JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

IFRS Consolidated Financial Statements
for the year ended 31 December 2013

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and approval of the consolidated financial statements for the year ended 31 December 2013

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The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out below, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of 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 2013, 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 judgements 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 of the Group for the year ended 31 December 2013 (set out on pages 1-81) were approved on 12 March 2014 and signed on behalf of management by:

V.G. Saveliev	**Sh.R. Kurmashov**
General Director	Deputy General Director for Finance and Network and Revenue Management

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company Aeroflot – Russian Airlines

We have audited the accompanying consolidated financial statements of Joint Stock Company Aeroflot – Russian Airlines and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

12 March 2014
Moscow, Russian Federation

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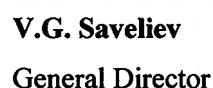
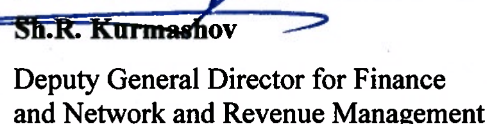
	Note	2013	2012
Traffic revenue	5	8,086.7	7,118.2
Other revenue	6	1,049.0	1,019.9
Revenue		**9,135.7**	**8,138.1**
Operating costs, less staff costs and depreciation and amortisation	7	(6,671.7)	(6,191.4)
Staff costs	8	(1,423.9)	(1,241.8)
Depreciation and amortisation	21, 22	(334.7)	(269.1)
Other operating costs and income, net	9	(83.9)	(78.1)
Operating costs		**(8,514.2)**	**(7,780.4)**
Operating profit		621.5	357.7
Finance income	10	84.3	166.4
Finance costs	10	(276.7)	(166.7)
Share of financial results of equity accounted investments	17	1.2	0.3
Profit before income tax		**430.3**	**357.7**
Income tax	11	(200.0)	(191.4)
PROFIT FOR THE YEAR		**230.3**	**166.3**
Profit/(loss) attributable to:			
Shareholders of the Company		251.7	222.1
Non-controlling interest		(21.4)	(55.8)
PROFIT FOR THE YEAR		**230.3**	**166.3**
Basic earnings per share (US cents)		**23.9**	**21.3**
Diluted earnings per share (US cents)		**23.9**	**21.1**
Weighted average number of shares outstanding (millions)		**1,054.1**	**1,044.2**
Weighted average number of diluted shares outstanding (millions)		**1,054.1**	**1,054.9**

Approved on 12 March 2014 and signed on behalf of management.





V.G. Saveliev
General Director

Sh.R. Kurmashov
Deputy General Director for Finance and Network and Revenue Management

The consolidated statement of profit or loss should be read in conjunction with the notes set out on pages 7 to 81 which are forming part of the consolidated financial statements

	Note	2013	2012
Profit for the year		**230.3**	**166.3**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets transferred to profit for the year		5.2	(0.1)
Translation from the functional currency to the presentation currency		(124.7)	100.3
(Loss)/gain on the change in fair value of derivative financial instruments	24	(33.7)	26.1
Deferred tax related to the (loss)/gain on the change in fair value of derivative financial instruments	11	0.1	(2.3)
Other comprehensive (loss)/income for the year		(153.1)	124.0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**77.2**	**290.3**
Total comprehensive income /(loss) attributable to:			
Shareholders of the Company		86.4	352.3
Non-controlling interest		(9.2)	(62.0)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**77.2**	**290.3**

The consolidated statement of comprehensive income should be read in conjunction with the notes set out on pages 7 to 81 which are forming part of the consolidated financial statements

	Note	31 December 2013	31 December 2012
ASSETS			
Current assets			
Cash and cash equivalents	12	570.1	496.2
Short-term financial investments		8.3	4.8
Accounts receivable and prepayments	14	1,701.6	1,553.4
Current income tax prepayment		14.6	68.8
Aircraft lease security deposits	13	12.4	8.1
Expendable spare parts and inventories	15	150.5	141.1
Derivative financial instruments	24	31.6	-
Assets classified as held for sale	16	-	60.1
Total current assets		**2,489.1**	**2,332.5**
Non-current assets			
Deferred tax assets	11	66.4	95.7
Investments in associates	17	3.8	3.2
Long-term financial investments	18	186.3	200.2
Aircraft lease security deposits	13	33.3	35.4
Other non-current assets	19	181.9	270.4
Prepayments for aircraft	20	376.4	445.6
Property, plant and equipment	21	2,712.5	2,435.9
Intangible assets	22	102.3	108.7
Goodwill	23	203.5	225.8
Derivative financial instruments	24	35.9	92.5
Total non-current assets		**3,902.3**	**3,913.4**
TOTAL ASSETS		**6,391.4**	**6,245.9**
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	24	6.5	-
Accounts payable and accrued liabilities	25	1,107.7	989.1
Unearned traffic revenue		499.1	502.9
Deferred revenue related to frequent flyer programme	26	17.6	11.8
Provisions	27	26.9	4.4
Finance lease liabilities	28	265.4	246.3
Short-term borrowings and current portion of long-term borrowings	29	153.6	466.0
Liabilities directly related to assets classified as held for sale	16	-	25.5
Total current liabilities		**2,076.8**	**2,246.0**
Non-current liabilities			
Long-term borrowings	30	255.9	240.0
Finance lease liabilities	28	1,935.5	1,635.4
Provisions	27	50.6	3.0
Deferred tax liabilities	11	50.3	73.7
Deferred revenue related to frequent flyer programme	26	56.9	45.2
Derivative financial instruments	24	138.9	145.4
Other non-current liabilities	31	161.9	230.9
Total non-current liabilities		**2,650.0**	**2,373.6**
TOTAL LIABILITIES		**4,726.8**	**4,619.6**
Equity			
Share capital	33	51.6	51.6
Treasury shares reserve		(109.2)	(129.5)
Accumulated profit on disposal of treasury shares		50.7	49.2
Investment revaluation reserve		(0.3)	(0.4)
Accumulated currency translation reserve		(303.5)	(167.6)
Hedge reserve	24	(11.7)	17.0
Share-based payment reserve	39	-	6.8
Retained earnings		2,160.1	1,948.1
Equity attributable to shareholders of the Company		**1,837.7**	**1,775.2**
Non-controlling interest		(173.1)	(148.9)
TOTAL EQUITY		**1,664.6**	**1,626.3**
TOTAL LIABILITIES AND EQUITY		**6,391.4**	**6,245.9**

The consolidated statement of financial position should be read in conjunction with the notes set out on pages 7 to 81 which are forming part of the consolidated financial statements

	Note	2013	2012
Cash flows from operating activities:			
Profit before income tax		**430.3**	**357.7**
Adjustments for:			
Depreciation and amortisation	21, 22	334.7	269.1
Change in impairment provision for accounts receivable and prepayments	14	(26.2)	12.3
Loss on accounts receivable write-off	9	19.3	12.3
Change in impairment provision for obsolete expendable spare parts and inventory		11.8	(0.5)
Accrual/(release) of provision for impairment of property, plant and equipment	21	5.8	(0.3)
Non-cash operations, related to assets classified as held for sale		(0.4)	-
Loss on disposal of property, plant and equipment		6.1	9.3
Accounts payable write-off	9	(3.7)	(9.2)
Share of financial results in equity accounted investments	17	(1.2)	(0.3)
(Gain)/loss on sale of investments and accrual of provision for impairment of investments	10	(10.4)	10.0
Loss on change in the fair value of derivative financial instruments	10	29.5	33.0
Change in provisions	27	51.5	(1.7)
Interest expense	10	104.3	110.9
Foreign exchange loss/(gain)	10	105.1	(89.2)
Loss on write-off of VAT recoverable	9	0.6	3.3
Change in the share-based payment provision	39	(1.1)	0.2
Change in other provisions and other assets impairments		6.1	(1.7)
Other operating income		(7.0)	(4.7)
Other finance costs and income, net		0.5	(48.4)
Gain on derivative financial instruments, net	10	(19.5)	(2.1)
Dividend income		(1.5)	(3.6)
Loss on goodwill write-off	9	-	43.6
Total operating cash flows before working capital changes		**1,034.6**	**700.0**
Change in accounts receivable and prepayments		(94.7)	(216.1)
Change in expendable spare parts and inventories		(32.0)	(44.9)
Change in accounts payable and accrued liabilities		136.4	232.7
Total operating cash flows after working capital changes		**1,044.3**	**671.7**
Restricted cash	12	(1.9)	-
Income taxes paid		(133.8)	(153.0)
Income tax received		0.3	21.9
Net cash flows from operating activities		**908.9**	**540.6**

	Note	2013	2012
Cash flows from investing activities:			
Proceeds from sale of investments		7.2	23.0
Purchases of investments		(11.3)	(12.7)
Proceeds from sale of equity accounted investments		-	1.8
Proceeds from sale of subsidiary	16	-	36.2
Proceeds from sale of property, plant and equipment		2.1	87.5
Purchases of property, plant and equipment and intangible assets		(138.5)	(167.1)
Dividends received		1.8	3.4
Prepayments for aircraft		(224.6)	(216.2)
Return of prepayments for aircraft		244.4	292.6
Return/(payment) of lease security deposits, net		6.0	(8.0)
Net cash flows (used in)/received from investing activities		**(112.9)**	**40.5**
Cash flows from financing activities:			
Proceeds from borrowings		204.1	605.5
Repayment of borrowings		(457.8)	(703.9)
Repayment of the principal element of finance lease liabilities		(307.5)	(291.9)
Interest paid		(89.7)	(75.3)
Proceeds from sale of treasury shares		11.5	9.9
Proceeds from sale of treasury shares to non-controlling shareholders		0.4	-
Purchase of treasury shares		(0.4)	(0.2)
Dividends paid		(40.5)	(62.2)
(Purchase of)/proceeds from derivative financial instruments		(4.0)	16.5
Net cash used in financing activities		**(683.9)**	**(501.6)**
Effect of exchange rate fluctuations on cash and cash equivalents		(38.2)	23.6
Net increase in cash and cash equivalents		**73.9**	**103.1**
Cash and cash equivalents at the beginning of the year		496.2	393.1
Cash and cash equivalents at the end of the year	12	**570.1**	**496.2**
Non-cash transactions as part of the investing activities:			
Property, plant and equipment acquired under finance leases		584.2	685.2

The consolidated statement of cash flows should be read in conjunction with the notes set out on pages 7 to 81 which are forming part of the consolidated financial statements

JSC AEROFLOT – RUSSIAN AIRLINES
Consolidated Statement of Changes in Equity
for the year ended 31 December 2013
(All amounts in millions of US Dollars, unless otherwise stated)

	Note	Equity attributable to shareholders of the Company									
		Share capital	**Accumulated profit on disposal of treasury shares less treasury shares reserve**	**Investment revaluation reserve**	**Accumulated currency translation reserve**	**Hedge reserve**	**Share-based payment reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
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 year		-	-	-	-	-	-	222.1	222.1	(55.8)	166.3
Translation from the functional currency to the presentation currency		-	-	(0.1)	106.5	-	-	-	106.4	(6.2)	100.2
Gain from the change in fair value of derivative financial instruments less related deferred tax	24,11	-	-	-	-	23.8	-	-	23.8	-	23.8
Total other comprehensive income/(loss)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**130.2**	**(6.2)**	**124.0**
Total comprehensive income/(loss)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**352.3**	**(62.0)**	**290.3**
Share-based payments		-	-	-	-	-	(3.9)	-	(3.9)	-	(3.9)
Additions of treasury shares		-	(0.2)	-	-	-	-	-	(0.2)	-	(0.2)
Disposal of treasury shares		-	14.6	-	-	-	-	-	14.6	-	14.6
Translation from the functional currency to the presentation currency		-	(11.3)	-	-	-	-	-	(11.3)	-	(11.3)
Dividends declared		-	-	-	-	-	-	(64.7)	(64.7)	(2.7)	(67.4)
31 December 2012		**51.6**	**(80.3)**	**(0.4)**	**(167.6)**	**17.0**	**6.8**	**1,948.1**	**1,775.2**	**(148.9)**	**1,626.3**
Profit/(loss) for the year		-	-	-	-	-	-	251.7	251.7	(21.4)	230.3
Translation from the functional currency to the presentation currency		-	-	0.1	(135.9)	-	-	(1.1)	(136.9)	12.2	(124.7)
Loss on the change in fair value of derivative financial instruments less related deferred tax	24,11	-	-	-	-	(28.4)	-	-	(28.4)	-	(28.4)
Total other comprehensive (loss)/income		-	-	-	-	-	-	-	**(165.3)**	**-**	**(153.1)**
Total comprehensive income/(loss)		-	-	-	-	-	-	-	**86.4**	**(9.2)**	**77.2**
Disposal of a subsidiary	16	-	-	-	-	-	-	-	-	(10.9)	(10.9)
Share-based payments		-	-	-	-	-	(6.8)	-	(6.8)	-	(6.8)
Additions of treasury shares		-	(0.4)	-	-	-	-	-	(0.4)	-	(0.4)
Disposal of treasury shares		-	16.9	-	-	-	-	-	16.9	-	16.9
Translation from the functional currency to the presentation currency		-	5.3	-	-	(0.3)	-	0.9	5.9	(0.5)	5.4
Sale of treasury shares to non-controlling shareholders		-	-	-	-	-	-	-	-	0.4	0.4
Dividends declared		-	-	-	-	-	-	(39.5)	(39.5)	(4.0)	(43.5)
31 December 2013		**51.6**	**(58.5)**	**(0.3)**	**(303.5)**	**(11.7)**	**-**	**2,160.1**	**1,837.7**	**(173.1)**	**1,664.6**

The consolidated statement of changes in equity should be read in conjunction with the notes set out on pages 7 to 81 which are forming part of the consolidated financial statements

1. NATURE OF THE BUSINESS

Joint Stock Company Aeroflot – Russian Airlines (the "Company" or "Aeroflot") was formed as an opened joint stock company following the Russian Government decree in 1992 (hereinafter - the "1992 decree"). The 1992 decree conferred all the rights and obligations of Aeroflot – Soviet Airlines and its structural units upon the Company, including inter-governmental bilateral agreements and agreements signed with foreign airlines and enterprises in the field of civil aviation. Following the Decree of the Russian President No. 1009 dated 4 August 2004, the Company was included in the List of Strategic Entities and Strategic Joint Stock Companies.

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 Moscow Sheremetyevo Airport. The Company and its subsidiaries (the "Group") also conduct activities comprising airline catering and hotel operations. Associated entities mainly comprise aviation security services and other ancillary services.

As at 31 December 2013 and 2012, the Government of the Russian Federation (the “RF”) represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

The principal subsidiaries are:

Company name	Registered address	Principal activity	31 December 2013	31 December 2012
OJSC Donavia ("Donavia")	Rostov-on-Don, RF	Airline	100.00%	100.00%
OJSC AK Rossiya ("AK Rossiya")	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
OJSC Vladivostok Avia ("Vladavia")	Primorsk Region, RF	Airline	52.16%	52.16%
OJSC AK Aurora ("AK Aurora")	Yuzhno-Sakhalinsk, RF	Airline	100.00%	100.00%
OJSC Orenburgskie Avialinii ("Orenburgavia")	Orenburg, RF	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo	Moscow, RF	Cargo transportation services	100.00%	100.00%
LLC Dobrolet ("Dobrolet")	Moscow, RF	Airline	100.00%	-
LLC Aeroflot-Finance ("Aeroflot-Finance")	Moscow, RF	Finance services	100.00%	100.00%
CJSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
CJSC Aerofirst ("Aerofirst")	Moscow Region, RF	Trading	-	66.67%
CJSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%

In October 2013 Aeroflot incorporated Dobrolet, a new 100% subsidiary, in order to operate low-cost flights. The start of Dobrolet operations is scheduled for the second quarter of 2014.

In 2013, following an order of the Russian Prime-Minister, AK Aurora was founded based on two Far East airlines – OJSC Sahalinskiye Aviatrassi and Vladavia. The company's main goal is to support the social and economic development of the Far East through a more efficient and affordable passenger transportation system. The route map was designed taking into account the needs of passengers from all Russian Far East regions. The Company will own at least 51% of shares of AK Aurora. The remaining shares will transferred to the governments of the Russian Far East regions which will take an active part in the project development in 2014. An important step in this direction was the Agreement on Cooperation and Joint Participation in AK Aurora Operations signed on 6 November 2013 between Aeroflot and the Government of the Sakhalin Region (the "AK Aurora Agreement").

1. NATURE OF THE BUSINESS (CONTINUED)

During 2013, the Group sold its share in Aerofirst with a gain on disposal of USD 10.6 million which was recorded within financial income for 2013 (Notes 10 and 16). As of 31 December 2012, assets and liabilities of this entity were classified as held for sale (Note 16).

The Group’s major associate is (Note 17):

Company name	Registered address	Principal activity	31 December 2013	31 December 2012
CJSC AeroMASH–AB (“AeroMASH–AB”)	Moscow Region, Russia	Aviation security	45,00%	45,00%

The table below provides information on the Group's aircraft fleet as at 31 December 2013 (number of items):

Type of aircraft	Ownership	Aeroflot	Donavia	AK Rossiya	Orenburgavia	Vladavia	AK Aurora	Group total
					(no. of items)			
Il-96-300	Owned	6[v]	-	-	-	-	-	6
An-24	Owned	-	-	-	-	-	1	1
Mi-8	Owned	-	-	-	-	3[#]	-	3
Total owned		6	-	-	-	3	1	10
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 B-737	Finance lease	-	-	-	-	-	2	2
Boeing B-777	Finance lease	4	-	-	-	-	-	4
An-148	Finance lease	-	-	6	-	-	-	6
Tu-204	Finance lease	-	-	-	-	6*	-	6
Total finance lease		38	-	15	-	6	2	61
SSJ 100	Operating lease	10	-	-	-	-	-	10
Airbus A-319	Operating lease	8	8	7	-	-	3	26
Airbus A-320	Operating lease	51	-	9	-	6ˆ	-	66
Airbus A-321	Operating lease	5	-	-	-	-	-	5
Airbus A-330	Operating lease	14	-	-	-	-	-	14
Boeing B-737	Operating lease	3	2		21[#]	-	2	28
Boeing B-767	Operating lease	5	-	3	-	-	-	8
Boeing B-777	Operating lease	-	-	-	3	-	-	3
MD-11	Operating lease	3*	-	-	-	-	-	3
DHC 8 S-300	Operating lease	-	-	-	-	-	3	3
DHC 8 S-200	Operating lease	-	-	-	-	-	2	2
Total operating lease		99	10	19	24	6	10	168
Total fleet		143	10	34	24	15	13	239

[v] – three of these aircraft are not operated as at 31 December 2013.
* – all these aircraft are not operated as at 31 December 2013.
[#] – one of these aircraft is not operated as at 31 December 2013.
ˆ – four of these aircraft are not operated as at 31 December 2013.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are presented in millions of US Dollars ("USD million"), except where specifically noted otherwise.

These consolidated financial statements have been prepared on the historical cost convention except for financial instruments which are initially recognised at fair value; financial assets available for sale and financial instruments measured at fair value through profit or loss, as well as derivative financial instruments to which specific hedge accounting rules are applicable. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in the consolidated financial statements, unless otherwise stated.

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

Functional and presentation currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Since 1 January 2007, the functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB" or "rouble"). The presentation currency of the Group's consolidated financial statements is US Dollar, since the Company's management considers presentation of the consolidated financial statements in US Dollars to be more useful for the users of the consolidated financial statements.

Consolidation

Subsidiaries represent investees, including structured entities, which the Group controls, as the Group:

(i) has the powers to control significant operations which has a considerable impact on the investee's income,

(ii) runs the risks related to variable income from its involvement with investee or is entitled to such income, and

(iii) is able to use its powers with regard to the investee in order to influence the amount of its income.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Subsidiaries are included in the consolidated financial statements at the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities received in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured through the deduction of net assets of the acquired entity from the total of the following amounts: consideration transferred for the acquired entity, non-controlling share in the acquiree and fair value of the existing equity interest in the acquiree held immediately by the Group before the acquisition date. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

The Group measures non-controlling interest that represents the ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at:

a) fair value, or

b) in proportion to the non-controlling share in the net assets of the acquiree.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Company and its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows:

(i) the Group's share of the net income or losses of associates is included in the consolidated statement of profit or loss for the year as a share of financial results of equity accounted investments,

(ii) the Group's share in other comprehensive income is recorded as a separate line item in other comprehensive income,

(iii) all other changes in the Group's share of the carrying value of net assets of the associates are recorded in the consolidated statement of profit or loss within the share of financial results of equity accounted investments.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the associate's assets.

Disposals of subsidiaries or associates.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest in an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group performs goodwill impairment testing on an annual basis. Goodwill is allocated to the cash generating units (namely, the Group's subsidiaries). These units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities denominated in foreign currency into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of profit or loss for the year within finance income or costs. Translation at year-end rates does not apply to non-monetary items in the consolidated statement of financial position that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each consolidated statement of profit or loss and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

The table below presents official US Dollar and Euro to rouble exchange rates used for the translation:

	Official exchange rates	
	Roubles for 1 US Dollar	**Roubles for 1 Euro**
Average rate for 2013	31.8480	42.3129
31 December 2013	32.7292	44.9699
Average rate for 2012	31.0930	39.9524
31 December 2012	30.3727	40.2286

At 12 March 2014 the official exchange rates of US Dollar and Euro to rouble were 36.40 roubles for 1 US Dollar and 50.47 roubles for 1 Euro, respectively.

Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. This condition is regarded as being met only when 1) the sale is highly probable; 2) the asset (or disposal group) is available for immediate sale in its present condition; 3) the decision on the sale is made by management and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification; and 4) no significant changes to or cancellation of the sale plan are expected. Non-current assets and disposal groups held for sale are presented as a separate line item (assets classified as held for sale) in the consolidated statement of financial position within current assets.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

All liabilities directly related to non-current assets or a disposal group held for sale and transferred upon sale are subject to reclassification and recorded as a separate line item in the consolidated statement of financial position (liabilities directly related to assets classified as held for sale) within non-current liabilities.

Non-current assets and disposal groups held for sale are measured at the lower of the carrying value and fair value less costs to sell.

Held-for-sale property, plant and equipment and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in the Group's consolidated statement of financial position in a separate line item (unearned traffic revenue) within current liabilities. 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 within operating costs in the consolidated statement of profit or loss in the period of ticket sale by agents.

Passenger revenue includes revenue from code-share agreements with certain other airlines as per which the Group and other airlines sell seats for each other's flights ("code-share agreements"). Revenue from the sale of code-share seats on other airlines is recorded at the moment of the transportation service provision and is accounted for net in Group's passenger revenue in the consolidated statement of profit or loss. Revenue from the sale of code-share seats on Group's flights by other airlines are recorded at the moment of the transportation service provision and is fully accounted for in the Group's traffic revenue in the consolidated statement of profit or loss.

Cargo revenue: The Group's cargo transport services are recognised as revenue when the air transportation is provided. The value of cargo transport services sold but not yet provided is reported in the Group's consolidated statement of financial position in a separate line item (unearned traffic revenue) within current liabilities.

Catering: 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. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped to the customer. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues from sale of services are recognised in the period in which the services were rendered.

Segment information

The Group determines and presents operating segments based on the information that internally is provided to the General Director of the Group, who is the Group's chief operating decision maker. Segments whose revenue, financial result or assets are ten percent or more of all the segments are reported separately.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software with the useful life of 5 years. Intangible assets are amortised using the straight-line method over their useful lives. Acquired licenses for computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Property, plant and equipment

Property, plant and equipment are reported at cost, net of accumulated depreciation and impairment losses (where appropriate). 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* – Owned fleet consists of Russian-made aircraft, while engines are both Russian and foreign-made. The full list of aircraft is presented in Note 1.

(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.

(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. The carrying amount of those parts that are replaced is derecognised from the consolidated statement of financial position and included in operating costs in the Group's consolidated statement of profit or loss. 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 and included in operating costs (aircraft maintenance) in the Group's consolidated statement of profit or loss.

(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 or lease term, if it is shorter. The airframe, engines and interior of aircraft are depreciated separately over their respective estimated useful lives.

The Group's fleet assets have the following useful lives:

Airframes of aircraft	20-32 years
Engines	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 lives and the lease term.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

(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 and its major subsidiaries from the US Dollar to the Russian Rouble. Depreciation is accrued based on the straight-line method on all property, plant and equipment based upon their expected useful lives or, in the case of leasehold properties, over the duration of the leases or useful life if it is shorter. The useful lives of the Group's property, plant and equipment range from 3 to 50 years. Land is not depreciated.

(c) Construction in progress

Construction in progress represents costs related to construction of property, plant and equipment, including corresponding variable out-of-pocket expenses directly attributable to the cost of construction, as well the acquisition cost of other assets that require assembly or any other preparation. The carrying value of construction in progress is regularly analysed for the potential accrual of the impairment provision.

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 Group's consolidated statement of profit or loss within operating costs.

Finance lease

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of: the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Corresponding lease liabilities net of future interest expenses are recorded as a separate line item (finance lease liabilities) within current and non-current liabilities in the Group's consolidated statement of financial position. Interest expenses within lease payments are charged to profit or loss over the lease terms using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Customs duties, legal fees and other initial direct costs increase the total amount recorded in assets in the Group's consolidated statement of financial position. The interest component of lease payments included in financial costs in the Group's consolidated statement of profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (the "qualifying assets") are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The Group views prepayments for aircraft as the qualifying asset with regard to which borrowing costs are capitalised.

The capitalisation starts when the Group:

(a) bears expenses related to the qualifying asset;

(b) bears borrowing costs; and

(c) takes measures to get the asset ready for intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs related to capital expenditure made on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Impairment of property, plant and equipment

At each reporting date the management reviews its property, plant and equipment 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 by management as the higher of: an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recorded within operating costs in the Group's consolidated statement of profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases (continued)

Related direct expenses including custom duties for imported leased aircraft are recognised within non-current assets at the time of the aircraft transfer and amortised using a straight-line method over the term of lease agreement. Amortisation charges are recognised within operating costs. In compliance with the customs legislation of the Russian Federation, the Group pays customs duties in instalments, and therefore customs duty payment obligations are initially recognised at amortised cost.

The operating lease agreements include requirements for the condition of the aircraft before its return to the lessor. Accordingly, the Group accrues a provision in the amount of discounted expenses needed to bring the aircraft to the appropriate condition. The estimated expenses are based on the most reliable data available at the time of such estimation. The provisions of the operating lease agreements, age and condition of the aircraft and engines, market value of fixtures, key parts and components subject to replacement and the cost of work required to be performed at the time of the aircraft return are taken into account. The provision is recorded at the discounted value.

Aircraft lease security deposits

Aircraft lease security deposits represent amounts paid to the lessors of aircraft in accordance with the provisions of operating lease agreements. These security deposits are returned to the Group at the end of the lease period. Security deposits related to lease agreements are presented separately in the consolidated statement of financial position (aircraft lease security deposits) and recorded at amortised cost.

Classification of financial assets

Financial assets have the following categories: a) loans and receivables, b) financial assets available for sale, and c) financial assets measured at fair value through profit or loss, which are recognised in this category from the date of the initial recognition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivative financial instruments, including currency and interest rate options, fuel options, and currency and interest rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year, except for instruments subject to special hedge accounting rules, whose fair value changes are recorded in other comprehensive income.

Derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial liabilities

Financial liabilities have the following measurement categories: a) held for trading, which also includes financial derivatives, and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

Financial instruments – key measurement terms

Depending on their classification, financial instruments are carried at fair value, cost or amortised cost, as described below.

Fair value – is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the Company's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the Group's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Financial instrument measured at fair value are analysed by levels of the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – key measurement terms (continued)

(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, minus or plus accrued interest, and for financial assets - less any write-down (direct or through the valuation provision account) for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. *The effective interest rate* is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents and advisors, levies by regulatory agencies and securities exchanges, and transfer taxes and duties imposed on property transfer. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Initial recognition of financial instruments

Derivative financial instruments, including financial instruments subject to special hedge accounting rules, are initially recognised at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Company/Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets

The Group derecognises financial assets when:

(a) the assets are redeemed or the rights to cash flows from the assets expired, or

(b) the Group has transferred the rights to the cash flows from financial assets or entered into a transfer agreement, while:

  (i) also transferring all substantial risks and rewards of ownership of the assets, or

  (ii) neither transferring nor retaining all substantial risks and rewards of ownership but losing control over such assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments

Available for sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale investments (continued)

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and short-term highly liquid investments (including bank deposits) with contractual maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets in the Group's consolidated statement of financial position.

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. Uncertain accounts receivable balances are assessed individually and any impairment losses are included in other operating costs in the Group's consolidated statement of profit or loss.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets carried at amortised cost (continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Prepayments

In the consolidated financial statements, prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the Group's consolidated statement of profit or loss for the year.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Short-term borrowings comprise:

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

Long-term borrowings include liabilities with the maturity exceeding one year.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Group accrues a provision for the full amount of obsolete inventories which the Group does not plan to continue using in its operations.

Value added taxes

Value added tax ("VAT") related to sales of goods or provision of services is recorded as a liability to the tax authorities on an accruals basis. For sales of passenger tickets VAT liability is recognised 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 leased 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 date of the consolidated statement of financial position 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 receivable that is not expected to be recovered within the twelve months from the reporting date is classified as a non-current asset. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT.

Frequent flyer programme

Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot Bonus. Subject to the programme's terms and conditions, 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. The fair value of miles accumulated on the Group's own flights is recognised under current and non-current deferred revenue related to frequent flyer programme (Note 26) within current and non-current liabilities in the Group's consolidated statement of financial position. The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme, as well as the fair value of bonus miles, is recognised as other current and non-current liabilities related to frequent flyer programme (Notes 25 and 31) in accounts payable and accrued non-current liabilities, respectively, in the Group's consolidated statement of financial position. Revenue is recognised upon the provision of air transportation services to passengers.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised if, and only if, 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 (Note 27). Where 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

Income taxes have been provided for in the consolidated financial statements in accordance with legislation using tax rates and legislative regulations enacted or substantively enacted at the end of the reporting period. Income tax expense/benefit comprises current and deferred tax and is recognised in the consolidated statement of profit or loss for the year, unless it should be recorded within other comprehensive income or directly in equity since it relates to transactions which are also recognised within other comprehensive income or directly in equity in this or any other period.

Current tax is the amount expected to be paid to or recovered from tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Other tax expenses, except from the income tax, are recorded within other operating costs in the Group's consolidated statement of profit or loss.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are offset only individually for each of the Group’s entity.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised with regard to retained earnings received after the acquisition of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the temporary differences will not reverse through dividends or otherwise in the foreseeable future.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain income tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Pensions

The Group makes certain payments to employees on retirement. These obligations 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 profit or loss in order to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognised in financial results immediately. 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 twelve 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 making additional contributions as a percentage (20% in 2014) 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 capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based compensation

The title to future equity compensations (shares or share options) to employees for the provided services is measured at fair value of these instruments at the date of the transfer and is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to these 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. The effect of revisiting initial estimates, if any, is recognised in profit or loss in alignment with the Group's equity.

For share-based payment awards with non-vesting conditions, the grant-date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Treasury shares purchased

Where the Company or its subsidiaries purchase the Company’s equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company’s owners until the equity instruments are cancelled, reissued or disposed of. 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. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s shareholders.

Dividend distributions by the Company are recorded net of the dividends related to treasury shares.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved by the shareholders in the General Shareholders' Meeting.

The Company's retained earnings legally distributable are based on the Company's statutory accounting reports. These earnings may differ significantly from the earnings estimated based on the Company's IFRS financial statements.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings/loss per share

Earnings per share are determined by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of participating shares outstanding during the reporting year. The calculation of diluted earnings per share includes shares planned to be used in the option programme when the average market price of ordinary shares for the period exceeds the exercise price of the options.

Changes in presentation of consolidated financial statements.

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Changes in estimates and judgements

In 2013, management changed its assessment of the expected amount of bonus miles which would not be used by the Aeroflot Bonus participants, as well as the assessment of the fair value of a bonus mile. As a result, an additional revenue of USD 25.7 million was recognised.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives and residual value of property, plant and equipment

The assessment of the useful lives of property, plant and equipment and their residual value are matters of management judgement based on the use of similar assets in prior periods. To determine the useful lives and residual value of property, plant and equipment, management considers the following factors: nature of the expected use, estimated technical obsolescence and physical wear. A change in each of the above conditions or estimates may require the adjustment of future depreciation expenses.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Value of tickets which were sold, but will not be used

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. The assessment of the probability that the tickets will not be used is a matter of management judgement. A change in these estimates may require the adjustment to the revenue amount in the consolidated statement of profit or loss (Note 5) and to the unearned traffic revenue - in the consolidated statement of financial position.

Frequent flyer programme

At the reporting date, the Group estimates and recognises 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. The assessment of the fair value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus members, are a matter of management judgement. A change in these estimates may require the adjustment of deferred revenue related to frequent flyer programme in the consolidated statement of financial position (Note 26) and adjustment to revenue in the consolidated statement of profit or loss (Note 5).

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 (Note 42).

Classification of a lease agreement as operating and finance lease

Management does not apply professional judgement with regard to the classification of aircraft lease agreements as operating and finance lease agreements in order to determine whether all significant risks and rewards related to the ownership of an asset are transferred to the Group in accordance with the agreement and which risks and rewards are significant. A change in these estimates may require a different approach to aircraft accounting.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 23.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Deferred tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations that are applicable to the Group's operations became effective for the Group from 1 January 2013:

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard resulted in additional disclosures related to non-controlling interests in these consolidated financial statements (Note 32).

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of the Group's consolidated financial statements, but did not have any impact on measurement of transactions and balances.

"Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment to IFRS 7 has no material effect on the Group's consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 have no material effect on the Group's consolidated financial statements.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. IFRS 13 has no material effect on the Group's consolidated financial statements. The Standard resulted in additional disclosures related to fair value measurement in these consolidated financial statements.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes in the recognition and measurement of defined benefit pension expense and termination benefits, and the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group reports accumulated amount of these remeasurements in retained earnings in equity. IFRS 19 has no material effect on the Group's consolidated financial statements.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that spare parts, stand-by and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the statement of profit or loss as was always required by IAS 12.

IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group's consolidated financial statements.

Other new and amended standards did not have any impact on these consolidated financial statements.

New Accounting Pronouncements

The following new standard applicable to the Group has been issued that is mandatory for the annual periods beginning on or after 1 January 2014 and that the Group early adopted.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. These amendments did not have any material impact on the Group's consolidated financial statements (Note 23).

Certain new standards and interpretations applicable to the Group have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New Accounting Pronouncements (continued)

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New Accounting Pronouncements (continued)

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New Accounting Pronouncements (continued)

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014) The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

5. TRAFFIC REVENUE

	2013	2012
Scheduled passenger flights	7,240.4	6,247.0
Charter passenger flights	539.3	507.5
Cargo flights	307.0	363.7
Total traffic revenue	**8,086.7**	**7,118.2**

6. OTHER REVENUE

	2013	2012
Airline agreements revenue	530.2	502.5
Revenue from partners under frequent flyer programme	176.3	73.5
Refuelling services	67.6	75.4
Catering services on board	38.2	20.9
Ground handling and maintenance	28.3	32.0
Hotel revenue	16.2	18.4
Sales of duty free goods	13.2	171.3
Other revenue	179.1	125.9
Total other revenue	**1,049.0**	**1,019.9**

7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION

	2013	2012
Aircraft and passenger servicing	1,444.8	1,274.2
Aircraft maintenance	639.7	583.5
Operating lease expenses	602.1	567.0
Sales and marketing	402.2	353.6
Administration and general expenses	272.0	255.2
Passenger services	214.0	177.3
Communication expenses	185.4	150.9
Food and beverages on board	154.6	93.5
Custom duties	43.8	44.6
Insurance expenses	39.0	40.5
Cost of duty free goods sold	6.0	58.1
Other expenses	183.6	305.5
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	**4,187.2**	**3,903.9**
Aircraft fuel	2,484.5	2,287.5
Total operating costs less staff costs and depreciation and amortisation	**6,671.7**	**6,191.4**

8. STAFF COSTS

	2013	2012
Wages and salaries	1,152.4	1,026.4
Pension costs	217.6	162.7
Social security costs	53.9	52.7
Total staff costs	**1,423.9**	**1,241.8**

Pension costs include:

- compulsory payments to the Pension Fund of the RF,
- contributions to a non-government pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% in 2013, 15% to 20% in 2012) of the transfers made personally by the employees participating in the programme, 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:

	2013	2012
Payments to the Pension Fund of the RF	215.6	159.4
Defined contribution pension plan	1.4	0.3
Defined benefit pension plan	0.6	3.0
Total pension costs	**217.6**	**162.7**

9. OTHER OPERATING COSTS AND INCOME, NET

	2013	2012
Fines and penalties received from suppliers	6.5	7.1
Insurance compensation received	5.4	3.5
Gain on accounts payable write-off	3.7	9.2
Loss on accounts receivable write-off	(19.3)	(12.3)
Loss on write-off of VAT recoverable	(0.6)	(3.3)
Other expenses	(79.6)	(38.7)
Loss on goodwill write-off (Note 23)	-	(43.6)
Total other operating costs and income, net	**(83.9)**	**(78.1)**

10. FINANCE INCOME AND COSTS

	2013	2012
Finance income:		
Gain on derivative financial instruments (Note 24)	56.9	13.3
Interest income on bank deposits and security deposits	17.0	13.9
Gain on disposal of investments (Note 16)	10.4	-
Foreign exchange gain	-	89.2
Other finance income	-	50.0
Total finance income	**84.3**	**166.4**

	2013	2012
Finance costs:		
Foreign exchange loss	(105.1)	-
Interest expense	(104.3)	(110.9)
Loss on derivative financial instruments (Note 24)	(37.4)	(11.2)
Loss on change in fair value of derivative financial instruments (Note 24)	(29.5)	(33.0)
Loss on disposal and impairment of investments	-	(10.0)
Other finance costs	(0.5)	(1.6)
Total finance costs	**(276.7)**	**(166.7)**

11. INCOME TAX

	2013	2012
Current income tax charge	195.4	110.8
Deferred income tax	4.6	80.6
Total income tax	**200.0**	**191.4**

Reconciliation of the income tax estimated based on the applicable tax rate to the income tax is presented below:

	2013	2012
Profit before income tax	430.3	357.6
Tax rate applicable in accordance with legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with legislation	(86.1)	(71.5)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	3.3	8.6
Non-deductible expenses	(89.0)	(50.8)
Unrecognised current year tax losses	(1.1)	(4.9)
Recognition of previously unrecognised tax losses	4.7	3.8
Write-off of deferred tax assets	(31.2)	(65.0)
Prior years income tax adjustments	(0.6)	(11.6)
Total income tax	**(200.0)**	**(191.4)**

During the year the Group revised its estimates related to the deductibility of tax losses of Vladavia and wrote off deferred tax assets in the amount of USD 31.2 million (2012: USD 65.0 million related to AK Rossiya and Vladavia).

11. INCOME TAX (CONTINUED)

	31 December 2013	Movements for the year	31 December 2012	Movements for the year	31 December 2011
Tax effect of temporary differences:					
Tax loss carry forwards (i)	14.0	(32.2)	46.2	(33.8)	80.0
Long-term financial investments	1.0	(0.1)	1.1	1.8	(0.7)
Accounts receivable	1.3	(1.9)	3.2	(10.5)	13.7
Property, plant and equipment	37.6	(7.8)	45.4	3.0	42.4
Accounts payable	44.7	26.0	18.7	0.6	18.1
Derivative financial instruments	15.6	5.0	10.6	4.7	5.9
Deferred tax assets before tax set off	**114.2**	**(11.0)**	**125.2**	**(34.2)**	**159.4**
Tax set off	(47.8)	(18.3)	(29.5)	(10.2)	(19.3)
Deferred tax assets after tax set off	**66.4**	**(29.3)**	**95.7**	**(44.4)**	**140.1**
Property, plant and equipment	(65.3)	4.0	(69.3)	(36.9)	(32.4)
Customs duties related to the imported aircraft under operating leases	(18.4)	6.8	(25.2)	3.6	(28.8)
Long-term financial investments	(0.5)	5.2	(5.7)	(4.7)	(1.0)
Accounts receivable	(4.9)	(1.4)	(3.5)	(1.4)	(2.1)
Accounts payable	(9.1)	(9.6)	0.5	(2.7)	3.2
Tax loss carry-forwards	-	-	-	(0.6)	0.6

	31 December 2013	Movements for the year	31 December 2012	Movements for the year	31 December 2011
Deferred tax liabilities before tax set off	**(98.1)**	**5.1**	**(103.2)**	**(42.7)**	**(60.5)**
Tax set off	47.8	18.3	29.5	10.2	19.3
Deferred tax liabilities after tax set off	**(50.3)**	**23.4**	**(73.7)**	**(32.5)**	**(41.2)**
Movements for the year, net		(5.9)		(76.9)	
Less deferred tax recognised directly in equity (ii)		(0.1)		2.3	
Assets held for sale		-		(2.2)	
Translation from the functional currency to the presentation currency		1.4		(3.8)	
Income tax for the year		**(4.6)**		**(80.6)**	

(i) Tax loss carry-forwards for different years expire in 2014 to 2022;

(ii) Deferred tax asset in respect of the change in the fair value of the derivative financial instruments of USD 0.1 million (2012: deferred tax liability of USD 2.3 million) has been recognised in these consolidated financial statements (Note 24).

11. INCOME TAX (CONTINUED)

A deferred tax liability in relation to temporary differences of USD 5.9 million (2012: USD 6.3 million) relating to investments in subsidiaries of the Group has not been recognised in these consolidated financial statements as the Group is able to control the timing of reversal of the temporary difference, and reversal is not expected in the foreseeable future.

Management believes that the deferred tax assets of USD 0.1 million as at 31 December 2013 (31 December 2012: USD 0.1 million) and deferred tax liabilities of RUB USD 0.1 million as at 31 December 2013 (31 December 2012: USD 0.1 million) are recoverable after more than twelve months after the end of the reporting period.

12. CASH AND CASH EQUIVALENTS

	31 December 2013	**31 December 2012**
Cash on hand and bank accounts denominated in roubles	298.7	257.7
Bank accounts denominated in US Dollars	122.9	162.1
Bank deposits denominated in roubles with maturity of less than 90 days	57.8	9.5
Bank deposits denominated in US Dollars with maturity of less than 90 days	40.0	0.5
Bank accounts denominated in other currencies	32.6	36.8
Bank accounts denominated in Euro	15.3	26.7
Cash in transit	2.8	2.9
Total cash and cash equivalents	**570.1**	**496.2**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 37. Most of the funds are held with a highly reliable state-controlled Russian bank – OJSC Sberbank of Russia ("Sberbank of RF") with long-term credit rating BBB (Fitch rating agency), and OJSC Bank BFA ("Bank BFA") with long-term credit rating B (S&P rating agency).

As at 31 December 2013 the Group had restricted cash of USD 3.2 million (31 December 2012: USD 1.4 million) recorded within other non-current assets in the Group's consolidated statement of financial position.

13. AIRCRAFT LEASE SECURITY DEPOSITS

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to three monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using an average market yield of 5.0% to 9.5% in 2013 (2012: 5.0% to 9.5%).

	Aircraft lease security deposits
1 January 2012	**31.8**
Payment of security deposits during the year	11.0
Amortisation during the year	2.9
Return of security deposits during the year	(2.3)
Foreign exchange difference	(2.1)
Translation from the functional currency to the presentation currency	2.2
31 December 2012	**43.5**
Payment of security deposits during the year	10.1
Amortisation during the year	7.6
Return of security deposits during the year	(15.8)
Foreign exchange difference	3.5
Translation from the functional currency to the presentation currency	(3.2)
31 December 2013	**45.7**

	31 December 2013	**31 December 2012**
Current portion of security deposits	12.4	8.1
Non-current portion of security deposits	33.3	35.4
Total aircraft lease security deposits	**45.7**	**43.5**

As at 31 December 2013 and 31 December 2012, security deposits under aircraft lease agreements are neither past due nor impaired.

Analysis of aircraft lease security deposits by their credit quality:

	31 December 2013	**31 December 2012**
International companies	45.0	42.9
Russian companies	0.7	0.6
Total aircraft lease security deposits	**45.7**	**43.5**

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2013	31 December 2012
Trade accounts receivable	760.5	630.4
Other financial receivables	47.3	87.5
Less impairment provision	(74.6)	(107.8)
Total financial receivables	**733.2**	**610.1**
Prepayments to suppliers	332.0	365.1
VAT and other taxes recoverable	320.8	276.3
Prepayments for aircraft	250.5	233.7
Deferred customs duties related to the imported aircraft under operating leases, current portion	28.6	36.7
Other receivables	36.5	31.5
Accounts receivable and prepayments	**1,701.6**	**1,553.4**

Accounts receivable and prepayments include prepayments for acquisition of aircraft to be delivered within 12 months after the reporting date. Movements on the *Prepayment for Aircraft* line item are due to the approaching aircraft delivery dates as well as the refund of prepayments related to the delivery of aircraft in the current period.

Deferred customs duties of USD 28.6 million as of 31 December 2013 (31 December 2012: USD 36.7 million) relate to the current portion of customs duties related to imported aircraft under operating leases. These customs duties are recognised within operating costs in the Group's consolidated statement of profit or loss over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 19.

Financial receivables are analysed by currencies in Note 37. VAT and other taxes recoverable as well as deferred customs duties related to the imported aircraft under operating leases are denominated in roubles. Prepayments to suppliers are mainly denominated in roubles. Prepayments for aircraft are denominated in US Dollars and Euro.

As at 31 December 2013 and 31 December 2012, sufficient impairment provision was made against accounts receivable and prepayments.

The movements in the Group's impairment provision for accounts receivable and prepayments are as follows:

	Impairment provision
1 January 2012	**89.8**
Increase in impairment provision during the year	54.7
Provision use (Note 9)	(12.3)
Release of provision	(30.0)
Translation from the functional currency to the presentation currency	5.6
31 December 2012	**107.8**
Increase in impairment provision during the year	34.5
Provision use (Note 9)	(18.1)
Release of provision	(42.6)
Translation from the functional currency to the presentation currency	(7.0)
31 December 2013	**74.6**

Financial receivables are analysed by credit quality in Note 37.

15. EXPENDABLE SPARE PARTS AND INVENTORIES

	31 December 2013	31 December 2012
Expendable spare parts	110.9	93.0
Fuel	11.1	20.4
Other inventories	41.8	29.6
Total expendable spare parts and inventories, gross	**163.8**	**143.0**
Less impairment provision for obsolete expendable spare parts and inventories	(13.3)	(1.9)
Total expendable spare parts and inventories	**150.5**	**141.1**

16. ASSETS CLASSIFIED AS HELD FOR SALE

In 2012 the Group's management decided to sell 66.67% of its subsidiary Aerofirst. Its assets have been classified as held for sale. As at 31 December 2012, the Group determined the selling price, and it exceeded the carrying amount of Aerofirst's assets.

	31 December 2012 Aerofirst
Property, plant and equipment (Note 21)	16.9
Inventories	30.7
Accounts receivable and prepayments	8.7
Cash and cash equivalents	3.7
Other non-current assets	0.1
Total assets of a disposal group classified as held for sale	**60.1**
Accounts payable and accrued liabilities	(22.5)
Salary payable	(1.1)
Deferred tax liabilities	(2.0)
Total liabilities associated with assets of a disposal group classified as held for sale	**(25.6)**
Net assets of a disposal group classified as held for sale	**34.5**

Assets classified as held for sale are included within other operating segments as at 31 December 2012 (Note 35).

16. ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

In January 2013, the Group sold its interest in Aerofirst's share capital. The details of the disposed assets and liabilities and disposal consideration and results are as follows:

	30 January 2013
Goodwill (Note 23)	6.0
Property, plant and equipment	15.7
Inventories	25.9
Accounts receivable and prepayments	4.1
Cash and cash equivalents	1.9
Other non-current assets	0.1
Other current assets	0.2
Accounts payable and accrued liabilities	(12.7)
Salary payable	(1.5)
Deferred tax liabilities	(1.9)
Net assets of a subsidiary	**37.8**
Less non-controlling interest	(10.6)
Carrying amount of net assets disposed of	**27.2**

In December 2012, the Group received USD 36.2 million (less cash of entity in amount of USD 3.7 million) for the sale of Aerofirst's shares held by the Group.

The gain of USD 10.6 million on disposal of the subsidiary was recorded within the Group's finance income for 2013.

	Gain on disposal of subsidiary
Consideration for disposal of subsidiary	38.6
Carrying amount of net assets disposed of, net of non-controlling interest	(27.2)
Translation from the functional currency to the presentation currency	(0.8)
Gain on disposal of subsidiary	**10.6**

17. INVESTMENTS IN ASSOCIATES

	31 December 2013		31 December 2012	
	Portion of voting shares	**Carrying amount**	**Portion of voting shares**	**Carrying amount**
AeroMash – AB	45.00 %	3.7	45.00 %	3.1
Other	Miscellaneous	0.1	Miscellaneous	0.1
Total investments in associates		**3.8**		**3.2**

	2013	**2012**
Share of financial results of equity accounted instruments	1.2	0.3

At 31 December 2013 and for the year then ended the financial information of AeroMash – AB, a significant associate of the Group, was as follows:

	Current assets	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**Profit**	**Total comprehensive income**
AeroMash – AB	13.6	2.2	5.4	-	70.8	3.8	3.8

18. LONG-TERM FINANCIAL INVESTMENTS

	31 December 2013	31 December 2012
Available-for-sale investments		
Available-for-sale securities	185.1	199.7
Mutual investment funds	0.5	0.5
SITA Investment Certificates	0.6	0.5
Total available-for-sale investments (before impairment provision)	**186.2**	**200.7**
Other long-term investments:		
Loans issued to related parties and promissory notes of related parties (Note 39)	0.9	1.9
Loans issued to third parties and promissory notes of third parties	-	0.0
Other long-term investments	0.0	0.0
Total other long-term financial investments (before impairment provision)	**0.9**	**1.9**
Less provision for impairment of long-term financial investments	(0.8)	(2.4)
Total long-term financial investments	**186.3**	**200.2**

Available-for-sale securities are mainly represented by the initial value of the Group's investment in OJSC MASH, a state-related company engaged in servicing of aircraft, passengers and handling cargo of Russian and foreign airlines, and providing non-aviation services to entities operating in Sheremetyevo airport and adjacent area, and to Sheremetyevo airport passengers. The RF represented by the Federal Agency for State Property Management owns over 80% of the entity's shares (Note 39).

Management is unable to measure the fair value of the Group's investments in OJSC MASH reliably, as this entity has not published its most recent financial information, its shares are not quoted and recent trade prices are not publicly accessible. The investments are recognised in the consolidated statement of financial position at their cost of USD 183.7 million (31 December 2012: USD 198.0 million).

19. OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	89.1	122.6
VAT recoverable on acquisition of aircraft	57.6	106.3
Other non-current assets	35.2	41.5
Total other non-current assets	**181.9**	**270.4**

20. PREPAYMENTS FOR AIRCRAFT

As at 31 December 2013 and 31 December 2012 prepayments for aircraft were USD 376.4 million and USD 445.6 million, respectively. Movements in the non-current portion of prepayments are due to the approaching contractual aircraft delivery dates and payment of new long-term advances to suppliers.

As at 31 December 2013 and 31 December 2012 prepayments for aircraft include advance payments for the acquisition:

		31 December 2013		31 December 2012	
Expected lease type	**Aircraft type**	**Number of aircraft, units**	**Expected delivery date**	**Number of aircraft, units**	**Expected delivery date**
Lease type is not determined	Boeing B-777	22	2016–2019	22	2014–2016
Lease type is not determined	Airbus A-350	22	2018–2023	22	2018–2019
Operating lease	SSJ 100	12	2015	20	2014–2015
Finance lease	Boeing B-777	6	2015-2016	12	2014–2016
Lease type is not determined	Airbus A-320	10	2016–2017	-	-
Lease type is not determined	Airbus A-321	4	2016–2017	-	-

Prepayments made to purchase aircraft expected to be delivered within 12 months after the reporting date are recorded within accounts receivable and prepayments (Note 14).

21. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2012	**191.3**	**1,700.8**	**361.5**	**334.6**	**179.6**	**2,767.8**
Additions	14.6	670.2	4.2	58.6	81.0	828.6
Capitalised expenditures	0.1	15.6	-	-	-	15.7
Disposals	(14.2)	(18.7)	(14.6)	(19.2)	(228.0)	(294.7)
Transfers to assets held for sale (iii)	-	-	(14.8)	(4.9)	-	(19.7)
Transfers	-	-	3.0	13.0	(16.0)	-
Translation from the functional currency to the presentation currency	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**
Additions (i)	31.8	565.9	3.4	69.0	40.6	710.7
Capitalised expenditures	-	66.0	-	-	10.4	76.4
Disposals (ii)	(24.3)	(32.4)	(1.1)	(23.5)	-	(81.3)
Transfers	-	-	2.1	13.1	(15.2)	-
Translation from the functional currency to the presentation currency	(14.8)	(195.1)	(26.1)	(30.7)	(2.6)	(269.3)
31 December 2013	**196.0**	**2,890.3**	**338.8**	**430.7**	**56.9**	**3,912.7**
Accumulated depreciation						
1 January 2012	**(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)
(Accrual)/release of impairment provision	(0.1)	-	-	0.4	-	0.3
Disposals	11.6	18.7	6.7	14.1	-	51.1
Transfers to assets held for sale (iii)	-	-	1.5	1.7	-	3.2
Translation from the functional currency to the presentation currency	(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)**
Charge for the year	(27.8)	(215.6)	(11.7)	(53.7)	-	(308.8)
(Accrual)/release of impairment provision	(7.5)	-	-	1.7	0.0	(5.8)
Disposals (ii)	23.0	32.4	0.1	17.7	-	73.2
Translation from the functional currency to the presentation currency	10.2	45.8	9.5	15.9	0.1	81.5
31 December 2013	**(141.4)**	**(705.2)**	**(129.5)**	**(223.7)**	**(0.4)**	**(1,200.2)**
Carrying amount						
31 December 2012	**64.0**	**1,918.1**	**233.1**	**197.5**	**23.2**	**2,435.9**
31 December 2013	**54.6**	**2,185.1**	**209.3**	**207.0**	**56.5**	**2,712.5**

(i) The 2013 additions mainly relate to the addition of four aircraft Boeing B-777, with a carrying amount of USD 550.7 million which were received under finance lease agreements.

(ii) The 2013 disposals mainly include the disposal of cabins of Boeing B-767 aircraft and three aircraft Boeing B-737-500 .

(iii) Transfer to assets held for sale relates to the sale of Aerofirst subsidiary in 2013 (Note 16).

21. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In 2013, capitalised interest expense amounted to USD 55.4 million. Capitalisation rate was 3.7% in 2013.

As at 31 December 2013 property and land (including tenancy) with the total carrying amount of USD 23.5 million (31 December 2012: USD 50.3 million) were pledged to third and related parties as a security for the Group's borrowings (Note 30).

As at 31 December 2013 the cost of fully depreciated property plant and equipment was USD 169.6 million (31 December 2012: USD 195.5 million).

In 2013 the loss on impairment of own aircraft and engines which was equal to USD 7.5 million related to impairment of aircraft, engines and capitalised spare parts due to disposal of IL-96 aircraft (2012: USD 0.1 million of loss on impairment of the capitalised spare parts).

22. INTANGIBLE ASSETS

	Software	Licences	Investments in software and R&D	Trademark and client base	Other	Total
Cost						
1 January 2012	**49.3**	**4.1**	**12.1**	**52.3**	**-**	**117.8**
Additions	13.1	-	13.1	-	-	26.2
Disposals	(0.0)	-	-	-	-	(0,0)
Transfers	4.9	-	(4.9)	-	-	-
Translation from the functional currency to the presentation currency	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**
Additions (i)	14.6	-	13.1	-	-	27.7
Disposals	(0.1)	-	(0.4)	-	-	(0.5)
Translation from the functional currency to the presentation currency	(5.3)	(0.3)	(1.9)	(4.0)	-	(11.5)
31 December 2013	**79.6**	**4.1**	**32.0**	**51.5**	**0.1**	**167.3**
Accumulated amortisation						
1 January 2012	**(14.8)**	**(1.6)**	**-**	**(1.1)**	**-**	**(17.5)**
Charge for the year	(14.0)	(0.6)	-	(9.2)	-	(23.8)
Disposals	0.0	-	-	-	-	0.0
Translation from the functional currency to the presentation currency	(1.2)	(0.1)	-	(0.3)	-	(1.6)
31 December 2012	**(30.0)**	**(2.3)**	**-**	**(10.6)**	**-**	**(42.9)**
Charge for the year	(16.4)	(0.6)	-	(8.9)	-	(25.9)
Disposals	0.1	-	-	-	-	0.1
Translation from the functional currency to the presentation currency	2.5	0.2	-	1.0	-	3.7
31 December 2013	**(43.8)**	**(2.7)**	**-**	**(18.5)**	**-**	**(65.0)**
Carrying amount						
31 December 2012	**40.4**	**2.1**	**21.2**	**44.9**	**0.1**	**108.7**
31 December 2013	**35.8**	**1.4**	**32.0**	**33.0**	**0.1**	**102.3**

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

23. GOODWILL

The aggregate carrying amount of goodwill, allocated to the Group entities, and the corresponding values of the recognized impairment losses are presented in the table below:

CGU name	31 December 2013			31 December 2012		
	Cost of goodwill	**Accumulated impairment loss**	**Carrying amount of goodwill**	**Cost of goodwill**	**Accumulated impairment loss**	**Carrying amount of goodwill**
AK Rossiya	163.7	-	163.7	176.4	-	176.4
Vladavia	41.4	(41.4)	-	43.6	(43.6)	-
Orenburgavia	35.0	-	35.0	37.7	-	37.7
Aerofirst (Note 16)	-	-	-	6.5	-	6.5
AK Aurora	4.8	-	4.8	5.2	-	5.2
Total	**244.9**	**(41.4)**	**203.5**	**269.4**	**(43.6)**	**225.8**

For the purposes of impairment testing, goodwill is allocated between the cash generating units (the "CGUs"), i.e. the Group subsidiaries that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and are not larger than an operating segment of the Group.

The recoverable amount of CGU was calculated on the basis of value in use, which was determined by discounting the future cash flows to be generated as a result of the entity's operations.

Key assumptions against which the recoverable amounts are estimated concerned the discount rate, the terminal growth rate (for the calculation of the terminal value) and cash flows.

Vladavia

Following the goodwill testing for impairment in 2012, the Group recognised complete impairment of goodwill related to Vladavia for the amount of USD 43.6 million.

AK Rossiya

The discount rate was assumed at 12.9% (31 December 2012: 9.9%). This rate was calculated based on the risk-free rate on ten-year U.S. government bonds, adjusted for country risk (for Russia) and currency risk (roubles), the risk of investing in equities, and the risk associated with small-cap shares. The industry average D/E ratio and Beta coefficient as at 31 December 2013 were taken into account in the calculation.

The cost of debt was calculated based on the effective rate on AK Rossiya's long-term loans in roubles and the effective rate of finance lease, adjusted for currency risk, and share of financial leasing in overall AK Rossiya's debt.

Pre-tax WACC was 16.1% (31 December 2012: 12.38%).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 3.5% (2012: 4.4%).

As a basis for cash flows forecast the Group adopted the approved AK Rossiya's budget for 2014.

23. GOODWILL (CONTINUED)

Orenburgavia

The discount rate was assumed at 13.2% (31 December 2012: 11%). This rate was calculated based on the risk-free rate on ten-year U.S. government bonds, adjusted for country risk (for Russia) and currency risk (roubles), the risk of investing in equities, and the risk associated with small-cap shares. The industry average D/E ratio and Beta coefficient as at 31 December 2013 were taken into account.

The cost of debt was calculated based on the effective rate on Orenburgavia's long-term loans in roubles.

Pre-tax WACC was 16.5% (31 December 2012: 13.75%).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 3.5% (2012: 4.4%).

As a basis for Orenburgavia's cash flows forecast the Group adopted the approved Orenburgavia's budget for 2014.

24. DERIVATIVE FINACIAL INSTRUMENTS

	31 December 2013	31 December 2012
Derivative financial instruments within assets		
Representing:		
Current	31.6	-
Non-current	35.9	92.5
Total derivative financial instruments within assets	**67.5**	**92.5**
Derivative financial instruments within liabilities		
Representing:		
Current	6.5	-
Non-current	138.9	145.4
Total derivative financial instruments within liabilities	**145.4**	**145.4**

The Group assesses the fair value and performs analysis of derivative financial instruments on a regular basis for the purposes of consolidated financial statements or when so requested by the management. Changes in fair value of derivative financial instruments determined using Levels 2 and 3 inputs:

24. DERIVATIVE FINACIAL INSTRUMENTS (CONTINUED)

	Assets	Liabilities
1 January 2013 – Total derivative financial instruments	**92.5**	**145.4**
Level 3 derivative financial instruments that are not subject to special hedge accounting rules		
Change in fair value for the year (Note 10)	(19.7)	13.0
Additions for the year (Note 10)	16.3	14.9
Disposals for the year (Note 10)	(21.5)	(23.3)
Level 2 derivative financial instruments that are subject to special hedge accounting rules		
Change in fair value for the year	6.0	6.3
Translation from the functional currency to the presentation currency	(6.1)	(10.9)
31 December 2013 – Total derivative financial instruments	**67.5**	**145.4**
Representing:		
Level 3 derivative financial instruments that are not subject to special hedge accounting rules	61.6	121.6
Level 2 derivative financial instruments that are subject to special hedge accounting rules	5.9	23.8
31 December 2013 – Total derivative financial instruments	**67.5**	**145.4**

Derivative financial instruments mature in less than 6 months to 5 years. The majority of derivatives mature in 1 to 2 years.

Instruments subject to special hedge accounting rules

Hedging transactions listed below are assessed as effective for the purposes of IAS 39 "Financial Instruments: Recognition and Measurement".

(a) Cross-currency interest rate swaps with a fixed interest rate

In April and May 2013, the Group entered into two cross-currency interest rate swap agreements with a fixed interest rate with a Russian bank to hedge some of its Euro-denominated revenues from potential unfavourable RUB/EUR exchange rate fluctuations. In 2013 the loss arising from the change in fair value of this derivative financial instrument of USD 17.5 million was recorded in the consolidated statement of comprehensive income together with the corresponding deferred tax of USD 3.5 million, the amount of USD 2.7 million was recycled to consolidated statement of profit or loss.

Similar transactions entered into in 2010 were closed in the first half of 2013 due to the agreements term expiration. The decrease in hedge reserve as a result of closure of these transactions was USD 15.2 million. The results of closure of these transactions were reported in the consolidated statement of profit or loss for the year ended 31 December 2013, namely a gain of USD 30.8 million and a loss of USD 7.9 million as well as the change in the deferred tax of USD 3.1 million.

24. DERIVATIVE FINACIAL INSTRUMENTS (CONTINUED)

Instruments subject to special hedge accounting rules (continued)

Level 2 market inputs in the fair value hierarchy were used to assess the fair value of the instrument. The fair value was determined based on discounted contractual cash flows using one-month MosPrime discount rate for cash flows in roubles and EURIBOR – for Euro-denominated cash flows. Cash flows under this agreement are expected through to the end of the first quarter of 2016 when the gain or loss will be recognised under this transaction.

The agreements are entered into with a Russian bank with a long-term credit rating BBB- (Fitch rating agency), therefore the effect of credit risk on the value of this derivative financial instrument is insignificant.

(b) Interest rate swap with a fixed interest rate

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 estimation of the payments under finance lease agreements. In accordance with the terms of the agreement the Group fixes interest payments related to 21 ongoing financial lease agreements. The fair value of the hedge amounted to a gain of USD 1.7 million, which together with a corresponding deferred tax of USD 0.3 million have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2013. In 2013, the loss under this transaction was USD 2.4 million.

Level 2 market inputs in the fair value hierarchy were used to assess the fair value of the instrument. The fair value was determined based on discounted contractual cash flows using one-month MosPrime discount rate and forward currency rates determined on the basis of similar transactions in the active market. Management believes that sufficient cash flows will be available during the periods when a gain or a loss will be recognised on this transaction, through to June 2014.

The agreement is entered into with a Russian bank with a long-term credit rating BBB+ (Fitch rating agency), therefore the effect of credit risk on the value of this derivative financial instrument is insignificant.

24. DERIVATIVE FINACIAL INSTRUMENTS (CONTINUED)

Instruments that are not subject to special hedge accounting rules

The derivative financial instruments listed below are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the reporting period.

(a) Fuel options

In September and October 2012 as well as in September 2013, the Group entered into agreements with a number of Russian banks to hedge a portion of its aircraft fuel costs. The change in fair value of this derivative financial instrument amounted to a gain of USD 2.5 million for 2013, which is reported in the consolidated statement of profit or loss (2012: a loss of USD 41.3 million).

A similar transaction entered into in December 2010 was closed in the first half of 2013 due to the contractual term expiration. The gain of USD 0.03 million on the closure of this transaction was recorded within the finance income for 2013.

The agreements are entered into with a number of Russian banks with long-term credit ratings at least BBB- (Fitch rating agency), therefore, the effect of credit risk on the value of these derivative financial instruments is insignificant.

Level 3 market inputs were used to assess the fair value of the instrument and the Monte-Carlo method was applied. The following inputs were used to assess the fair value of the options:

- spot price for Brent crude oil observable in the information systems at the valuation date;
- forecast price for Brent crude oil determined based on the data provided by analysts for the term of the option;
- volatility calculated based on historical closing prices for Brent oil; and
- one-month MosPrime rate.

24. DERIVATIVE FINACIAL INSTRUMENTS (CONTINUED)

Instruments that are not subject to special hedge accounting rules

(b) Currency options

In November and December 2012 as well as in August, September and December 2013, the Group entered into agreements with a number of Russian banks to hedge the currency risk. The loss from the change in fair value of this derivative financial instrument in 2013 recorded in the consolidated statement of profit or loss amounted to USD 32.0 million (2012: a gain in amount of USD 8.3 million).

The agreements are entered into with a number of Russian banks with long-term credit ratings at least BBB- (Fitch rating agency), therefore, the effect of credit risk on the value of this derivative financial instrument is insignificant.

Level 3market inputs were used to assess the fair value of the instrument and the Monte-Carlo method was applied. The following inputs were used to assess the fair value of the options:

- the underlying asset's spot rate observable in the information systems at the valuation date;
- forward rate determined based on the data provided by analysts for the term of the option;
- volatility calculated based on historical closing prices for the underlying asset; and
- three-month US Dollar LIBOR rate.

For the year ended 31 December 2013, the gain on the currency and fuel options was USD 26.1 million, the loss was USD 27.2 million (2012: USD 13.3 million and USD 9.1 million, respectively). These amounts were recorded within finance income and finance costs, respectively.

25. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2013	31 December 2012
Accounts payable	580.2	464.2
Dividends payable	0.7	0.7
Other financial payables	50.2	95.1
Total financial payables	**631.1**	**560.0**
Staff related liabilities	218.5	182.6
VAT payable on imported leased aircraft (Note 31)	115.7	104.0
Advances received (other than unearned traffic revenue)	58.9	52.1
Other taxes payable	30.0	23.0
Other current liabilities related to frequent flyer programme (Note 26)	27.4	31.7
Income tax payable	4.3	18.1
Customs duties payable on imported leased aircraft (Note 31)	8.2	10.3
Other payables	13.6	7.3
Total accounts payable and accrued liabilities	**1,107.7**	**989.1**

As at 31 December 2013, staff related liabilities primarily include salary payable, as well as social contribution liabilities of USD 132.3 million (31 December 2012: USD 86.1 million) and the unused vacation accrual of USD 69.2 million (31 December 2012: USD 93.6 million).

As at 31 December 2013, accounts payable and accrued liabilities include the current portion of VAT payable of USD 115.7 million (31 December 2012: USD 104.0 million) and customs duties payable of USD 8.2 million (31 December 2012: USD 10.3 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.

As at 31 December 2013, the non-current portion of VAT payable and customs duties payable, relating to the imported leased aircraft, was equal to USD 57.6 million (31 December 2012: USD 105.2 million) and USD 5.2 million (31 December 2012: USD 8.4 million), respectively (Note 31).

Financial payables by currency are analysed in Note 37. VAT payable on imported leased aircraft, income tax payable, other taxes payable and customs duties payable on imported leased aircraft are denominated in roubles. Other payables and advances from customers (excluding unearned traffic revenue) are denominated primarily in roubles.

26. DEFERRED REVENUE AND OTHER LIABILITIES RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue and other liabilities related to frequent flyer programme (Aeroflot Bonus programme) as at 31 December 2013 and 31 December 2012 represent the number of bonus miles earned when flying on the Group flights, but unused by the Aeroflot Bonus programme members and the number of promo-miles and bonus miles earned by programme members for using programme partners' services, respectively, and are estimated at fair value. Deferred revenue and other liabilities related to frequent flyer programme also include liabilities under the Company's discount programme as at 31 December 2013, which represent the fair value of coupons for a discount on the repeated purchase of tickets at Aeroflot's web-site.

	31 December 2013	31 December 2012
Deferred revenue related to frequent flyer programme, current	17.6	11.8
Deferred revenue related to frequent flyer programme, non-current	56.9	45.2
Other current liabilities related to frequent flyer programme (Note 25)	27.4	31.7
Other non-current liabilities related to frequent flyer programme (Note 31)	74.8	93.0
Total deferred revenue and other liabilities related to frequent flyer programme	**176.7**	**181.7**

27. PROVISIONS

	Litigation	Tax risks	Repair of leased aircraft before return	Total provisions
1 January 2012	**6.4**	**2.2**	**-**	**8.6**
Additional provision for the year	0.4	3.9	-	4.3
Release of provision for the year	(3.8)	(2.2)	-	(6.0)
Translation from the functional currency to the presentation currency	0.3	0.2	-	0.5
31 December 2012	**3.3**	**4.1**	**-**	**7.4**
Additional provision for the year	14.9 -	0.5	39.3	54.7
Release of provision for the year	(0.4) -	(2.8)	-	(3.2)
Unwinding of the discount	-	-	17.6	17.6
Foreign exchange loss, net	-	-	3.6	3.6
Translation from the functional currency to the presentation currency	(0.5)	(0.4)	(1.7)	(2.6)
31 December 2013	**17.3**	**1.4**	**58.8**	**77.5**

	31 December 2013	31 December 2012
Current liabilities	26.9	4.4
Non-current liabilities	50.6	3.0
Total provisions	**77.5**	**7.4**

27. PROVISIONS (CONTINUED)

Litigation

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 42).

Tax risks

The Group makes a provision for contingent liabilities and accrued fines and penalties based on the best management's estimate of the amount of additional taxes that may be required to be paid (Note 42).

Repair of leased aircraft before return

As at 31 December 2013, the Group made a provision of USD 58.8 million for expenses needed to bring the aircraft to the required condition before their return at the end of the operating lease period.

28. FINANCE LEASE LIABILITIES

The Group leases aircraft from third and related parties under finance lease agreements (Note 39). The aircraft that the Group has operated under finance lease agreements as at 31 December 2013 are listed in Note 1.

	31 December 2013	31 December 2012
Total outstanding payments	2,643.3	2,233.0
Future finance lease interest expense	(442.4)	(351.3)
Total finance lease liabilities	**2,200.9**	**1,881.7**
Representing:		
Current finance lease liabilities	265.4	246.3
Non-current finance lease liabilities	1,935.5	1,635.4
Total finance lease liabilities	**2,200.9**	**1,881.7**

	31 December 2013			31 December 2012		
Due for repayment:	Principal	Future interest expense	Total payments	Principal	Future interest expense	Total payments
On demand or within 1 year	265.4	81.1	346.5	246.3	65.4	311.7
Later than 1 year and not later than 5 years	898.5	238.4	1,136.9	771.8	191.7	963.5
Later than 5 years	1,037.0	122.9	1,159.9	863.6	94.2	957.8
Total	**2,200.9**	**442.4**	**2,643.3**	**1,881.7**	**351.3**	**2,233.0**

As at 31 December 2013 interest payable amounted to USD 7.7 million (31 December 2012: USD 4.0 million) and is included in accounts payable and accrued liabilities.

28. FINANCE LEASE LIABILITIES (CONTINUED)

The effective interest rate as at 31 December 2013 was 4.1 % per annum (31 December 2012: 3.7% per annum).

Finance lease liabilities of USD 2,109.2 million are denominated in US Dollars (31 December 2012: USD 1,775.8 million in US Dollars) (Note 37).

In 2013 interest expense on finance leases was USD 56.1 million (2012: USD 52.7 million).

Leased aircraft and engines with the carrying amount disclosed in Note 21 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

29. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December 2013	31 December 2012
Loans denominated in US Dollars:		
Citibank, current portion (Note 30)	24.3	24.3
Total loans denominated in US Dollars	**24.3**	**24.3**
Bonds denominated in roubles:		
Bond, series BO-03, current portion (Note 30)	3.1	-
Bonds, series BO-01 and BO-02 (Note 30)	-	402.1
Total bonds denominated in roubles	**3.1**	**402.1**

	31 December 2013	31 December 2012
Loans denominated in roubles:		
Bank BFA, current portion (Note 30)	77.3	-
OJSC ALFA-BANK (i)	30.5	-
Sberbank of RF*, current portion (Note 30)	18.4	23.5
Bank ITURUP (LLC)	-	3.9
Bank FORSHTADT (CJSC)	-	9.9
Other short-term bank loans	-	1.0
Total loans denominated in roubles	**126.2**	**38.3**
Loans denominated in other currency:		
Eurasia Investment Promotion Co. Ltd, current portion (Note 30)	-	0.8
Sberbank of RF*	-	0.5
Total loans denominated in other currency:	-	1.3
Total short-term borrowings and current portion of long-term borrowings	**153.6**	**466.0**

* Government-related banks.

(i) The balance as at 31 December 2013 represents a loan of USD 30.6 million issued at an interest rate of 13.0% per annum. The loan is unsecured.

30. LONG-TERM BORROWINGS

	31 December 2013	31 December 2012
Loans denominated in US Dollars:		
Citibank, non-current portion (i)	20.4	44.5
Accor	2.9	2.9
Other long-term loans	3.4	3.4
Total loans denominated in US Dollars	**26.7**	**50.8**
Bonds denominated in roubles:		
Bond, series BO-03, non-current portion (ii)	152.8	-
Total bonds denominated in roubles	**152.8**	**-**
Loans denominated in roubles:		
OJSC AB Rossiya (iii)	45.8	49.4
Bank BFA, non-current portion (iv)	15.3	98.8
Sberbank of RF*, non-current portion (v)	15.3	40.2
Total loans denominated in roubles	**76.4**	**188.4**
Loans denominated in other currency:		
Eurasia Investment Promotion Co. Ltd, non-current portion	-	0.8
Total loans denominated in other currency	**-**	**0.8**
Total long-term borrowings	**255.9**	**240.0**

* Government-related banks.

(i) The outstanding balance as at 31 December 2013 represents a loan of USD 20.4 million issued at an interest rate of LIBOR plus 3.5% per annum. The loan was used for funding the Group's aircraft finance lease agreements.

(ii) In 2013, the Group repaid exchange bonds of series BO-01 and BO-02 for the total nominal amount of USD 402.1 million and placed exchange bond of series BO-03 for the nominal amount of USD 152.8 million issued at an interest rate of 8.3% per annum. These exchange bonds are unsecured. As at 31 December 2013, the yield to maturity was 7.98% per annum;

(iii) The outstanding balance as at 31 December 2013 represents a loan of USD 45.8 million issued at an interest rate of 10.6% per annum. The loan is unsecured.

(iv) The outstanding balance as at 31 December 2013 represents loans of USD 15.3 million issued at an interest rate of 11.9% and 12.4% per annum. The loans are secured by property with a carrying value of USD 17.3 million and land tenancy;

(v) The outstanding balance as at 31 December 2013 represents loans of USD 15.3 million issued at an interest rate of 11.0% to 11.5% per annum. The loans are secured by property and land with a carrying value of RUB 6.2 million.

30. LONG-TERM BORROWINGS (CONTINUED)

The long-term borrowings (including current portion) are repayable as follows:

	31 December 2013	31 December 2012
Within 1 year	123.1	451.2
Later than 1 year and not later than 5 years	255.9	233.7
Later than 5 years	-	6.3
Total long-term borrowings (including current portion)	**379.0**	**691.2**
Less amounts repayable within 12 months	(123.1)	(451.2)
Amounts due for settlement after 12 months	**255.9**	**240.0**

In 2013 interest expense on short-term and long-term borrowings was USD 29.2 million (2012: USD 56.6 million).

As at 31 December 2013 and 31 December 2012, the fair value of loans and bonds, was not materially different from their carrying amounts.

31. OTHER NON-CURRENT LIABILITIES

	31 December 2013	31 December 2012
Other non-current liabilities related to frequent flyer programme (Note 26)	74.9	93.0
VAT payable on imported leased aircraft (Note 25)	57.6	105.2
Defined benefit pension obligation, non-current portion	21.6	14.9
Customs duties payable on imported leased aircraft (Note 25)	5.2	8.4
Other non-current liabilities	2.6	9.4
Total other non-current liabilities	**161.9**	**230.9**

As at 31 December 2013 other non-current liabilities include the non-current portion of VAT payable of USD 57.6 million (31 December 2012: USD 105.2 million) and customs duties of USD 5.2 million (31 December 2012: USD 8.4 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.

Non-current customs duties payable on imported leased aircraft have been discounted using a discount rate of 9.8% to 12% (31 December 2012: 9.8% to 12%).

The current portion of VAT payable and customs duties payable of USD 115.7 million (31 December 2012: USD 104.0 million) and USD 8.2 million (31 December 2012: USD 10.3 million), respectively, are related to the imported leased aircraft (Note 25).

32. NON-CONTROLLING INTEREST

The following table provides information about the subsidiary (AK Rossiya) with non-controlling interest that is material to the Group:

Portion of non-controlling interest's voting rights held	25% plus 1 share
Loss attributable to non-controlling interest for 2013	(4.9)
Accumulated losses attributable to non-controlling interests in subsidiary	(77.0)
Dividends paid to non-controlling interest during the year 2013	-

The summarised financial information of this subsidiary was as follows as at 31 December 2013 and for 2013:

	31 December 2013
Current assets	122.7
Non-current assets	320.6
Current liabilities	293.1
Non-current liabilities	449.9

	2013
Revenue	1,007.6
Loss for the year	(20.6)
Comprehensive loss	(20.6)

As at 31 December 2013 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

33. SHARE CAPITAL

As at 31 December 2013 and 31 December2012 share capital was equal to USD 51.6 million.

	Number of ordinary shares authorised and issued (shares)	**Number of treasury shares (shares)**	**Number of ordinary shares outstanding (shares)**
31 December 2012	1,110,616,299	(62,814,444)	1,047,801,855
31 December 2013	1,110,616,299	(53,757,439)	1,056,858,860

All issued shares are fully paid. The total number of unissued ordinary shares is 250,000,000 shares (31 December 2012: 250,000,000 shares) with a par value of RUB 1 per share (31 December 2012: RUB 1 per share).

Ordinary shareholders are entitled to one vote per share.

33. SHARE CAPITAL (CONTINUED)

In 2013, the number of the Group's treasury shares decreased by 9,057,005 shares due to the exercise of rights under the share option programme (Note 39) and sale of 85,900 treasury shares; the Group also repurchased 227,696 shares from the Company's shareholders (2012: the decrease was 7,580,643 shares).

As at 31 December 2013, treasury shares were held by wholly-owned subsidiaries of the Group and by the Company:

	31 December 2013	31 December 2012
Aeroflot	227 696	-
Aeroflot Finance	53,527,652	62,726,453
LLC Partner Aeroflot ("Partner Aeroflot")	2,091	87,991
Total number of treasury shares	**53,757,439**	**62,814,444**

These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entity within the Group are effectively controlled by management of the Group.

The Company's shares are listed on the Moscow Exchange; as at 31 December 2013 and 31 December 2012, they were traded at RUB 84.1 (USD 2.57 at the exchange rate as at 31 December 2013) per share and RUB 45.3 (USD 1.49 at the exchange rate as at 31 December 2012) per share, respectively.

The Company launched Global Depositary Receipts (GDRs) programme in December 2000. A Global Depositary Receipt represents 100 ordinary shares. As at 31 December 2013 and 31 December 2012, the GDRs were traded on the Frankfurt stock exchange at Euro 178.0 (USD 244.6 at the exchange rate as at 31 December 2013) per GDR and Euro 111.0 (USD 147.5 at the exchange rate as at 31 December 2012) per GDR, respectively.

34. DIVIDENDS

At the annual shareholders' meeting held on 24 June 2013 the shareholders approved dividends in respect of 2012 in the amount of RUB 1.1636 per share (US cents 3.7 at the average exchange rate of the year 2012) totalling to RUB 1,292.4 million (USD 41.6 million) for the Company's total declared and placed shares.

At the annual shareholders' meeting held on 25 June 2012 the shareholders approved dividends in respect of 2011 in the amount of RUB 1.8081 per share (US cents 5.8 at the average exchange rate of the year 2011) totalling to RUB 2,000.0 million (USD 68.1 million) for the Company's total declared and placed shares.

All dividends are declared and paid in roubles.

35. OPERATING SEGMENTS

The Group has a number of operating segments, but none of them, except for "Passenger Traffic", meet the quantitative threshold for determining reportable segment. In 2013, management analysed and concluded that the disclosure of operating segments that do not meet the quantitative threshold is not important for users of the consolidated financial statements of the Group. Consequently, the disclosure of operating segments for the year ended 2012 was revised accordingly.

The passenger traffic operational performance is measured based on internal management reports which are reviewed by the Group's General Director. Passenger traffic revenue by flight routes is allocated based on the geographic destinations of flights. Passenger traffic revenue by flight routes is used to measure performance as the Group believes that such information is the most material in evaluating the results.

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2013				
External sales	9,063.4	72.3	-	9,135.7
Inter-segment sales	0.3	289.0	(289.3)	-
Total revenue	**9,063.7**	**361.3**	**(289.3)**	**9,135.7**
Operating profit	**583.9**	**44.0**	**(6.4)**	**621.5**
Finance income				84.3
Finance costs				(276.7)
Share of financial results of equity accounted instruments				1.2
Profit before income tax				**430.3**
Income tax				(200.0)
Profit for the year				**230.3**
31 December 2013				
Segment assets	6,443.9	213.0	(350.8)	6,306.1
Investments in associates	-	4.3	-	4.3
Unallocated assets				81.0
Total assets				**6,391.4**
Segment liabilities	4,687.4	146.1	(161.4)	4,672.1
Unallocated liabilities				54.7
Total liabilities				**4,726.8**
2013				
Capital expenditures and PP&E additions (Note 21)	772.9	14.2	-	787.1
Depreciation and amortisation (Notes 21 and 22)	328.9	5.8	-	334.7
Goodwill impairment (Note 9)	-	-	-	-

35 OPERATING SEGMENTS (CONTINUED)

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2012				
External sales	7,914.5	223.7	-	8,138.1
Inter-segment sales	0.1	227.6	(227.6)	-
Total revenue	**7,914.5**	**451.2**	**(227.6)**	**8,138.1**
Operating profit	**316.3**	**48.4**	**(7.0)**	**357.7**
Finance income				166.4
Finance costs				(166.7)
Share of financial results of equity accounting instruments				0.3
Profit before income tax				**357.7**
Income tax				(191.4)
Profit for the year				**166.3**
31 December 2012				
Segment assets	6,222.3	242.9	(387.0)	6,078.2
Investments in associates	-	3.2	-	3.2
Unallocated assets				164.5
Total assets				**6,245.9**
Segment liabilities	4,520.4	176.0	(168.6)	4,527.8
Unallocated liabilities				91.8
Total liabilities				**4,619.6**
2012				
Capital expenditures and PP&E additions (Note 21)	827.9	16.4	-	844.3
Depreciation and amortisation (Notes 21 and 22)	263.8	5.3	-	269.1
		-		
Goodwill impairment (Note 9)	43.6	-	-	43.6

35 OPERATING SEGMENTS (CONTINUED)

	2013	2012
Passenger revenue:		
International flights from the RF to:		
Europe	1,260.7	1,117.5
Asia	609.9	511.0
North America	160.7	102.2
Other regions	65.6	70.8
Total passenger revenue from flights from the RF	**2,096.9**	**1,801.5**
International flights to the RF from:		
Europe	1,265.0	1,161.0
Asia	639.6	539.2
North America	157.4	101.0
Other regions	63.8	67.0
Total passenger revenue from flights to the RF	**2,125.8**	**1,868.2**
Domestic flights	3,000.4	2,562.0
Other international flights	17.3	15.3
Total passenger traffic revenue	**7,240.4**	**6,247.0**

36. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

Financial assets and liabilities are classified by measurement categories as at 31 December 2013 as follows:

	Note	Loans and receivables	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Derivative financial instruments (hedging)	Total
Cash and cash equivalents	12	570.1	-	-	-	**570.1**
Short-term financial investments		16.2	0.0	-	-	**16.2**
Financial receivables	14	733.2	-	-	-	**733.2**
Aircraft lease security deposits	13	45.6	-	-	-	**45.6**
Derivative financial instruments	24	-	-	61.6	5.9	**67.5**
Long-term financial investments	18	0.9	185.5	-	-	**186.4**
Other non-current assets	12	3.2	-	-	-	**3.2**
Total financial assets		**1,369.2**	**185.5**	**61.6**	**5.9**	**1,622.2**

36. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	24	(121.6)	(23.8)	-	**(145.4)**
Financial payables	25	-	-	(631.1)	**(631.1)**
Finance lease liabilities	28	-	-	(2,201.0)	**(2,201.0)**
Borrowings	29, 30	-	-	(487.0)	**(487.0)**
Total financial liabilities		**(121.6)**	**(23.8)**	**(3,319.1)**	**(3,464.5)**

Financial assets and liabilities are classified by measurement categories as at 31 December 2012 as follows:

Assets	Note	Loans and receivables	Available-for-sale financial assets	Assets at fair value through profit or loss	Derivative financial instruments (hedging)	Total
Cash and cash equivalents	12	496.2	-	-	-	**496.2**
Short-term financial investments		10.8	0.0	-	-	**10.8**
Financial receivables	14	610.1	-	-	-	**610.1**
Aircraft lease security deposits	13	43.5	-	-	-	**43.5**
Derivative financial instruments	24	-	-	92.5	-	**92.5**
Long-term financial investments	18	1.9	198.3	-	-	**200.2**
Other non-current assets	12	1.5	-	-	-	**1.5**
Total financial assets		**1,164.0**	**198.3**	**92.5**	-	**1,454.8**

	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	24	(126.3)	(19.1)	-	**(145.4)**
Financial payables	25	-	-	(560.0)	**(560.0)**
Finance lease liabilities	28	-	-	(1,881.8)	**(1,881.8)**
Borrowings	29,30	-	-	(808.5)	**(808.5)**
Total financial liabilities		**(126.3)**	**(19.1)**	**(3,250.3)**	**(3,395.7)**

All other financial liabilities of the Group are carried at amortised cost.

37. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

The Group manages risks related to financial instruments, which include market risk (currency risk, interest rate risk, aircraft fuel price risk and capital management risk), credit risk and liquidity risk.

Liquidity risk

The Group is exposed to liquidity risk, i.e. 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, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed financial conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group utilises a detailed budgeting and cash forecasting process to ensure its liquidity is maintained at appropriate level.

The following are the Group's financial liabilities (excluding derivative financial instruments) as at 31 December 2013 and 31 December 2012 broken down by contractual maturities (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

	Average interest rate						
31 December 2013	**Contractual**	**Effective**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans in foreign currency	3.5%	3.5%	25.5	27.2	0.1	-	52.8
Loans in roubles	11.5%	11.5%	143.4	82.6	-	-	226.0
Bonds denominated in roubles	8.3%	8.3%	15.8	12.7	156.1	-	184.6
Finance lease liabilities	3.9%	3.9%	346.5	300.2	836.7	1,160.0	2,643.4
Financial payables	-	-	631.2	-	-	-	631.2
Total future payments, including future interest payments			**1,162.4**	**422.7**	**992.8**	**1,160.0**	**3,737.9**

	Average interest rate						
31 December 2012	**Contractual**	**Effective**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans in foreign currency	3.7%	3.7%	27.8	26.0	21.1	6.3	81.2
Loans in roubles	11.2%	11.2%	61.2	142.9	68.4	-	272.5
Bonds denominated in roubles	7.8%	7.6%	410.3	-	-	-	410.3
Finance lease liabilities	3.7%	3.7%	311.6	262.5	696.7	964.5	2,235.3
Financial payables	-	-	560.0	-	-	-	560.0
Total future payments, including future interest payments			**1,370.9**	**431.4**	**786.2**	**970.8**	**3,559.3**

Maturity dates of derivative financial instruments are disclosed in Note 24.

As at 31 December 2013, the Group was able to attract USD 495.8 million of cash (31 December 2012: USD 959.6 million) available under lines of credit granted to the Group by various lending institutions.

37. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Group is exposed to currency risk in relation to revenue as well as purchases and borrowings that are denominated in a currency other than rouble. The currencies in which these transactions are primarily denominated are Euro and US Dollar.

The Groups analyses the exchange rate trends on a regular basis. In November and December 2012 as well as in August, September and December 2013, the Group entered into agreements with a number of Russian banks to hedge the risk of negative changes in the exchange rates (Note 24).

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

In millions of US Dollars	Note	31 December 2013				31 December 2012			
		US Dollar	Euro	Other currency	Total	US Dollar	Euro	Other currency	Total
Cash and cash equivalents	12	162.9	15.2	32.6	210.8	162.6	26.7	36.8	226.1
Financial receivables		339.0	83.5	79.3	501.7	305.5	96.6	75.6	477.7
Other non-current assets		0.9	1.1	1.2	3.2	0.8	0.3	0.3	1.4
Total assets		**502.8**	**99.8**	**113.1**	**715.7**	**468.9**	**123.6**	**112.7**	**705.2**
Financial payables		198.0	77.3	14.7	290.0	154.7	90.9	19.4	265.0
Finance lease liabilities, current portion	28	259.2	-	-	259.2	237.9	-	-	237.9
Finance lease liabilities, non-current portion	28	1,850.0	-	-	1,850.0	1,537.9	-	-	1,537.9
Short-term borrowings and current portion of long-term borrowings	29	24.2	-	-	24.2	24.3	0.5	0.8	25.6
Long-term borrowings	30	26.8	-	-	26.8	50.8	-	0.8	51.6
Total liabilities		**2,358.2**	**77.3**	**14.7**	**2,450.2**	**2,005.6**	**91.4**	**21.0**	**2,118.0**
Total (liabilities)/assets, net		**(1,855.4)**	**22.5**	**98.4**	**(1,734.5)**	**(1,536.7)**	**32.2**	**91.8**	**(1,412.8)**

The Group also expects that payments of Euro 2.3 million, Euro 2.3 million, Euro 2.3 million, Euro 2.3 million and Euro 126.4 million related to the cross-currency interest rate swap with a fixed interest rate disclosed in Note 24, will be made in March and September 2014, March and September 2015 and March 2016, respectively.

A 20% strengthening or weakening of listed below currencies versus rouble as at 31 December 2013 and 31 December 2012, respectively, would have increased/(decreased) profit after 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 after tax relating to this profit.

37. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	2013		2012	
	Percent of change in rate of currency versus rouble	**Effect on profit after tax (increase/ (decrease))**	**Percent of change in rate of currency versus rouble**	**Effect on profit after tax (increase/ (decrease))**
Increase in the rate of currency versus rouble:				
US Dollar	20%	(325.8)	20%	(250.2)
Euro	20%	3.9	20%	5.2
Other currencies	20%	16.9	20%	14.9
Decrease in the rate of currency versus rouble:				
US Dollar	20%	325.8	20%	250.2
Euro	20%	(3.9)	20%	(5.2)
Other currencies	20%	(16.9)	20%	(14.9)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial results and cash flows. Changes in interest rates impact primarily change in cost of borrowings (fixed interest rate borrowings) or future cash flows (variable interest rate borrowings). At the time of raising new borrowings as well as finance lease 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 2013 and 31 December 2012, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2013	**31 December 2012**
Fixed rate financial instruments:		
Financial assets	100.7	13.0
Financial liabilities	(960.3)	(1,312.3)
Total fixed rate financial instruments	**(859.6)**	**(1,299.3)**
Variable rate financial instruments:		
Variable rate financial liabilities	**(1,650.1)**	**(1,275.4)**

During the year some of the Group's loans bore variable interest rates (Note 29 and Note 30). If the variable interest rates on loans in 2013 were 20% higher or lower than the actual interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2012: would not have changed significantly).

The interest expense under finance lease agreements primarily accrues at variable interest rates. A sizeable part of finance lease liabilities (USD 367.2 million as at 31 December 2013 and USD 445.9 as at 31 December 2012) is a subject to an interest rate swap with a fixed interest rate (Note 24). If in 2013 those rates were 20% higher 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 (2012: would not have been materially different).

37. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Aircraft fuel price risk

The results of the Group's operations can be significantly impacted by changes in the price of aircraft fuel. In September and October 2012 as well as September 2013, the Group entered into agreements with a number of Russian banks to hedge a portion of its fuel costs from potential future price increases. In accordance with the terms of each agreement the Group will be compensated by the bank for the excess between the actual aircraft fuel 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 (Note 24).

Capital management risk

The Group manages its capital to ensure its ability to continue as a going concern while maximizing the return to the Company's shareholders through the optimization of the Group's debt to equity ratio.

The Group monitors its capital in comparison with rivals in the airline industry on the basis of the following ratios:

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

Total debt consists of short-term and long-term borrowings (including the current portion), finance lease liabilities, custom duties payable on imported leased aircraft and defined benefit pension obligation.

Net debt is defined as total debt less cash, cash equivalents and short-term financial investments.

Total capital consists of equity attributable to the Company's shareholders and net debt.

EBITDA is calculated as operating profit before depreciation, amortization and custom duties expenses.

37. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Capital management risk (continued)

The ratios are as follows:

	As at and for the year ended 31 December 2013	As at and for the year ended 31 December 2012
Total debt	2,645.5	2,621.4
Cash and cash equivalents and short-term financial investments	(578.4)	(501.0)
Net debt	2,067.0	2,120.4
Equity attributable to shareholders of the Company	1,837.7	1,775.2
Total capital	3,904.7	3,895.6
EBITDA	1,000.0	671.3
Net debt/Total capital	0.5	0.5
Total debt/EBITDA	2.7	3.8
Net debt/EBITDA	2.1	3.1

There were no changes in the Group's approach to capital management in 2013 and 2012.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements, except for minimal share capital according to the legislation.

Credit risk

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 cash and cash equivalents, financial receivables and investments in securities.

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

(i) The Group has credit risk associated with travel agents and industry organisations. A significant share of the Group's sales is made via travel agencies. Due to the fact that receivables from travel agents are diversified the overall credit risk related to travel 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 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 in securities by only investing in liquid securities with a high credit rating. Management actively monitors its investing 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.

37. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

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

	31 December 2013	**31 December 2012**
Cash and cash equivalents (Note 12)	570.1	496.2
Financial receivables (Note 14)	733.2	610.1
Short-term financial investments	8.3	4.8
Long-term financial investments (Note 18)	186.3	200.2
Aircraft lease security deposits (Note 13)	45.7	43.5
Other non-current assets (Note 12)	3.2	1.4
Total financial assets exposed to credit risk	**1,546.8**	**1,356.2**

Analysis by credit quality of financial receivables is as follows:

	31 December 2013	**31 December 2012**
Current and not past due	811.4	727.7
Past due but not impaired		
- less than 90 days overdue	3.6	9.5
- 91 days to 2 years overdue	-	0.2
- over 2 years overdue	-	-
Total past due but not impaired receivables	**3.6**	**9.8**
Less impairment provision	(74.6)	(107.8)
Total financial receivables	**733.2**	**610.1**

Credit risk concentration

As at 31 December 2013 a large portion of the cash as well as long-term financial investments of the Group was placed in two banks (as at 31 December 2012: two banks) and invested in one company (as at 31 December 2012: one company), respectively, which causes the credit risk concentration for the Group.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is an active quoted market price of a financial instrument.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management uses all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. This category includes only derivative financial instruments disclosed in Note 24.

Financial assets carried at amortised cost. The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of financial receivables, lease security deposits and loans issued approximate their fair values, which belong to Level 2 in the fair value hierarchy. Cash and cash equivalents are carried at amortised cost which is approximately equal to their fair value.

Liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2013 and 31 December 2012, the fair values of financial payables (Note 25), finance lease liabilities (Note 28), loans and bonds (Note 30) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans are categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

39. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship attention is directed to the economic substance of the relationship, not merely the legal form.

As at 31 December 2013 and 31 December 2012, the outstanding balances with related parties and income and expense items with related parties for the years ended 31 December 2013 and 31 December 2012 were as follows:

Associates

As at 31 December 2013 and 31 December 2012, the outstanding balances with associates and income and expense items with associates for the years ended 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Assets		
Accounts receivable	1.2	0.4
Liabilities		
Accounts payable and accrued liabilities	2.0	2.4

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

	2013	2012
Transactions		
Sales to associates	0.5	1.0
Purchase from associates	40.7	37.2

Purchases from associates consist primarily of aviation security services.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Government-related entities

As at 31 December 2013 and 31 December 2012, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Group operates in an economic environment where the entities are directly or indirectly controlled by the Government of the RF through its government authorities, agencies, affiliations and other organizations, collectively referred to as government-related entities.

The Group decided to apply the exemption from disclosure of individually insignificant transactions and balances with the Government and parties that are related to the Company because the Russian state has control, joint control or significant influence over such parties.

The Group has transactions with government-related entities, including but not limited to:

- banking services,
- transactions with derivative financial instruments,
- investments in OJSC MASH (Note 18),
- purchase of air navigation and airport services, and
- government subsidies including those provided for compensating the losses from passenger flights under two government programmes, i.e. flights to and from European Russia for inhabitants of Kaliningrad region and Far East.

Outstanding balances of derivative financial instruments and cash at settlement and currency accounts in the government-related banks:

	31 December 2013	31 December 2012
Assets		
Cash and cash equivalents		
Sberbank of RF	190.9	176.1
Gazprombank OJSC	11.5	8.3
JCK VTB Bank	6.0	5.3
Derivative financial instruments		
Sberbank of RF	38.3	45.0
Gazprombank OJSC	3.2	-
Liabilities		
Derivative financial instruments		
Sberbank of RF	(89.0)	(59.0)
Gazprombank OJSC	(0.9)	-

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Government-related entities (continued)

The amounts of the Group's finance and operating lease liabilities are disclosed in Notes 28 and 40. The share of liabilities to the government-related entities is approximately 20% for finance lease and 8% for operating lease (31 December 2012: 25% and 5%, respectively).

For the year ended 31 December 2013 the aggregate amount of Group's transactions with government-related entities is less than 13% of operating costs, and less than 2% of revenue (2012: less than 11% and 1%, respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the government-related airports and also supplies of motor fuels by government-related entities.

As at 31 December 2013 the Group issued guarantees for the amount of USD 2.4 million to a government-related entity to secure obligations under tender procedures (31 December 2012: no such guarantees were issued).

Transactions with the state also include taxes, levies and customs duties settlements and charges which are detailed in Notes 7, 8, 9, 11, 14, 19, 25 and 31.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel (the members of the Board of Directors and the 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), including salary and bonuses as well as short-term and mid-term compensation, amounted to USD 23.2 million (2012: USD 23.1 million).

Such amounts are stated before personal income tax but exclude mandatory insurance contributions to non-budgetary funds. 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.

Bonus programmes based on the Company's capitalisation

In 2013, the Group approved bonus programmes for the Group's key management personnel and members of the Company's Board of Directors. These programmes run for three years and are exercised in three tranches of cash payments. The amounts of payments depend both on the absolute increase in the Company's capitalisation and the Company's capitalisation growth rates against its peers based on the results of the reporting year. The fair value of the liabilities under the bonus programmes was determined based on consensus forecast for the Company's capitalisation growth until 2015.

In 2013, expenses related to the bonus programmes were USD 10.5 million. These expenses are recorded within staff costs in the Group's consolidated statement of profit or loss. As at 31 December 2013, outstanding liability under these plans was USD 10.5 million.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Share option programme

During 2010 the Group initiated a share option programme for its key management personnel (the "Share option programme"). The Share option programme ran for three years and was exercised in three tranches accrued over the three-year period from 1 January 2011 through to 31 December 2013. The vesting requirement of the Share option programme was the continuous employment of participants in the Company during the vesting period of the Share option programme.

The fair value of services received in return for the share option granted was measured by reference to the fair value of the share option granted. The estimate of the fair value of the services received was determined using the Black-Scholes model. The following variables have been used in the model:

Market share price at the grant date, USD	1.7
Expected volatility, %	40
Risk free interest rate, %	5

During 2013 the Group recorded release of 1,796,300 unused share options for the amount of USD 1.1 million within staff costs in the Group's consolidated statement of profit and loss (in 2012 expenses related to the share option programme amounted to USD 0.2 million). As at 31 December 2013, there were no outstanding liabilities under the share option programme (the outstanding amount as at 31 December 2012: USD 6.8 million).

Cross shareholding

As at 31 December 2013 Aeroflot-Finance and Partner Aeroflot, 100%-owned subsidiaries of the Group, owned 53,527,652 ordinary shares and 2,091 ordinary shares of the Company, respectively (31 December 2012: 62,726,453 ordinary shares and 87,991 ordinary shares of the Company, respectively) (Note 33).

40. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 39) are as follows:

	31 December 2013	31 December 2012
On demand or within 1 year	615.1	538.3
Later than 1 year and not later than 5 years	2,905.2	1,832.7
Later than 5 years	4,188.1	1,294.2
Total operating lease commitments	**7,708.4**	**3,665.2**

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 amounts.

The aircraft that the Group has operated under operating lease agreements as at 31 December 2013 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 3 to 16 years. The agreements are extendable.

The Group entered into a number of agreements with Russian banks under which the banks guarantee the payment of the Group's liabilities under existing aircraft lease agreements.

41. CAPITAL COMMITMENTS

As at 31 December 2013, the Group entered into agreements on acquisition of property, plant and equipment with third parties for the total of USD 1,227.6 million (31 December 2012: USD 1,921.2 million). These commitments mainly relate to 12 (31 December 2012: 16) Boeing B-777 aircraft which are expected to be used under finance lease agreements.

42. CONTINGENCIES

Operating Environment of the Group

The Group's operations are primarily located in the RF. Consequently, the Group is exposed to the risk of the economic and financial markets of the RF which display characteristics of an emerging market. The legal and tax 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 RF. The consolidated financial statements reflect assessment of the Group's management 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.

42. CONTINGENCIES (CONTINUED)

Tax contingencies

The taxation system in the RF continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes fuzzy and contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to audit and investigation by a number of authorities, which have the authority to impose severe fines and penalties 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 RF suggest that the tax authorities are taking a more tough stance in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the RF that are substantially more significant than in other countries. The Group's management believes that it has provided adequately for tax liabilities in these consolidated financial statements based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of these provisions by 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.

Russian revised transfer pricing legislation is effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The Group's management prepared transfer pricing documentation to comply with the new legislation and believes that its pricing policy and implemented internal procedures are adequate to meet the new transfer pricing legal requirements.

Changes in tax legislation or its enforcement in relation to such issues as transfer pricing may lead to an increase in the Group's effective income tax rate.

In 2012 – 2013, the approach of some of the Group's entities to VAT accounting treatment for a certain type of transactions was challenged by tax authorities. This decision was challenged in court, and as at 31 December 2013 no liability was recognised in these consolidated financial statements. It is possible that such approach can be challenged by tax authorities other entities of the Group. Management is unable to reliably estimate the potential effect of such claims, but it may be significant. In January 2014, the Group won the law suit related to this claim of tax authorities in the first instance.

In addition to the above matters, as at 31 December 2013 management estimates that the Group has other possible obligations from exposure to other than remote tax risks of USD 232.5 million (31 December 2012: USD 210.0 million). These risks are mainly related to VAT accounting treatment for a certain type of transactions specific for a Group's subsidiary, and they represent estimates arising from uncertainties in the interpretation of Russian tax legislation and related requirements for documentation. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these consolidated financial statements, if these are challenged by the tax authorities.

42. CONTINGENCIES (CONTINUED)

Insurance

The Group maintains insurance in accordance with the legislation. In addition, the Group insures risks under various voluntary insurance programs, including management's liability, Group's liability and risks of loss of aircraft under operating and finance lease.

Litigation

During the reporting period the Group was involved (both as a plaintiff and a defendant) in a number of court proceedings arising in the ordinary course of business. Management believes that there are no current court proceedings or other claims outstanding which could have a material effect on the results of operations and financial position of the Group.

During 2013, the Group accrued USD 30.9 million under the claim for additional payments to the employees for their night work and for hazardous exposure and harmful working conditions. These charges are recorded within other operating costs in the Group's consolidated statement of profit or loss. As at 31 December 2013, all liabilities to the employees under the above claim are settled.

43. SUBSEQUENT EVENTS

On 24 January 2014, the Company transferred 49% of shares of AK Aurora to the ownership of the Sakhalin region. The transaction was effected under the AK Aurora Agreement (Note 1) which provides for transfer of AK Aurora's shares to the governments of the Russian Far East constituent regions out of the shareholding of the Sakhalin region. The shares were sold for USD 5.7 million.

During the period from January to March 2014, the Group received six Airbus A-320, one Boeing B-737 and one DHC 8-201 under operating lease, and two Boeing B-777 under finance lease.