revenue from other airlines' sales of code-share seats on the Group's flights is recorded in passenger revenue in the Group's consolidated statement of income.

Cargo revenue: The Group's cargo transport services are recognised as revenue when the air transportation is provided. Cargo sales for which the transportation service has not yet been provided are shown as unearned transportation revenue.

Catering revenue: Revenue is recognised when meal packages are delivered to the aircraft, as this is the date when the risks and rewards of ownership are transferred to customers.

Other revenue: Revenue from bilateral airline agreements is recognised when earned with reference to the terms of each agreement. Hotel accommodation revenue is recognised when the services are provided. Sales of goods and other services are recognised as revenue when the goods are delivered or the service is rendered. Revenue from airport and traffic services is recognised in profit and loss when services are rendered to customers in accordance with the relevant service agreements.

Borrowing costs – All borrowing costs that are directly attributable to the acquisition, construction and production of a qualifying asset form part of the cost of that asset. All other borrowings costs are recognised as an expense in the consolidated statement of income.

Operating segments – The Group determines and present operating segments based on the information that internally is provided to the General Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the General Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Property, plant and equipment – Property, plant and equipment is stated at cost, or appraised value, as described below. Depreciation is calculated in order to amortise the cost or appraised value (less estimated salvage value where applicable) over the remaining useful lives of the assets.

(a) Fleet

(i) *Owned aircraft and engines* – Aircraft and engines owned by the Group as at 31 December 1995 were stated at depreciated replacement cost based upon external valuations denominated in US dollars. Airclaims, an international firm of aircraft appraisers, conducted the valuation. The Group has chosen not to revalue these assets subsequent to 1995. Subsequent purchases are recorded at cost.

(ii) *Finance leased aircraft and engines* – Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding obligation, reduced by the capital portion of lease payments made, is included in payables. Custom duties, legal fees and other initial direct costs are added to the amount recognised as an asset. The interest element of lease payments made is included in interest expense in the consolidated statement of income.

(iii) *Capitalised maintenance costs* – Expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are separately capitalised in the consolidated statement of financial position. The carrying amount of those parts that are replaced is derecognised from the consolidated statement of financial position and included in gain or loss on disposals of property, plant and equipment in the Group's consolidated statement of income. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and maintenance costs are expensed as incurred.

(iv) *Depreciation* – The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life. The airframe, engines and interior of an aircraft are depreciated separately over their respective estimated useful lives. The salvage value for airframes of the foreign fleet is estimated at 5% of historical cost, while the salvage value for Russian aircraft is zero. Engines are depreciated on a straight-line basis.

Useful lives of the Group's fleet assets are as follows:

Airframes of foreign aircraft	20 years
Airframes of Russian aircraft	25-32 years
Engines of foreign aircraft	8 years
Engines of Russian aircraft	8-10 years
Interiors	5 years

(v) *Capitalised leasehold improvements* – capitalised costs that relate to the rented fleet are depreciated over the shorter of their useful life and the lease term.

(b) Land and buildings, plant and equipment

Property, plant and equipment is stated at the historical US dollar cost recalculated at the exchange rate on 1 January 2007, the date of the change of the functional currency of the Company from the US dollar to the Russian rouble. Provision is made for the depreciation of property, plant and equipment based upon expected useful lives or, in the case of leasehold properties, over the duration of the leases using a straight-line basis. These useful lives range from 3 to 50 years. Land is not depreciated.

(c) Capital expenditure

Capital expenditures comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Capital expenditures are reviewed regularly to determine whether their carrying value is fairly stated and whether appropriate provision for impairment is made.

(d) Gain or loss on disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Impairment of non-current assets – At each reporting date the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication of impairment of those assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

Lease deposits – Lease deposits represent amounts paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to operating lease agreements are presented as assets in the consolidated statement of financial position. A portion of these deposits is interest-free. Interest-free deposits are recorded at amortised cost using an average market yield between 5.0% and 9.5% . Lease deposits that are part of finance lease arrangements are presented net as part of the finance lease liability.

Operating leases – Payments under operating leases are charged to the consolidated statement of income in equal annual instalments over the period of the lease. Related direct expenses including custom duties for leased aircraft are amortised using a straight-line method over the term of lease agreement.

Financial instruments – Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, marketable securities, investments, derivative financial instruments, trade and other accounts receivable, trade and other accounts payable, borrowings and notes payable. The accounting policies on recognition and measurement of these items are disclosed below.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, and gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously. The result from the realisation of the financial instruments is determined on the FIFO basis.

(a) Credit risks

The sale of passenger and freight transportation is largely processed through agencies that are normally linked to country specific clearing systems for the settlement of passenger and freight sales. Clearing centres check individual agents operating outside of the Russian Federation. Individual agents operating within the Russian Federation are checked in-house.

Receivables and liabilities between major airlines, unless otherwise stipulated in the respective agreements, are settled on a bilateral basis or by settlement through an International Air Transport Association ("IATA") clearing house.

(b) Fair value

The fair value of financial instruments is determined by reference to various market information and other valuation methods as considered appropriate. At the reporting date the fair values of the financial instruments held by the Group did not materially differ from their recorded book values.

(c) Foreign exchange risk

In 2012 the Group mostly managed its foreign exchange risk by matching its assets and liabilities in the different currencies to limit exposure. However, a portion of its foreign exchange risk was managed through the use of hedging instruments (Note 24).

(d) Interest rate risk

The Group's main exposure to interest rate risk is from its finance lease liabilities and short-term borrowings. In 2012 the Group engaged in interest rate hedging activities to hedge its exposure to the changes in interest rates. The Group constantly monitors changes in interest rates to minimise the level of its exposure (Note 24).

(e) Non-financial risks – fuel hedging activities

The results of Group's operations can be significantly impacted by changes in the price of aircraft fuel. Since 2010 the Group engaged in fuel hedging activities to hedge a portion of its non-financial risk related to fuel (Note 24). The Group does not use derivative instruments for speculative purposes.

Cash and cash equivalents – Cash and cash equivalents consist of cash on hand, balances with banks and short-term interest-bearing accounts which are used in the day to day financing of the Group's airline activities.

Investments – The Group's financial assets have been classified according to IAS 39 *Financial Instruments: Recognition and Measurement* into the following categories: securities held for trading, held-to-maturity investments, loans and other receivables, and available-for-sale investments. Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Derivative financial instruments and investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading securities. All other investments, other than loans and receivables, are classified as available-for-sale.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Held-to-maturity investments are financial assets excluding derivative contracts which mature on a specified date and which a company has the firm intent and ability to hold to maturity. They are valued at allocated acquisition cost and they are included in long-term assets.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, loans and receivables, and are measured at subsequent reporting dates at fair value. Investments in equity instruments of other companies that do not have a quoted market price are stated at cost less impairment loss, as it is not practicable to determine the fair value of such investments. For derivatives and other financial instruments classified as held for trading, gains and losses arising from changes in fair value are included in the consolidated statement of income for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated statement of income for the period. Impairment losses recognised in the consolidated statement of income for equity investments classified as available-for-sale are not subsequently reversed through the consolidated statement of income. Impairment losses recognised in the consolidated statement of income for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

In 2012 the Group held corporate and Government financial instruments primarily comprising shares and bonds. These are classified as held-for-trading investments. Gains and losses arising from changes in fair value of held-for-trading investments are recognised in the consolidated statement of income.

The Group assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. If there is objective evidence that an impairment loss has arisen for loans and other receivables entered at allocated acquisition cost in the consolidated statement of financial position or for held-to-maturity investments, the size of the loss is determined as the difference between the book value of the asset item and the present value of expected future cash flows of the said financial asset item discounted at the original effective interest rate. The loss is recognised in the consolidated statement of income.

Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are individually recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Because the expected term of an account receivable is short, the value is typically stated at the nominal amount without discounting, which corresponds with the fair value. Uncertain accounts receivable balances are assessed individually and any impairment losses are included in non-operating expenses.

Accounts payable – Trade payables are initially measured at fair value and are subsequently measured at amortised cost and because the expected term of accounts payable is short the value is stated at the nominal amount without discounting, which corresponds with the fair value.

Short-term borrowings – Short-term borrowings comprise:

- Interest bearing borrowings with a term shorter than one year;
- Current portion of interest-bearing long-term borrowings.

These liabilities are measured at amortised cost and reported based on the settlement date.

Long-term borrowings – Long-term borrowings (i.e. liabilities with a term longer than one year) consist of interest-bearing loans, which are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method as at the settlement date.

Expendable spare parts and inventories – Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower. The costs are determined on the first-in, first-out ("FIFO") basis. Inventories are reported net of provisions for slow-moving or obsolete items.

Value added taxes – Value added tax ("VAT") related to sales is payable to the tax authorities on an accruals basis. For sales of passenger tickets this is when the tickets are registered for a flight by the customers. Domestic flights are subject to VAT at 18% and international flights are not subject to VAT. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT. The recovery of input VAT is typically delayed by up to six months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the reporting date is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the consolidated statement of financial position as VAT receivable. VAT receivables that are not expected to be recovered within the twelve months from the reporting date are classified as long-term assets. VAT balances are not discounted. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT. The provision for non-recoverable VAT is charged to the consolidated statement of income as a non-operating expense.

Frequent flyer programme – Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot Bonus. Subject to the programme's terms and condition, the miles earned entitle members to a number of benefits such as free flights and flight class upgrades.

In accordance with IFRIC 13 *Customer Loyalty Programmes* accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights of Aeroflot Group. The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue (Note 28) and the miles collected from third parties as well as promotional miles are recognised as other liabilities (Note 26 and Note 33).

Provisions – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the expected timing of cash flows can be estimated and the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax – The income tax rate for industrial enterprises in Russia is 20%.

Deferred income taxes – Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 *Income Taxes*. IAS 12 requires the application of the balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is to be realised or the liability settled, based on tax rates that have been enacted or substantively enacted as at the reporting date. As at 31 December 2012 deferred tax assets and liabilities have been measured at 20%. Deferred tax is charged or credited to the consolidated statement of income, except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is dealt with in equity.

Employee benefits – The Group makes certain payments to employees on retirement or when they otherwise leave the employment of the Group. These obligations, which are unfunded, represent obligations under a defined benefit pension plan. For such plans the pension accounting costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the consolidated statement of income in order to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognised in the consolidated statement of income immediately. The pension payments may be increased upon the retirement of an employee based on the decision of management. The pension liability for non-retired employees is calculated based on a minimum annual pension payment and do not include increases, if any, to be made by management in the future. Where such post-employment employee benefits fall due more than twenty months after the reporting date they are discounted using a discount rate determined by reference to the average government bond yields at the reporting date.

The Group also participates in a defined contribution plan, under which the Group has committed to contribute a certain percentage (15% to 20% in 2012) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Share-based payment transactions – The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Treasury shares – The Company's shares, which are held as treasury stock or belong to the Company's subsidiaries, are reflected as a reduction of the Group's equity. The disposal of such shares does not impact net income for the current year and is recognised as a change in the shareholders' equity of the Group. Dividend distributions by the Company are recorded net of the dividends related to treasury shares.

Dividends – Dividends are recognised at the date they are declared by the shareholders at a general meeting.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with applicable legislation and reflected in the statutory financial statements. These amounts may differ significantly from the amounts presented in accordance with IFRS.

Earnings per share – Earnings per share are calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Contingencies – Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

3. SIGNIFICANT ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainties at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provisions – Provisions are made when any probable and quantifiable risk of loss attributable to disputes is judged to exist.

Useful lives of property, plant and equipment – In reporting property, plant and equipment and intangible assets an assessment of the useful economic life is made at least once a year.

Frequent flyer programme – The Group has estimated the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 2) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value.

Compliance with tax legislation – Compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

Amendments to IFRS (IFRS) 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* includes new disclosure requirements for financial assets and liabilities offset in the statement of financial position or are the subject of the General Agreement on offsetting or similar agreements. The amendments shall be applied retrospectively for annual periods beginning on or after January 1, 2013 or later. The Group has not yet determined the potential impact of these amendments on its consolidated financial statements.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

(All amounts in millions of US dollars)

Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

Amendments to IFRS (IAS) 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* establish that the company currently has a legally enforceable right of offset, if this right does not depend on future events and is valid in the ordinary course of business as well as in the event of default (default), insolvency or bankruptcy of the company and all of its counterparties. The amendments shall be applied retrospectively for annual periods beginning on or after January 1, 2014 or later. The Group has not yet determined the potential impact of these amendments on its consolidated financial statements..

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

5. TRAFFIC REVENUE

	2012	2011
Scheduled passenger flights	6,247.0	4,109.9
Cargo	363.7	277.7
Charter passenger flights	507.5	78.1
	7,118.2	**4,465.7**

6. OTHER REVENUE

	2012	2011
Airline revenue agreements	502.5	445.6
Sales of duty free goods	171.3	140.5
Airport services	-	69.6
Refuelling services	75.4	68.3
Ground handling and maintenance	32.0	27.5
Catering services	20.9	16.9
Hotel revenue	18.4	18.0
Other revenue	199.4	125.5
	1,019.9	**912.2**

(All amounts in millions of US dollars)

7. OPERATING COSTS

	2012	2011
Aircraft and traffic servicing	1,274.2	753.8
Operating lease expenses	567.0	378.4
Maintenance	601.7	336.5
Sales and marketing	353.6	236.0
Administration and general expenses	255.2	210.5
Passenger services	158.9	96.0
Communication expenses	150.9	122.4
Food and beverages	117.0	89.5
Cost of duty free goods sold	79.8	63.5
Customs duties	44.6	36.2
Insurance expenses	40.5	29.7
Other expenses	260.5	181.7
Operating cost excluding aircraft fuel	**3,903.9**	**2,534.2**
Aircraft fuel	2,287.5	1,472.2
	6,191.4	**4,006.4**

8. STAFF COSTS

	2012	2011
Wages and salaries	1,026.4	731.6
Pension costs	162.7	105.5
Social security costs	52.7	33.0
	1,241.8	**870.1**

Pension costs include compulsory payments to the Russian Federation Pension Fund ("RFPF"), contributions to a non-government pension fund under a defined contribution plan, and an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under a defined benefit pension plan, as follows:

	2012	2011
Payments to the RFPF	159.4	105.1
Defined contribution pension plan	0.3	0.3
Defined benefit pension plan	3.0	0.1
	162.7	**105.5**

9. OTHER INCOME/(EXPENSES), NET

	2012	2011
Non-recoverable VAT write-off	(3.3)	50.7
Fines and penalties received from suppliers	7.1	49.6
Custom duty recovery (Note 26)	0.0	38.9
Accounts payable write-off	9.2	5.2
Insurance compensation received	3.5	0.9
Other income/(expense)	(38.7)	(32.3)
Accounts receivable write-off	(12.3)	(5.0)
Goodwill write-off (Note 24)	(43.6)	-
	(78.1)	**108.0**

(All amounts in millions of US dollars)

10. FINANCE INCOME AND COSTS

	2012	2011
Finance income:		
Foreign exchange gain	89.2	-
Interest income on bank deposits	13.9	14.8
Gain on hedging instrument	13.3	-
Gain on disposal of investments (Note 17)	-	424.0
Gain on revaluation of hedging instrument	-	1.5
Other finance income	50.0	-
Finance income	**166.4**	**440.3**

	2012	2011
Finance costs:		
Interest expense on short and long-term borrowings	(56.6)	(114.0)
Interest expense on finance lease liabilities	(52.7)	(15.7)
Loss on revaluation of hedging instruments	(33.0)	-
Loss on hedging instruments	(11.2)	-
Loss on disposal of investments (Note 17)	(10.0)	-
Other financial expenses	(1.6)	-
Interest expense on customs duty discounting	(1.6)	(0.7)
Foreign exchange loss	-	(113.8)
Finance costs	**(166.7)**	**(244.2)**

11. INCOME TAX

	2012	2011
Current income tax charge	110.8	121.8
Deferred income tax (benefit)/expense	80.6	(27.8)
	191.4	**94.0**

Income before taxation for financial reporting purposes is reconciled to taxation as follows:

	2012	2011
Profit before income tax	357.6	585.3
Tax rate	20%	20%
Theoretical tax at rate applicable for each jurisdiction	(71.5)	(117.1)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	8.6	95.2
Non-deductible expenses	(50.8)	(74.2)
Recognition of previously unrecognised tax losses	3.8	-
Reversal of temporary differences	(65.0)	-
Unrecognised current year tax losses	(4.9)	(2.3)
Over/(under) provided in prior years	(11.6)	4.4
	(191.4)	**(94.0)**

The Group did not recognise deferred tax assets of USD 4.9 million related to OJSC AK Russia's tax losses as the subsidiary is not expected to earn sufficient taxable profits in the foreseeable future against which the unused tax losses can be utilised by the Group.

(All amounts in millions of US dollars)

During the year the Group revised its estimates related to the deductibility of tax losses of OJSC AK Russia and OJSC Vladivostok Avia and reversed deferred tax assets in amount of USD 65.0 million.

During the 2011 year the Group recognized non-taxable income relates to the exchange of OJSC Terminal shares on non-controlling shares in OJSC MASH and disposal of the subsidiary CJSC Nordavia.

	2012	**Movement for year**	**2011**	**Movement for year**	**2010**
Tax effects of temporary differences:					
Tax loss carry-forwards (i)	46.2	(33.8)	80.0	20.4	59.6
Long-term investments	1.1	1.8	(0.7)	(0.7)	-
Borrowings	-	-	-	-	-
Accounts receivable	3.2	(10.5)	13.7	12.4	1.3
Property, plant and equipment	45.4	3.0	42.4	40.6	1.8
Accounts payable	18.7	0.6	18.1	(6.9)	25.0
Financial instrument	10.6	4.7	5.9	3.5	2.4
			-		
Deferred tax assets before tax set off	**125.2**	**(34.2)**	**159.4**	**69.3**	**90.1**
Tax set off	(29.5)	(10.2)	(19.3)	38.5	(57.8)
Deferred tax assets after tax set off	**95.7**	**(44.4)**	**140.1**	**107.8**	**32.3**
Property, plant and equipment	(69.3)	(36.9)	(32.4)	40.0	(72.4)
Customs duties related to aircraft operation leases	(25.2)	3.6	(28.8)	0.2	(29.0)
Long-term investments	(5.7)	(4.7)	(1.0)	4.2	(5.2)
Accounts receivable	(3.5)	(1.4)	(2.1)	2.7	(4.8)
Accounts payable	0.5	(2.7)	3.2	3.6	(0.4)
Tax loss carry-forwards	-	(0.6)	0.6	0.6	-
Deferred tax liabilities before tax set off	**(103.2)**	**(42.7)**	**(60.5)**	**51.3**	**(111.8)**
Tax set off	29.5	10.2	19.3	(38.5)	57.8
Deferred tax liabilities after tax set off	**(73.7)**	**(32.5)**	**(41.2)**	**12.8**	**(54.0)**
Movement for the year, net		(76.9)		120.6	
Less: Deferred tax recognised directly in equity (ii)		2.3		(3.8)	
Disposed subsidiaries (iii)		(2.2)		30.6	
Acquisition of subsidiaries		-		(118.2)	
Effect of translation to presentation currency		(3.8)		(1.4)	
Deferred tax benefit/(expense) for the year		**(80.6)**		**27.8**	

(i) Tax losses carried forward expire between 2017 to 2022;

(ii) Deferred tax asset in respect of the change in the fair value of the hedge of USD 2.3 million has been recognised in these consolidated financial statements;

(iii) In 2012 the Group decided to sell subsidiary CJSC Aerofirst (Note 16). In 2012 deferred tax expenses related to the subsidiary amounted to USD 2.2 million.

(All amounts in millions of US dollars)

A deferred tax liability in relation to temporary differences of USD 6.3 million (31 December 2010: deferred tax assets of USD 12.1 million) relating to investments in subsidiaries has not been recognised in the consolidated financial statements as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

12. CASH AND CASH EQUIVALENTS

	2012	2011
Bank accounts denominated in Russian roubles	257.7	105.0
Bank accounts denominated in US dollars	162.1	32.5
Bank accounts denominated in other currencies	36.8	22.6
Bank accounts denominated in Euros	26.7	10.7
Bank deposits denominated in Russian roubles	9.5	205.2
Cash in transit	2.9	2.1
Bank deposits denominated in US dollars	0.5	15.0
	496.2	**393.1**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 34. Most of the funds are held at state owned Russian banks such as Sberbank of the Russian Federation, Vneshtogbank and Vnesheconombank and well known multinational banks such as the Royal Bank of Scotland, JP Morgan, Natixis Bank. All funds are accessible by the Group.

13. SHORT-TERM INVESTMENTS

	2012	2011
Held-for-trading investments:		
Corporate and government bonds	-	2.0
Corporate shares	1.2	1.0
	1.2	**3.0**
Other short-term investments:		
Bank deposits with original maturities exceeding 90 days	3.5	1.6
Promissory notes from related parties	1.8	1.4
Promissory notes from third parties	5.5	14.9
Other short-term investments	-	0.1
Reserve for short-term investments	(7.3)	-
	3.5	**18.0**
	4.8	**21.0**

Corporate and government bonds represent bonds denominated in Russian roubles issued by the Government of the Russian Federation and major Russian companies with yield to maturity rates of 9.0% to 12.25% per annum as at 31 December 2012.

The Group's investments in bonds and shares are reflected at market values at the end of the period based on the last traded prices obtained from the Moscow Interbank Currency Exchange ("MICEX").

Corporate shares are publicly traded shares of Russian companies with readily available market prices.

As at 31 December 2012 the interest rates on bank deposits denominated in Russian roubles, with original maturities exceeding 90 days, were in average 4.1% per annum (31 December 2011: 5.6% per annum).

As of December 31, 2012, the reserve is created under the deposits held in banks and promissory notes receivable from related parties.

(All amounts in millions of US dollars)

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012	2011
Trade accounts receivable	630.4	524.7
Prepayments to suppliers	365.1	330.1
Prepayments for aircrafts	233.7	269.7
VAT and other taxes recoverable	276.3	231.4
Income tax prepaid	68.8	46.5
Deferred customs duties related to aircraft operating leases	36.7	33.6
Other receivables	119.0	121.2
Accounts receivable and prepayments, gross	**1 730.1**	**1,557.2**
Impairment allowance for bad and doubtful accounts	(107.8)	(89.8)
	1 622.3	**1,467.4**

Deferred customs duties of USD 36.7 million (31 December 2011: USD 33.6 million) relate to the current portion of customs duties incurred on importation of aircraft under operating leases. These customs duties are expensed in the consolidated statement of income over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 20.

As at 31 December 2012 sufficient impairment allowance has been made against accounts receivable and prepayments.

The movement in the Group's impairment allowance for bad and doubtful debts is as follows:

	Impairment allowance
As at 1 January 2011	**36.3**
Increase in impairment allowance for bad and doubtful accounts	23.1
Additions of subsidiaries	30.3
Disposed subsidiaries	7.3
Foreign currency translation	(7.2)
As at 31 December 2011	**89,8**
Increase in impairment allowance for bad and doubtful accounts	12.3
Foreign currency translation allowance	5.7
As at 31 December 2012	**107.8**

15. EXPENDABLE SPARE PARTS AND INVENTORIES

	2012	2011
Expendable spare parts	93.0	64.8
Fuel	20.4	8.2
Other inventories	29.6	47.4
Expendable spare parts and inventories, gross	**143.0**	**120.4**
Impairment allowance for obsolete inventories	(1.9)	(2.1)
	141.1	**118.3**

(All amounts in millions of US dollars)

16. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	CJSC Aerofirst
Property, plant and equipment	16.9
Inventory	30.7
Accounts receivable and prepayments	8.7
Cash and cash equivalents	3.7
Other non-current assets	0.1
Total Assets of Disposal Group Classified as Held for Sale	**60.1**
Accounts payable and accrued liabilities	(22.4)
Wages payable	(1.1)
Deferred tax liabilities	(2.0)
Total Liabilities associated with assets of Disposal Group Classified as Held for sale	**(25.5)**
Net assets of disposal group	**34.5**

In 2012 the Group's management decided to sell 66.66% of its subsidiary CJSC Aerofirst. Its assets and liabilities classified as held for sale. The cost of sales has been defined and exceeded the carring amount of net assets at the end of the period.

17. BUSINESS COMBINATION

Acquisition of subsidiaries

In 2011 the Group acquired controlling shares and voting interest of four businesses from State Corporation Rostekhnologii in exchange for 3.55% of Aeroflot shares. The seller is under the common control with the Group, nevertheless the Group decided to apply IFRS 3 *Business Combinations* for accounting of this transaction. The businesses related to shares acquired are as follows:

- OJSC AK Rossiya - 75% minus one share
- OJSC Orenburgskie avialinii - 100%
- OJSC Sahalinskiye aviatrassi - 100%
- OJSC Saratovskiye avialinii - 51%
- OJSC Vladivostok Avia - 52.156%

OJSC Saratovskiye avialinii was subsequently sold before the end of the reporting period.

In 2011 Group disposed of its investment in the following subsidiaries and associates:

- CJSC TZK Sheremetyevo
- OJSC Insurance company Moscow
- CJSC Nordavia
- OJSC Terminal
- CJSC DATE

(All amounts in millions of US dollars)

The aggregate gain on disposal related to above mentioned transactions recognized as finance income is USD 424.0 million.

18. EQUITY ACCOUNTED INVESTMENTS

	2012		2011	
	Voting rights	**Carrying value**	**Voting rights**	**Carrying value**
LLC Airport Moscow	-	-	50.0%	4.3
CJSC Jetalliance East	49.0%	-	49.0%	-
CJSC AeroMASH – AB	45.0%	3.1	45.0%	2.9
Other	Various	0.1	Various	0.1
		3.2		**7.3**

The summarised financial information in respect of the Group's affiliates accounted for by using the equity method based on their respective financial statements prepared for the years ended 31 December 2012 and 2011 is set out below:

	2012	**2011**
Total assets	14.9	29.5
Total liabilities	(14.6)	(13.4)
Net assets	**0.3**	**16.1**
Group's carrying amount of equity accounted investments	**2.9**	**7.3**

	2012	**2011**
Revenue	73.2	144.3
Profit for the year	3.7	10.0
Loss for the year	(0.7)	(3.9)
Group's share of results for the year in equity accounted investments	0.3	**0.9**

19. LONG-TERM INVESTMENTS

	2012	**2011**
Available-for-sale investments:		
Available-for-sale securities	199.6	188.3
Mutual investment funds	0.5	0.5
SITA Investment Certificates	0.5	0.5
	200.7	**189.3**
Other long-term investments:		
Loans issued and promissory notes from related parties	1.9	1.9
Loans issued and promissory notes from third parties	-	-
Other	-	-
	1.9	**1.9**
Reserve for LT investment	**(2.4)**	**-**
	200.2	**191.2**

Available-for-sale securities mainly represent by the historical value of Group investment in combined company OJSC.

(All amounts in millions of US dollars)

20. OTHER NON-CURRENT ASSETS

	2012	2011
Deferred customs duties related to aircraft operating leases	122.6	135.1
VAT recoverable on acquisition of aircrafts	106.3	49.0
Other	41.6	21.8
	270.5	**205.9**

21. PREPAYMENTS FOR AIRCRAFT

Prepayments for aircraft relate to cash advances made in relation to twenty-two Boeing B-787 (delivery: 2014 – 2016), twenty-two Airbus A-350 (delivery: 2018-2019), twenty Sukhoi Superjet-100 (SSJ) (delivery: 2014-2015) aircraft which are expected to be used under operating lease agreements, twelve Boeing B-777 (delivery: 2014-2016) aircraft which are expected to be used under finance lease agreements.

22. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Construction in progress	Total
Cost						
1 January 2011	**209.1**	**1,188.6**	**970.4**	**531.8**	**56.5**	**2,956.4**
Additions	25.6	292.8	2.5	15.3	54.7	390.9
Additions of subsidiaries	-	342.2	98.3	23.8	158.2	622.5
Capitalised overhaul costs	1.1	-	-	-	-	1.1
Disposals	(34.0)	-	(2.5)	(16.2)	(17.0)	(69.7)
Disposal of subsidiary	-	-	(708.2)	(240.7)	(25.1)	(974.0)
Transfers	-	-	3.8	28.3	(32.1)	-
Foreign currency translation	(10.5)	(122.8)	(2.8)	(7.7)	(15.6)	(159.4)
31 December 2011	**191.3**	**1,700.8**	**361.5**	**334.6**	**179.6**	**2,767.8**
Additions (i)	14.6	670.2	4.2	58.6	81.0	828.6
Capitalised overhaul costs	0.1	15.6	-	-	-	15.7
Disposals (ii)	(14.2)	(18.7)	(14.6)	(19.2)	(228.0)	(294.7)
Transfers	-	-	3.0	13.0	(16.0)	-
Transfers to assets held for sale (iii)	-	-	(14.8)	(4.9)	-	(19.7)
Foreign currency translation	11.5	118.0	21.2	20.7	7.1	178.5
31 December 2012	**203.3**	**2,485.9**	**360.5**	**402.8**	**23.7**	**3,476.2**

(All amounts in millions of US dollars)

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Construction in progress	Total
Accumulated depreciation						
1 January 2011	**(137.6)**	**(319.1)**	**(120.1)**	**(187.6)**	**(4.0)**	**(768.4)**
Charge for the year	(21.1)	(105.1)	(28.1)	(54.5)	-	(208.8)
Impairment	0.1	-	-	(0.4)	3.1	2.8
Disposals	32.3	-	1.9	10.0	-	44.2
Disposal of subsidiary	-	-	33.8	45.9	-	79.7
Foreign currency translation	6.4	30.2	(3.3)	19.2	0.4	52.9
31 December 2011	**(119.9)**	**(394.0)**	**(115.8)**	**(167.4)**	**(0.5)**	**(797.6)**
Charge for the year	(23.4)	(165.5)	(12.9)	(43.5)	-	(245.3)
Impairment	(0.1)	-	-	0.4	-	0.3
Disposals (ii)	11.6	18.7	6.7	14.1	-	51.1
Transfers to assets held for sale (iii)	-	-	1.5	1.7	-	3.2
Foreign currency translation	(7.5)	(27.0)	(6.9)	(10.6)	-	(52.0)
31 December 2012	**(139.3)**	**(567.8)**	**(127.4)**	**(205.3)**	**(0.5)**	**(1,040.3)**
Net book value						
31 December 2011	**71.4**	**1,306.8**	**245.7**	**167.2**	**179.1**	**1,970.2**
31 December 2012	**64.0**	**1,918.1**	**233.1**	**197.5**	**23.2**	**2,435.9**

(i) The 2012 additions mainly relate to addition of five Airbus A-330, three aircrafts Airbus A-321 with a carrying value of USD 670.2 million received under finance lease agreements.

(ii) The 2012 disposals mainly relate to disposal two Boeing 737-500 of OJSC Donavia and disposal of JSC Rossiya's construction in progress.

(iii) Transfer to assets held for sale relates to property, plant and equipment of USD 16.5 million of CJSC Aerofirst comprising USD 19.7 million of historical cost less USD 3.2 million of accumulated depreciation (Note 16).

(All amounts in millions of US dollars)

23. INTANGIBLE ASSETS

	Software	Licences	Development in progress	Trademarks and client base	Other	Total
Cost						
1 January 2011	**17.6**	**4.5**	**29.3**	**-**	**-**	**51.4**
Additions	20.3	-	2.2	-	-	22.5
Additions of subsidiaries	0.5	-	-	57.4	0.1	58.0
Disposal	(4.4)	(0.1)	-	-	-	(4.5)
Transfers	19.4	-	(19.4)	-	-	-
Foreign currency translation	(4.1)	(0.3)	-	(5.1)	(0.1)	(9.6)
31 December 2011	**49.3**	**4.1**	**12.1**	**52.3**	**-**	**117.8**
Additions (i)	13.1	-	13.1	-	-	26.2
Disposal	-	-	-	-	-	-
Transfers	4.9	-	(4.9)	-	-	-
Foreign currency translation	3.1	0.3	0.9	3.2	0.1	7.6
31 December 2012	**70.4**	**4.4**	**21.2**	**55.5**	**0.1**	**151.6**
Accumulated amortisation						
1 January 2011	**(9.6)**	**(1.2)**	**-**	**-**	**-**	(10.8)
Charge year	(10.4)	(0.7)	-	(1.2)	-	(12.3)
Disposal	4.2	0.1	-	-	-	4.3
Foreign currency translation	1.0	0.2	-	0.1	-	1.3
31 December 2011	**(14.8)**	**(1.6)**	**-**	**(1.1)**	**-**	**(17.5)**
Charge year	(14.0)	(0.6)	-	(9.2)	-	(23.8)
Disposal	-	-	-	-	-	-
Foreign currency translation	(1.2)	(0.2)	-	(0.3)	-	(1.6)
31 December 2012	**(30.0)**	**(2.3)**	**-**	**(10.6)**	**-**	**(42.9)**
Net book value						
31 December 2011	**34.5**	**2.5**	**12.1**	**51.2**	**-**	**100.3**
31 December 2012	**40.4**	**2.1**	**21.2**	**44.9**	**0.1**	**108.7**

(i) Additions mainly include expenditures incurred in relation to the purchase of SAP and SIRAX program licenses and implementation costs.

(All amounts in millions of US dollars)

24. IMPAIRMENT ANALYSIS FOR CASH GENERATING UNIT CARRYING GOODWILL

For the purposes of impairment testing, goodwill is allocated between the assets - the Group subsidiaries that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and which does not exceed an operating segment of the Group.
The aggregate carrying amount of goodwill, allocated to the Group subsidiaries, and the corresponding values of the recognized impairment losses are presented in the table below:

	Goodwill 2012	Impairment 2012	Goodwill 2011	Impairment 2011
OJSC Vladivostok Avia	44.7	43.6	42.1	-
OJSC AK Rossiya	176.4	-	166.4	-
OJSC Orenburgskie avialinii	37.7	-	35.6	-
OJSC AK Sahalinskiye aviatrassi	5.2	-	4.9	-
CJSC Aerofirst	6.5	-	6.1	-

The recoverable amount of the impairment was calculated on the basis of value in use. The analysis showed that the carrying amount of "Vladivostok Avia" goodwill in the amount of USD 44.7 million exceeds its recoverable amount, so was recognized an impairment loss of USD 43.6 million. This impairment loss was recognized in other expenses.
Value in use was determined by discounting the future cash flows to be derived from continuing use of these assets.
Key assumptions against which the recoverable amount is estimated concerned the discount rate, the growth rate for the calculation of the terminal value and cash flow. We used the following assumptions:

OJSC "Vladivostok Avia"
The discount rate is assumed at 10.2%. This rate is calculated based on the risk-free rate on 10-year U.S. government bonds, adjusted on country risk (for Russia) and currency risk (in rubles), the risk of investing in equities, the risk for small capitalization. The average values D / E and Beta coefficient as of December 31, 2012 are also taken into account in the calculation. The cost of debt is calculated based on the share of financial leasing in overall Company's debt amount, the effective rate on long-term loans in rubles and the effective rate of finance lease, adjusted for currency risk. Pre-tax WACC equals 12.75%.
The growth rate for the terminal value calculation is set at the level of Russia's GDP long-term growth rate of 4.4%.
As a basis for cash flows forecast Company adopted the approved budget for 2013. Cash flows were projected for the upcoming years in accordance with macro-economic assumptions adopted for the three-year plan of Aeroflot Group.

OJSC "Rossiya"
The discount rate is assumed at 9.9%. This rate is calculated based on the risk-free rate on 10-year U.S. government bonds, adjusted for country risk (for Russia) and currency risk (in rubles), the risk of investing in equities, the risk for small capitalization. The average values D / E and Beta coefficient as of December 31, 2012 are also taken into account in the calculation. The cost of debt is calculated based on the share of financial leasing in overall Company's debt amount, the effective rate on long-term loans in rubles and the effective rate of finance lease, adjusted for currency risk. Pre-tax WACC equals 12.38%.
The growth rate for the terminal value calculation is set at the level of Russia's GDP long-term growth rate of 4.4%.

As a basis for cash flows forecast Company adopted the approved budget for 2013, as well as a three-year plan of the company for years 2013- 2015.

JSC "Orenburg Airlines"
The discount rate is assumed at 11%. This rate is calculated based on the risk-free rate on 10-year U.S. government bonds, adjusted for country risk (for Russia) and currency risk (in rubles), the risk of investing in equities, the risk for small capitalization. The average values D / E and Beta coefficient as of December 31, 2012 are also taken into account in the calculation. The cost of debt is calculated based on the share of financial leasing in overall Company's debt amount, the effective rate on long-term loans in rubles and the effective rate of finance lease, adjusted for currency risk. Pre-tax WACC equals 13.75%.
The growth rate for the terminal value calculation is set at the level of Russia's GDP long-term growth rate of 4.4%.
As a basis for cash flows forecast Company adopted the approved budget for 2013, adjusted for the analysis of the actual implementation of the budget for the 3 months of 2013.

25. DERIVATIVE INSTRUMENTS

The Group has entered into cross-currency interest rate swap agreements with two major banks operating in Russia to hedge some of its euro denominated revenues from potential future RUB/EUR exchange rate fluctuations. The financial instrument has been assessed as being effective hedge for IAS 39 purposes. The change in the fair value of the hedge amounted to a profit of USD 27.9 million and has been reported in other comprehensive income for the year ended 31 December 2012. The change in fair value due to fluctuation of exchange rate amounted to USD 1.3 million. A corresponding deferred tax of USD 3.0 million has been recognized in these financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2).

In December 2011 the Group entered into an agreement with a Russian bank to hedge a portion of its fuel costs (less than 15%) from potential future price increases. In accordance with the terms of the agreement the Group will be compensated by the bank for the excess between the actual price and the ceiling price specified in the agreement, whilst the Group has agreed to compensate the bank the shortfall between the actual prices and the floor price specified in the agreement. The financial instrument has been assessed as being effective hedge for IAS 39 purposes. The contract is accounted as hedge accounting only when it breaches the maximum or minimum strike prices. Otherwise, the value of the derivative is accounted through profit and loss. As at 31 December 2012 the fair value of the derivate instrument amounted to a loss of USD 1.5 million and has been reported in this statement of income. The fair value has been determined using a valuation model with market observable parameters (level 3). Management estimates that the related cash flows will occur through the period up to April 2013 at which time net gain (loss) will affect profit or loss.

In June 2011 the Group entered into an agreement with a Russian bank to hedge a risk related to increase of Libor which is mainly used for finance lease agreements. In accordance with the terms of the agreement the Group fixes interest payment related to 21 ongoing financial lease contracts. The financial instrument has been assessed as being effective hedge for IAS 39 purposes. The fair value of the hedge amounted to a loss of USD 1.5 million and has been reported in other comprehensive income. A corresponding deferred tax of USD 0.3 million has been recognized in these financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2). Management estimates that the related cash flows will occur through the period up to June 2014 at which time net gain (loss) will affect profit or loss.

In September and October 2012, the Group entered into agreements with three Russian banks to hedge a portion of its fuel costs. The fair value of hedging instruments at 31 December 2012 amounted to USD 41.3 million loss and is reflected in the profit and loss account.

In November and December 2012, the Group entered into agreements with three Russian banks to hedge the risk of negative changes in the exchange rates. Change in fair value of the hedging instrument reflected in the profit and loss account amounted USD 8.3 million income.

(All amounts in millions of US dollars)

26. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Trade accounts payable	464.8	454.5
Staff related liabilities	182.6	156.4
VAT payable on leased aircraft	104.0	67.6
Customs duties payable on leased aircraft	10.3	12.2
Advances received (other than unearned transportation revenue)	52.1	236.6
Income tax payable	18.1	17.9
Other taxes payable	23.0	44.4
Merchandise credits	1.1	1.9
Dividends payable	0.7	2.0
Other payables	100.7	40.0
Other liabilities related to frequent flyer programme (Note 28)	31.7	19.2
	989.1	**1,052.7**

As at 31 December 2012 accounts payable and accrued liabilities include the short-term portion of VAT of USD 104.0 million (31 December 2011: USD 67.6 million) and customs duties of USD 10.3 million (31 December 2011: USD 12.2 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs. The long-term portion of VAT payable and customs duties of USD 105.3 million (31 December 2010: USD 47.9 million) and USD 8.4 million (31 December 2011: USD 5.5 million), respectively, relating to the leased aircrafts are disclosed in Note 33.

Staff related payables primarily include salaries and social contribution liabilities of USD 86.1 million (31 December 2011: 75.3 million) and the unused vacation accrual of USD 55.4 million (31 December 2011: USD 81.1 million).

27. UNEARNED TRANSPORTATION REVENUE

As at 31 December 2012 unearned transportation revenue of USD 502.9 million (31 December 2011: USD 371.4 million) comprised passenger transportation revenue of USD 502.9 million (31 December 2011: USD 369.3 million) and cargo transportation revenue of nil (31 December 2011: USD 2.1 million).

28. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue related to Aeroflot Bonus as at 31 December 2012 has been assessed in accordance with IFRIC 13 Customer Loyalty Programmes. The amount represents the number of points earned but unused by the Aeroflot Bonus programme members estimated at fair value (Note 2).

	2012	2011
Deferred revenue related to frequent flyer programme, current	11.8	8.1
Deferred revenue related to frequent flyer programme, non-current	45.2	32.5
Other current liabilities related to frequent flyer programme (Note 26)	31.7	19.2
Other non-current liabilities related to frequent flyer programme (Note 33)	93.0	55.3
	181.7	**115.1**

(All amounts in millions of US dollars)

29. PROVISIONS

	2012	2011
As at 1 January 2012	8.6	15.2
Additions of subsidiaries	-	1.8
Additional provision	4.3	2.7
Release of provision	(6.0)	(10.9)
Foreign exchange gain/loss, net	0.5	(0.2)
As at 31 December 2012	**7.4**	**8.6**

	2012	2011
Analysed as:		
Current liabilities	4.4	2.5
Non-current liabilities	3.0	6.1
	7.4	**8.6**

30. FINANCE LEASE LIABILITIES

The Group leases aircraft under finance lease agreements. Leased aircraft are listed in Note 1 above:

	2012	2011
Total outstanding payments	2,233.0	1,796.3
Finance charges	(351.2)	(296.8)
Principal outstanding	**1,881.8**	**1,499.5**
Representing:		
Current lease liabilities	246.3	202.8
Non-current lease liabilities	1,635.4	1,296.7
	1,881.8	**1,499.5**

	2012			2011		
Due for repayment:	**Principal**	**Finance changes**	**Total payments**	**Principal**	**Finance changes**	**Total payments**
On demand or within one year	246.3	65.4	311.7	202.8	49.6	252.4
In two to five years	771.8	191.7	963.5	595.2	150.6	745.8
After five years	863.6	94.2	957.8	701.5	96.6	798.1
	1,881.8	**351.2**	**2,233.0**	**1,499.5**	**296.8**	**1,796.3**

Interest unpaid as at 31 December 2012 amounted to approximately USD 3.6 million (31 December 2011: USD 2.9 million) and is included in accounts payable and accrued liabilities. The effective interest rate as at 31 December 2011 was approximately 3.7% per annum (31 December 2010: 3.6% per annum).

(All amounts in millions of US dollars)

31. SHORT-TERM BORROWINGS

	2012	2011
Loans denominated in US dollars:		
Citibank International PLC, short term portion (Note 32)	24.3	-
Gazprombank	-	25.0
Bank BFA	-	15.1
Sberbank of the Russian Federation	-	0.8
	24.3	**40.9**
Bonds denominated in Russian roubles, short term portion (i)	402.1	6.5

	2012	2011
Loans denominated in Russian roubles:		
Sberbank of the Russian Federation., short term portion (Note 32)	23.5	3.3
Bank FORSHTADT (ii)	9.9	-
Iturup Bank (iii)	3.9	2.5
Sberbank of the Russian Federation	-	116.4
Bank BFA	-	81.5
Far Eastern Bank	-	4.7
Gazprombank	-	82.3
Bank Petrocommerce	-	34.2
Trascreditbank	-	4.1
Other short term bank loans	1.0	0.3
	38.3	**329.3**
Loans denominated in other currency:		
Eurasia Investment Promotion Co., short term portion (Note 32)	0.8	0.9
Sberbank of the Russian Federation, short term portion (iv)	0.5	0.6
	1.3	**1.5**
	466.0	**378.2**

(i) The balance as at 31 December 2012 relates to bonds of USD 402.1 million borrowed at an interest rate of 7.75% per annum. Yield to maturity as at the end of reporting period is 7.62 %. The bonds are unsecured;

(ii) The balance as at 31 December 2012 represents loan of USD 9.9 million issued at an interest rate 13.0% per annum. The loan is unsecured;

(iii) The balance as at 31 December 2012 represents loans of USD 3.9 million issued at an interest rate 9.9% per annum. The loans are secured by property and fuel with a value of USD 3.6 million;

(iv) The balance as at 31 December 2012 represents loan of USD 0.5 million issued at an interest rate 9.6% per annum. The loan is secured secured by property and land with a carring value of USD 5.4 million and the lease of the land is pledged as collateral.

(All amounts in millions of US dollars)

32. LONG-TERM BORROWINGS

	2012	2011
Loans denominated in US dollars:		
Citibank International PLC, long-term portion (i)	44.5	-
Accor	2.9	2.9
Other long-term loans	3.4	3.4
	50.8	**6.3**
Bonds denominated in Russian roubles, long-term portion (Note 31)	-	372.7
Loans denominated in Russian roubles:		
Bank BFA (ii)	98.8	-
AB Russia (iii)	49.4	-
Sberbank of the Russian Federation, long-term portion (iv)	40.2	7.1
	188.4	**7.1**
Loans denominated in other currency:		
Eurasia Investment Promotion Co., long-term portion (v)	0.8	1.7
Sberbank of the Russian Federation, long-term portion (Note 31)	-	0.5
	0.8	**-**
	240.0	**388.3**

(i) The balance as at 31 December 2012 represents loan of USD 44.5 million issued at an interest rate LIBOR plus 3.5% per annum. Commercial loan facility for the purposes of partially funding its leasing agreement;

(ii) The balance as at 31 December 2012 represents loans of USD 98.8 million issued at an interest rate from 11.9% to 12.4% per annum. The loan is secured by property and land with a carring value of USD 19.4 million and the lease of the land is pledged as collateral;

(iii) The balance as at 31 December 2012 represents loan of USD 49.4 million issued at an interest rate 10.6% per annum. The loan is unsecured;

(iv) The balance as at 31 December 2012 represents loans of USD 40.2 million issued at an interest rate from 10.0% to 13.75% per annum. The loans are secured by a property, plant and land with a carring value of USD 21.8 million;

(v) The balance as at 31 December 2012 represents loan of USD 0.8 million issued at an interest rate 7.4% per annum. The loan is secured by a property with a carring value of USD 0.1 million.

The long-term borrowings are repayable as follows:

	2012	2011
On demand or within one year (Note 31)	451.2	11.3
In two to five years	233.7	382.0
After five years	6.3	6.3
	691.2	**399.6**
Less: amounts due for settlement within 12 months (Note 31)	(451.2)	(11.3)
Amounts due for settlement after 12 months	**240.0**	**388.3**

(All amounts in millions of US dollars)

33. OTHER NON-CURRENT LIABILITIES

	2012	2011
VAT payable on leased aircraft	105.3	47.9
Custom duties payable on leased aircraft	8.4	5.5
Other liabilities related to frequent flyer programme (Note 28)	93.0	55.3
Defined benefit pension obligation, non-current portion	14.9	11.7
Defined benefit pension obligation, non-current portion	9.4	-
	231.0	**120.4**

As at 31 December 2012 other non-current liabilities include the long-term portion of VAT of USD 105.3 million (31 December 2011: USD 47.9 million) and customs duties of USD 8.4 million (31 December 2011: USD 5.5 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets are cleared through customs.

Customs duties payable on leased aircraft have been discounted using a discount rate between 9.8% and 12.0%.

The short-term portion of the VAT payable and the customs duties of USD 103.9 million (31 December 2011: USD 67.6 million) and USD 10.3 million (31 December 2011: USD 12.2 million), respectively, relating to the imported leased aircraft are disclosed in Note 26.

34. SHARE CAPITAL

	Number of shares authorised and issued	Number of treasury shares	Number of shares outstanding
Ordinary shares of one Russian rouble each:			
As at 31 December 2011	1,110,616,299	(70,395,087)	1,040,221,212
As at 31 December 2012	1,110,616,299	(62,814,444)	1,047,801,855

Ordinary shareholders are entitled to one vote per share.

During 2012 the number of treasury shares held by the Group decreased by 7,580,643.

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX") and on 31 December 2012 were traded at USD 1.49 per share. On 17 April 2013 were traded at USD 1.59 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR's) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group, allowing the Company's shareholders to swap their shares for GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR. In accordance with the depositary agreement the total volume of the GDR's of the Company cannot exceed 20% of the Company's share capital. In 2001 the Company's GDR's were listed on the New Europe Exchange ("NEWEX") in Vienna and after closing of this stock exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. On 31 December 2012 and 17 April 2013 the GDR's were trade at USD 146.94 and USD 152.97 each, respectively.

35. DIVIDENDS

At the annual shareholders' meeting held on 25 June 2012 the shareholders approved dividends in respect of 2011, which would be paid to the shareholders in the amount of 1.8081 Russian roubles per share (6.2 US cents at the average exchange rate of the year 2011) totalling to 2,000.0 million Russian roubles (USD 68.1 million at the average exchange rate of the year 2011).

(All amounts in millions of US dollars)

36. OPERATING SEGMENTS

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's General Director reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Airline – domestic and international passenger and cargo air transport and other airline services;
- Catering – includes preparation of food and beverages for air travel;
- Hotels – includes operating a hotel;

There are also other operating segments. However, none of these segments meet any of the quantitative thresholds for determining reportable segments in 2012 and 2011. For the segment Airport terminal which included deconsolidated in 2011 Sheremetyevo-3 terminal comparative information is presented.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment sales revenue and operating profit, as included in the internal management reports that are reviewed by the Group's General Director. Segment sales revenue and operating profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	Airline	Catering	Hotels	Terminal	Other	Elimi-nations	Total Group
2012							
External sales	7,914.4	26.4	22.5	-	174.8	-	8,138.1
Inter-segment sales	0.1	208.0	13.5	-	6.1	(227.7)	-
Total revenue	**7,914.5**	**234.4**	**36.0**	**-**	**180.9**	**(227.7)**	**8,138.1**
Operating profit/(loss)	316.3	25.6	7.4	-	15.4	(7.0)	357.7
Finance income							166.3
Finance costs							(166.7)
Share of income in associates	0.3	-	-	-	-	-	0.3
Profit before income tax							**357.6**
Income tax							(191.4)
Profit for the year							**166.2**

As at 31 December 2012	Airline	Catering	Hotels	Terminal	Other	Elimi-nations	Total Group
Segment assets	6,222.5	75.4	34.9	-	132.6	(387.0)	6,078.4
Associates	3.2	-	-	-	-	-	3.2
Unallocated assets							164.5
Consolidated total assets							**6,246.1**

(All amounts in millions of US dollars)

As at 31 December 2012	**Airline**	**Catering**	**Hotels**	**Terminal**	**Other**	**Elimi-nations**	**Total Group**
Segment liabilities	4,520.7	37.3	31.1	-	107.6	(168.6)	4,528.1
Unallocated liabilities							91.8
Consolidated total liabilities							**4,619.9**
Capital expenditure (Note 21)	828.0	9.1	6.4	-	0.9	-	844.5
Depreciation and amortisation	263.8	2.1	1.4	-	1.8	-	269.1

2011	**Airline**	**Catering**	**Hotels**	**Terminal**	**Other**	**Elimi-nations**	**Total Group**
External sales	5,118.4	24.7	21.8	69.2	143.8	-	5,377.9
Inter-segment sales	6.0	150.0	12.6	119.6	0.6	(288.8)	-
Total revenue	**5,124.4**	**174.7**	**34.4**	**188.8**	**144.4**	**(288.8)**	**5,377.9**
Operating profit/(loss)	309.2	18.6	8.0	64.8	(5.7)	(6.6)	388.3
Finance income							440.3
Finance costs							(244.2)
Share of income in associates	0.9	-	-	-	-	-	0.9
Profit before income tax							**585.3**
Income tax							(94.0)
Profit for the year							**491.3**

As at 31 December 2011	**Airline**	**Catering**	**Hotels**	**Terminal**	**Other**	**Elimi-nations**	**Total Group**
Segment assets	5,346.5	47.4	28.5	-	328.1	(626.3)	5,124.2
Associates	5.8	-	-	-	-	-	5.8
Unallocated assets							205.9
Consolidated total assets							**5,335.9**
Segment liabilities	1,336.3	25.3	6.3	-	18.4	(130.2)	1,256.1
Unallocated liabilities							2,675.6
Consolidated total liabilities							**3,931.7**
Capital expenditure (Note 21)	376.1	2.5	3.6	8.8	1.0	-	392.0
Additions of subsidiaries (Note 21)	622.5	-	-	-	-	-	622.5
Depreciation and amortisation	174.8	1.8	1.4	41.4	1.7		221.1
Non-recoverable VAT (Note 9)	4.4	-	-	-	-	-	4.4

(All amounts in millions of US dollars)

	2012	2011
Scheduled passenger revenue:		
International flights from Russian Federation to:		
Europe	1,032.8	743.4
Asia	582.1	404.3
North America	111.3	78.4
Other	75.3	56.5
	1,801.5	**1,282.6**
International flights to Russian Federation from:		
Europe	1,033.7	748.0
Asia	652.4	421.6
North America	108.6	79.4
Other	73.5	56.3
	1,868.2	**1,305.3**
Domestic flights	2,562.0	1,518.5
Other international flights	15.3	3.5
	6,247.0	**4,109.9**
Cargo revenue:		
International flights from Russian Federation to:		
Europe	8.8	8.0
Asia	21.6	17.1
North America	1.3	1.9
Other	0.7	0.6
	32.4	**27.6**
International flights to Russian Federation from:		
Europe	29.7	25.0
Asia	90.0	71.8
North America	5.8	4.1
Other	0.4	0.3
	125.9	**101.2**
Other international flights	70.3	63.0
Domestic flights	135.1	85.9
	363.7	**277.7**

(All amounts in millions of US dollars)

37. RISK CONNECTED WITH FINANCIAL INSTRUMENTS

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's entities utilise a detailed budgeting and cash forecasting process to ensure their liquidity is maintained at appropriate level.

The Group has entered into various agreements with a number of banks in Russia whereby the banks have issued facilities to guarantee the repayment of the Group's commitments related to the existing aircraft lease agreements.

The following are the contractual maturities of financial liabilities, excluding future interest:

	Average interest rate						
31 December 2012	**Contrac-tual**	**Effective**	**0-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities:							
Loans in foreign currency	3,7%	3,7%	25.6	24.9	20.4	6.3	77.2
Loans in Russian roubles	11,2%	11,2%	38.3	126.7	61.7	-	226.7
Bonds	7,8%	7,6%	402.1	-	-	-	402.1
Finance lease liabilities	3,7%	3,7%	246.3	204.4	563.1	867.9	1,881.7
Customs duties	0,0%	10,8%	10.3	6.2	2.2	-	18.7
Trade and other payables (excluding customs duties)	0,0%	0,0%	750.1	1,7	5.0	8.2	765.0
			1,472.7	**364.0**	**652.4**	**882.4**	**3,371.4**
31 December 2011							
Non-derivative financial liabilities:							
Loans in foreign currency			42.4	0.5	1.7	6.3	50.9
Loans in Russian roubles	4,5%	4,5%	329.3	1.8	5.3	-	336.4
Bonds	10,5%	10,5%	6.5	372.7	-	-	379.2
Finance lease liabilities	7,8%	8,0%	202.8	182.9	412.3	701.5	1,499.5
Customs duties	3,6%	3,6%	12.2	4.9	0.6	-	17.7
Trade and other payables (excluding customs duties)	0,0%	9,8%	799.8	1.2	3.7	6.6	811.3
			1,393.0	**564.0**	**423.6**	**714.4**	**3,095.0**

Customs duties represent discounted liabilities on custom duties regarding finance and operation leases of aircrafts. The effective annualised interest rate is impacted by the date of adding a new aircraft to the fleet of the Group.

As at 31 December 2012 the Group had USD 959,6 million (31 December 2011: USD 632.4 million) available in relation to lines of credit granted to the Group by various lending institutions.

Currency risk – The Group is exposed to currency risk in relation to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, which are primarily the Russian rouble. The currencies in which these transactions are primarily denominated are Euro and USD.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2012				2011			
In millions of USD	**USD**	**EUR**	**Other**	**Total**	**USD**	**EUR**	**Other**	**Total**
Cash and cash equivalents	162.6	26.7	36,8	226.1	47.5	10.7	22.6	80.8
Accounts receivable, net	305.5	96.6	75.6	477.7	235.1	81.6	109.5	426.2
Other non-current assets	41.7	2.6	0.7	45.0	456.4	5.6	2.1	464.1
	509.8	**125.9**	**113.1**	**748.8**	**739.0**	**97.9**	**134.2**	**971.1**
Accounts payable and accrued liabilities	154.7	90.9	19.4	265.0	203.6	82.1	38.4	324.1
Finance lease liabilities (current portion)	237.9	-	-	237.9	193.4	-	-	193.4
Finance lease liabilities (non-current portion)	1,537.9	-	-	1,537.9	1,198.2	-	-	1,198.2
Short-term borrowings	24.3	0.5	0.8	25.6	40.9	0,6	0.9	42.4
Long-term borrowings	50.8	-	0.8	51.6	6.3	0.5	1.7	8.5
Other non-current liabilities	-	-	-	-	-	-	-	-
	2,005.6	**91.4**	**21.0**	**2,118.0**	**1,642.4**	**83.2**	**41.0**	**1,766.6**
Net assets/(liabilities)	**(1,495.8)**	**34.5**	**92.1**	**(1,369.2)**	**(903.4)**	**14.7**	**93.2**	**(795.5)**

In addition, payment of approximately USD 411.3 million denominated in euro is expected to take place in April 2013 in relation to the hedge instrument described in Note 25.

In November and December 2012 the Group entered into agreements with tree Russian banks to hedge a risk related to negative exchange rate fluctuations.

A 20% strengthening or weakening of the Russian rouble against the following currencies as at 31 December 2012 and 31 December 2011, respectively, would have increased/(decreased) profit before income tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The effect on the Group's equity would be the same as that on the Group's profit, excluding taxation.

	2012		2011	
In millions of USD	**Percent against RUR**	**Effect on profit before income tax**	**Percent against RUR**	**Effect on profit before income tax**
Increase in the rate of exchange to rouble				
USD	20%	(299.1)	20%	(180.7)
Euro	20%	6.8	20%	2.9
Other currencies	20%	18.4	20%	18.6
		0.0		
Decrease in rate of exchange to rouble		0.0		
USD	20%	299.1	20%	180.7
Euro	20%	(6.8)	20%	(2.9)
Other currencies	20%	(18.4)	20%	(18.6)

Interest rate risk **–** Changes in interest rates impact primarily loans and borrowings by changing either their value (fixed rate debt) or their future cash flows (variable rate debt). At the time of raising new loans or borrowings management uses judgment to decide whether it believes that a fixed or variable interest rate would be more favourable to the Group over the expected period until maturity.

As at 31 December 2012 and 31 December 2011 the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	2012	**2011**
Fixed rate instruments		
Financial assets	13.0	221.8
Financial liabilities	(1,312.4)	(1,152.4)
	(1,299.4)	**(930.6)**
Variable rate instruments		
Financial assets	-	0.5
Financial liabilities	(1,275.4)	(1,113.8)
	(1,275.4)	**(1,113.3)**

During the year some of the Group's loans bore variable interest rates (Note 31 and Note 32). If the variable interest rates on borrowings in 2012 were 30% greater or lower that the actual interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2011: no significant change).

The interest component of the Group's finance leases primarily accrues at variable interest rates. Notable part of finance lease liabilities (USD 523 million) is a subject to an interest rate swap agreement (Note 25). If in 2011 those rates were 30% greater or lower than what they actually were, with all other variables held constant, interest expense on finance leases for the year would not have been materially different(2011: no significant change).

Fuel risk – The results of the Group's operations can be significantly impacted by changes in the price of aircraft fuel. In December 2010 and in September and October 2012 the Group entered into agreements with a Russian banks to hedge a portion of its fuel costs from potential future price increases. In accordance with the terms of the agreement the Group will be compensated by the bank for the excess between the actual price and the ceiling price specified in the agreement, whilst the Group has agreed to compensate the bank the shortfall between the actual prices and the floor price specified in the agreement.

Capital management – The Group manages its capital to ensure its ability to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

(All amounts in millions of US dollars)

The Group monitors it's capital in comparison with other companies in the airline industry on the basis of the following ratios:

- net debt to total capital,
- total debt to EBITDA,
- net debt to EBITDA.

Total debt mainly consists of borrowings, finance lease liabilities, custom duties payable on leased aircraft, defined benefit pension obligation. Net debt is defined as total debt less cash, cash equivalents and short term investments. Total capital consists of total equity and net debt. EBITDA is calculated as operating profit before depreciation, amortization and custom duties expenses.
The ratios are as follows:

	2011	2011
Total debt	2,621.4	2,295.5
Less cash and cash equivalents and short term investments	500.9	414.1
Net debt	2,120.4	1,881.4
Equity	1,775.2	1,488.4
Total capital	3,895.6	3,369.8
Net debt / Total capital	0.5	0.6
Total debt / EBITDA	3.9	3.6
Net debt / EBITDA	3.2	2.9

There were no changes in the Group's approach to capital management during the year.
Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group conducts transactions with the following major types of counterparties:

i. The Group has credit risk associated with travel agents and industry settlement organisations. A significant share of the Group's sales takes place via travel agencies. Due to the fact that receivables from agents are diversified the overall credit risk related to agencies is assessed by management as low.

ii. Receivables from other airlines are carried out through the IATA clearing house. Regular settlements ensure that the exposure to credit risk is mitigated to the greatest extent possible.

iii. Aircraft suppliers require that security deposits are paid by the Group in relation to the future aircraft deliveries. The Group mitigates this credit risk by performing extensive background checks on suppliers. Only well known and reputable companies are contracted with.

iv. The Group limits its exposure to credit risk associated with investments by only investing in liquid securities. Management actively monitors the performance and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to the credit risk net of impairment allowance is set out in the table below:

	2012	2011
Cash and cash equivalents	496.2	393.1
Trade accounts receivable	530.7	475.1
Prepayments for aircraft	445.6	432.9
Short-term investments	4.8	21.0

(All amounts in millions of US dollars)

	2012	2011
Long-term investments	200.2	191.2
	1 677.5	**1,268.7**

Aging of past due but not impaired trade receivables:

	2012	2011
Current	521.0	469.0
0 – 90 days	9.5	5.7
90 – 2 years	0.2	0.4
Over 2 years	-	-
	530.7	**475.1**

38. RELATED PARTY TRANSACTIONS

The ultimate controlling party of the Company is the Government of the Russian Federation. According to IAS 24 «Related party disclosures» a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balance, including commitments, with the government that has control over the reporting entity, or with another entity, controlled by the government since 1 January 2011.

The Condensed Consolidated Interim financial statements of the Group include the following balances and transaction with related parties:

	2012	2011
Assets		
Cash and cash equivalents	0.2	0.1
Trade and accounts receivable	0.4	6.2
	0.6	**6.3**
Liabilities		
Trade and other accounts payable	2.4	3.1
	2.4	**3.1**

	2012	2011
Sales to associates	1.0	13.1
Purchases from associates	37.2	42.0

Purchases consist primarily of aviation security services. During the 12 months period of 2012 and 2011 most of the transactions between the Group and its related parties were based on market prices.

The amounts outstanding to and from related parties mainly will be settled in cash.

In 2012 total amounts of guarantees given and received relating to associates are nil.

Government-related entities

The Group operates in an economic regime where the entities directly or indirectly controlled by Government of Russian Federation through its government authorities, agencies, affiliations and other organizations, collectively referred to as government-related entities. The Group has transactions with other government-related entities including but not limited to sales, purchase of air navigation and airport services.

(All amounts in millions of US dollars)

Information on main loans and loans from state-controlled banks is disclosed in Notes 31 and 32.

For the year ended 31 December 2012, management estimates that the aggregate amount of Group's significant transactions with other government-related entities are on the same level as at previous year.

Compensation of key management personnel

The remuneration of directors and other members of key management (the members of the Board of Directors and Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) consist of short-term benefits including salary and bonuses as well as short-term compensation for serving on the management bodies of Group companies of 2012 amounted to approximately USD 23.1 million (31 December 2011: USD 19.8 million).

Such amounts are stated before personal income tax but exclude unified social tax. According to Russian legislation, the Group makes contributions to the Russian State pension fund as part of unified social tax for all its employees, including key management personnel.

During 2010, the Group initiated a share option programme for its key executives and employees. The program will run for three years and will be exercised in three tranches granted over the three-year period from 1 January 2011 through to 31 December 2013. The vesting requirement of the share option programme is the continuous employment of participants during the vesting period. The fair value of services received in return for the share option granted is measured by reference to the fair value of the share option granted. The estimate of the fair value of the services received is determined using the Black-Scholes model. The following variables have been used in the model: the market share price at the grant date of USD 1.9, the expected volatility of 40% and a risk free interest rate of 5%. During 2012 expenses related to the programme amounted to USD 0.2 million. These have been recognised as wages and salaries in the consolidated statement of income (Note 8). The outstanding amount at the end of the reporting period is USD 6.8 million (31 December 2011: USD 10.7 million).

39. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating leases are as follows:

	2012	2011
On demand or within one year	538.3	538.7
In two to five years	1,832.7	1,819.8
After five years	1,294.2	1,319.6
Total minimum payments	**3,665.2**	**3,678.1**

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the figures.

For details of the fleet subject to operating leases refer to Note 1.

During 2012, two aircrafts Airbus A-330 of OJSC Vladivostok Avia were disposed.

40. CAPITAL COMMITMENTS

The Group's capital commitments in relation to the acquisition of property, plant and equipment and other services as at 31 December 2012 amounted to approximately USD 1,921.2 million (31 December 2011: USD 2,566.4 million). These commitments mainly relate to five Airbus A-321-200, sixteen Boeing B-777 which are expected to be used under finance lease agreements.

41. CONTINGENCIES

Political environment – The Government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities.

Business environment – The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Taxation – The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

42. SUBSEQUENT EVENTS

In the period from January to April 2013 the Group received three Boeing 777 and two Airbus A-320 under the terms of operating lease agreement.

In January 2013 the Group completed the sale of CJSC "Aeroferst" subsidiary.

In April 2013, the Group repaid the bond loan issued in 2010.

In April 2013 Company placed 5 million market bonds at MICEX Stock-exchange. Nominal value amounted 1,000 each.
These securities of series BO-03 with maturity of 1,092 days from the date of placement are interest-bearing non-convertible exchange-traded bearer bonds with mandatory centralized custody. Income from these securities is payable within 6 coupon periods at a rate of 8.3% per annum.