UTair Aviation Joint-Stock Company

Consolidated Financial Statements

as at and for the year ended 31 December 2010

Contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2010

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 4 and 5, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of UTair Aviation Joint-Stock Company and subsidiaries (the "Group").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures 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 and sound 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 legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were approved on 29 July 2011 and were signed on its behalf by:

A.Z. Martirosov	**O.V. Grabarovskaya**
General Director	Chief Accountant

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors of UTair Aviation Joint-Stock Company

We have audited the accompanying consolidated financial statements of UTair Aviation Joint-Stock Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of 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.

Auditors' 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 qualified audit opinion.

Basis for Qualified Opinion

In 2009 the Group disposed of its investment in an associate, Airport Surgut OJSC, which carried property, plant and equipment at cost; however, the Group's accounting policy requires that certain items of property, plant and equipment be measured at revalued amounts. When applying the equity method of accounting, no adjustments were made to align the associate's accounting policies with those of the Group as required by International Financial Reporting Standard IAS 28 *Investments in Associates*. The effect of this departure from International Financial Reporting Standards on other finance costs and other elements of total comprehensive income for the year ended 31 December 2009 has not been determined. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2009 dated 15 September 2010 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

There are indications that the Group may have had an ultimate controlling party prior to 29 December 2010 when Non-State Pension Fund Surgutneftegaz acquired a 55.68% interest in the Company from existing shareholders. International Financial Reporting Standard IAS 24 *Related Party Disclosures* requires an entity to disclose the name of its ultimate controlling party. Management has not disclosed the name of its ultimate controlling party prior to 29 December 2010, if any, and did not provide us with appropriate representations and documentation to conclude whether such a party existed. We were unable to satisfy ourselves as to whether the Group had an ultimate controlling party prior to 29 December 2010 by alternative means. As a result, we were unable to determine whether the disclosure requirements of International Financial Reporting Standard IAS 24 *Related Party Disclosures* have been complied with. Our opinions on the consolidated financial statements as at and for the year ended 31 December 2009 and on the current year's figures have been modified accordingly.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures as at and for the year ended 31 December 2009 and the possible effects on the comparability of the current year's figures of the matter described in the first paragraph of Basis for Qualified Opinion and except for the possible omission of the disclosure described in the second paragraph of the Basis of Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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1 August 2011

	Note	31 December 2010 ’000 RUB	31 December 2009 ’000 RUB	31 December 2010 ’000 USD	31 December 2009 ’000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	6	27,956,603	21,385,230	917,305	707,085
Advances for property, plant and equipment		445,617	362,953	14,621	12,001
Goodwill	7	119,624	106,849	3,925	3,533
Other intangible assets	7	336,150	350,341	11,030	11,584
Investments in equity accounted investees	8	192,086	199,488	6,303	6,596
Other investments	9	52,285	16,455	1,716	544
Loans issued	10	57,856	59,370	1,898	1,963
Net investment in finance leases	11	240,286	39,770	7,884	1,315
Advances related to operating leases	12	123,975	25,760	4,068	852
Accounts receivable		-	1,671	-	56
Deferred tax assets	14	115,828	68,986	3,801	2,280
Total non-current assets		**29,640,310**	**22,616,873**	**972,551**	**747,809**
Current assets					
Inventories	15	1,823,435	1,665,943	59,830	55,083
Trade and other receivables	13	8,208,327	5,741,462	269,330	189,837
Other advances	12	1,475,852	2,710,879	48,425	89,633
Income tax receivable		131,486	288,879	4,314	9,552
Net investment in finance leases	11	55,676	91,028	1,827	3,010
Loans issued	10	863,416	794,654	28,330	26,275
Other investments	9	4,956	404,983	163	13,390
Security deposits	16	476,654	6,450,010	15,640	213,264
Cash and cash equivalents	17	443,998	514,586	14,568	17,014
Assets classified as held for sale	18	252,232	758,759	8,276	25,088
Total current assets		**13,736,032**	**19,421,183**	**450,703**	**642,146**
Total assets		**43,376,342**	**42,038,056**	**1,423,254**	**1,389,955**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

	Note	31 December 2010 ’000 RUB	31 December 2009 ’000 RUB	31 December 2010 ’000 USD	31 December 2009 ’000 USD
EQUITY AND LIABILITIES					
Equity					
Share capital	19	3,101,456	3,101,456	112,145	112,145
Reserve for own shares		(174,859)	(173,244)	(6,868)	(6,815)
Surplus from sale of treasury shares		13,010	13,010	451	451
Foreign currency translation reserve		93,349	117,911	(6,211)	(4,632)
Revaluation reserve		7,913,459	8,133,733	259,654	268,935
Retained earnings		(4,774,088)	(5,313,407)	(156,646)	(175,684)
Total equity attributable to equity holders of the Company		**6,172,327**	**5,879,459**	**202,525**	**194,400**
Non-controlling interest		549,221	511,949	18,021	16,927
Total equity		**6,721,548**	**6,391,408**	**220,546**	**211,327**
Non-current liabilities					
Loans and borrowings	20	21,124,041	12,548,873	693,116	414,918
Derivatives	21	45,009	98,088	1,477	3,244
Trade and other payables	22	70,695	117,134	2,320	3,873
Deferred income	23	674,305	895,201	22,125	29,599
Employee benefits	24	195,573	165,296	6,418	5,465
Deferred tax liabilities	14	1,830,022	1,867,313	60,046	61,741
Total non-current liabilities		**23,939,645**	**15,691,905**	**785,502**	**518,840**
Current liabilities					
Loans and borrowings	20	6,037,624	13,584,686	198,105	449,167
Derivatives	21	66,347	93,720	2,177	3,099
Trade and other payables	22	4,666,209	4,831,012	153,106	159,734
Deferred income	23	422,146	298,400	13,852	9,866
Income tax payable		49,840	2,659	1,635	88
Other taxes payable	25	521,288	244,527	17,104	8,085
Advances received	26	933,271	886,523	30,622	29,312
Employee benefits	24	18,424	13,216	605	437
Total current liabilities		**12,715,149**	**19,954,743**	**417,206**	**659,788**
Total liabilities		**36,654,794**	**35,646,648**	**1,202,708**	**1,178,628**
Total equity and liabilities		**43,376,342**	**42,038,056**	**1,423,254**	**1,389,955**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

	Note	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Passenger traffic and helicopter services revenue	27	42,715,358	32,737,441	1,406,535	1,031,975
Other revenue	27	1,683,116	765,484	55,422	24,130
		44,398,474	**33,502,925**	**1,461,957**	**1,056,105**
Operating expenses					
Direct operating expenses	28	(24,735,998)	(18,362,786)	(814,511)	(578,846)
Personnel expenses	29	(7,829,582)	(6,169,859)	(257,813)	(194,491)
Depreciation and amortisation		(3,077,837)	(2,213,217)	(101,347)	(69,767)
Repair expenses		(2,439,014)	(2,115,555)	(80,312)	(66,688)
Commissions		(1,386,106)	(1,046,749)	(45,642)	(32,996)
Gain on sale of assets classified as held for sale		470,597	380,738	15,496	12,002
Other income		311,240	98,685	10,249	3,111
Other expenses	30	(2,562,073)	(2,206,289)	(84,364)	(69,549)
		(41,248,773)	**(31,635,032)**	**(1,358,244)**	**(997,224)**
Results from operating activities		**3,149,701**	**1,867,893**	**103,713**	**58,881**
Net foreign exchange gain		166,185	667,531	5,472	21,042
Impairment of doubtful debts	12, 13	(88,442)	100,844	(2,912)	3,179
Share of loss of equity accounted investees (net of income tax)	8	(7,402)	(55,507)	(244)	(1,750)
Other finance income	31	609,046	450,726	20,055	14,208
Other finance costs	31	(3,317,703)	(2,843,701)	(109,245)	(89,641)
Profit before income tax		**511,385**	**187,786**	**16,839**	**5,919**
Income tax expense	32	(112,373)	(97,586)	(3,700)	(3,076)
Profit for the year		**399,012**	**90,200**	**13,139**	**2,843**
Other comprehensive income					
Foreign currency translation differences		(3,764)	4,371	(1,776)	(6,116)
Realisation of property, plant and equipment revaluation reserve		-	(65,578)	-	(2,067)
Income tax on realisation of property, plant and equipment revaluation reserve		-	13,112	-	413
Other comprehensive income for the year, net of income tax		**(3,764)**	**(48,095)**	**(1,776)**	**(7,770)**
Total comprehensive income for the year		**395,248**	**42,105**	**11,363**	**(4,927)**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

	Note	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Profit attributable to:					
Owners of the Company		382,538	38,044	12,597	1,199
Non-controlling interest		16,474	52,156	542	1,644
Profit for the year		**399,012**	**90,200**	**13,139**	**2,843**
Total comprehensive income attributable to:					
Owners of the Company		357,976	(16,561)	10,269	(6,336)
Non-controlling interest		37,272	58,666	1,094	1,409
Total comprehensive income for the year		**395,248**	**42,105**	**11,363**	**(4,927)**
Earnings per share					
Basic and diluted earnings per share	33	RUB 0.69	RUB 0.07	USD 0.023	USD 0.002

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

’000 RUB	Attributable to equity holders of the Company								
	Share capital	Reserve for own shares	Surplus from sale of treasury shares	Translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009	3,101,456	(173,244)	13,010	120,050	8,449,185	(5,591,349)	5,919,108	489,014	6,408,122
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	38,044	38,044	52,156	90,200
Other comprehensive income									
Foreign currency translation differences	-	-	-	(2,139)	-	-	(2,139)	6,510	4,371
Realisation of property, plant and equipment revaluation reserve	-	-	-	-	(384,422)	318,844	(65,578)	-	(65,578)
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	-	-	68,970	(55,858)	13,112	-	13,112
Total other comprehensive income	-	-	-	(2,139)	(315,452)	262,986	(54,605)	6,510	(48,095)
Total comprehensive income for the year	-	-	-	(2,139)	(315,452)	301,030	(16,561)	58,666	42,105
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividends to equity holders	-	-	-	-	-	(23,088)	(23,088)	-	(23,088)
Total contributions by and distributions to owners	-	-	-	-	-	(23,088)	(23,088)	-	(23,088)
Changes in ownership interests in subsidiaries									
Disposal of subsidiary	-	-	-	-	-	-	-	(35,731)	(35,731)
Total transactions with owners	-	-	-	-	-	(23,088)	(23,088)	(35,731)	(58,819)
Balance at 31 December 2009	**3,101,456**	**(173,244)**	**13,010**	**117,911**	**8,133,733**	**(5,313,407)**	**5,879,459**	**511,949**	**6,391,408**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

’000 RUB	**Attributable to equity holders of the Company**								
	Share capital	**Reserve for own shares**	**Surplus from sale of treasury shares**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	3,101,456	(173,244)	13,010	117,911	8,133,733	(5,313,407)	5,879,459	511,949	6,391,408
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	382,538	382,538	16,474	399,012
Other comprehensive income									
Foreign currency translation differences	-	-	-	(24,562)	-	-	(24,562)	20,798	(3,764)
Realisation of property, plant and equipment revaluation reserve	-	-	-	-	(275,355)	275,355	-	-	-
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	-	-	55,081	(55,081)	-	-	-
Total other comprehensive income	-	-	-	(24,562)	(220,274)	220,274	(24,562)	20,798	(3,764)
Total comprehensive income for the year	-	-	-	(24,562)	(220,274)	602,812	357,976	37,272	395,248
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Own shares acquired	-	(1,615)	-	-	-	-	(1,615)	-	(1,615)
Dividends to equity holders	-	-	-	-	-	(63,493)	(63,493)	-	(63,493)
Total contributions by and distributions to owners	-	(1,615)	-	-	-	(63,493)	(65,108)	-	(65,108)
Total transactions with owners	-	(1,615)	-	-	-	(63,493)	(65,108)	-	(65,108)
Balance at 31 December 2010	**3,101,456**	**(174,859)**	**13,010**	**93,349**	**7,913,459**	**(4,774,088)**	**6,172,327**	**549,221**	**6,721,548**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

'000 USD	**Attributable to equity holders of the Company**								
	Share capital	**Reserve for own shares**	**Surplus from sale of treasury shares**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	112,145	(6,815)	451	(1,587)	287,579	(190,309)	201,464	16,644	218,108
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	1,199	1,199	1,644	2,843
Other comprehensive income									
Foreign currency translation differences	-	-	-	(3,045)	(8,700)	5,864	(5,881)	(235)	(6,116)
Realisation of property, plant and equipment revaluation reserve	-	-	-	-	(12,118)	10,051	(2,067)	-	(2,067)
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	-	-	2,174	(1,761)	413	-	413
Total other comprehensive income	-	-	-	(3,045)	(18,644)	14,154	(7,535)	(235)	(7,770)
Total comprehensive income for the year	-	-	-	(3,045)	(18,644)	15,353	(6,336)	1,409	(4,927)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividends to equity holders	-	-	-	-	-	(728)	(728)	-	(728)
Total contributions by and distributions to owners	-	-	-	-	-	(728)	(728)	-	(728)
Changes in ownership interests in subsidiaries									
Disposal of subsidiary	-	-	-	-	-	-	-	(1,126)	(1,126)
Total transactions with owners	-	-	-	-	-	(728)	(728)	(1,126)	(1,854)
Balance at 31 December 2009	**112,145**	**(6,815)**	**451**	**(4,632)**	**268,935**	**(175,684)**	**194,400**	**16,927**	**211,327**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

’000 USD	**Attributable to equity holders of the Company**								
	Share capital	**Reserve for own shares**	**Surplus from sale of treasury shares**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	112,145	(6,815)	451	(4,632)	268,935	(175,684)	194,400	16,927	211,327
Total comprehensive income for the year									
Profit for the year						12,597	12,597	542	13,139
Other comprehensive income									
Foreign currency translation differences	-	-	-	(1,579)	(2,028)	1,279	(2,328)	552	(1,776)
Realisation of property, plant and equipment revaluation reserve	-	-	-	-	(9,067)	9,067	-	-	-
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	-	-	1,814	(1,814)	-	-	-
Total other comprehensive income	-	-	-	(1,579)	(9,281)	8,532	(2,328)	552	(1,776)
Total comprehensive income for the year	-	-	-	(1,579)	(9,281)	21,129	10,269	1,094	11,363
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Own shares acquired	-	(53)	-	-	-	-	(53)	-	(53)
Dividends to equity holders	-	-	-	-	-	(2,091)	(2,091)	-	(2,091)
Total contributions by and distributions to owners	-	(53)	-	-	-	(2,091)	(2,144)	-	(2,144)
Total transactions with owners	-	(53)	-	-	-	(2,091)	(2,144)	-	(2,144)
Balance at 31 December 2010	**112,145**	**(6,868)**	**451**	**(6,211)**	**259,654**	**(156,646)**	**202,525**	**18,021**	**220,546**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Cash flows from operating activities				
Profit before income tax	511,385	187,786	16,839	5,919
Adjustments for:				
Depreciation and amortisation	3,077,837	2,213,217	101,347	69,767
Loss on disposal of property, plant and equipment	316,743	127,768	10,430	4,028
Finance costs, net	2,804,501	2,347,638	92,346	74,004
Unrealised foreign exchange differences	(95,509)	(974,859)	(3,145)	(30,729)
Cash from operating activities before changes in working capital and provisions	**6,614,957**	**3,901,550**	**217,817**	**122,989**
(Increase)/decrease in inventories	(157,492)	396,915	(5,186)	12,694
Increase in trade and other receivables and net investment in finance leases	(1,957,769)	(682,165)	(64,466)	(21,504)
Decrease/(increase) in other advances	1,136,812	(253,519)	37,433	(7,992)
(Decrease)/increase in trade and other payables	(330,100)	1,438,394	(10,870)	45,342
Increase in employee benefits	35,485	50,694	1,168	1,598
(Decrease)/increase in advances received and deferred income	(50,402)	697,326	(1,660)	21,982
Increase/(decrease) in other taxes payable	424,427	(317,931)	13,976	(10,022)
Decrease/(increase) of assets classified as held for resale	506,527	(305,138)	16,679	(9,619)
Cash flows from operations before income taxes and interest paid	**6,222,445**	**4,926,126**	**204,891**	**155,468**
Income tax paid	(144,005)	(171,949)	(4,742)	(5,420)
Interest paid	(3,209,841)	(2,692,798)	(105,694)	(84,884)
Net cash from operating activities	**2,868,599**	**2,061,379**	**94,455**	**65,164**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Cash flows from investing activities				
Acquisition of property, plant and equipment	(6,581,726)	(3,349,466)	(216,724)	(105,766)
Proceeds from sale of property, plant and equipment	39,123	250,536	1,288	7,898
Acquisition of intangible assets	(88,819)	(39,563)	(2,925)	(1,247)
Interest received from deposits	404,973	-	13,335	-
Interest received from other investments held for sale	81,679	37,988	2,690	1,197
Acquisition of other investments	(841,919)	(6,315,147)	(27,723)	(199,071)
Proceeds from sale of other investments	1,481,126	5,475,563	48,771	172,605
Short-term loans provided to third parties	(7,098)	(69,578)	(234)	(2,193)
Short-term loans repaid by third parties	5,170	10,130	170	319
Deposits	5,830,480	(1,894,000)	191,987	(59,704)
Net cash from/(used in) investing activities	**322,989**	**(5,893,537)**	**10,635**	**(185,962)**
Cash flows from financing activities				
Proceeds from borrowings	32,378,765	46,720,533	1,066,171	1,472,761
Repayment of borrowings	(35,055,955)	(42,569,812)	(1,154,325)	(1,341,918)
Dividends paid to equity holders of the Company	(43,687)	(23,088)	(1,439)	(728)
Dividends paid to non-controlling holders	(530)	(8,002)	(17)	(252)
Repayment of liability under finance lease agreements	(539,154)	(111,759)	(17,753)	(3,523)
Acquisition of treasury shares	(1,615)	-	(53)	-
Net cash (used in)/from financing activities	**(3,262,176)**	**4,007,872**	**(107,416)**	**126,340**
Net (decrease)/increase in cash and cash equivalents	**(70,588)**	**175,714**	**(2,326)**	**5,542**
Effect of movements in exchange rates	-	-	(120)	(62)
Cash and cash equivalents at 1 January	514,586	338,872	17,014	11,534
Cash and cash equivalents at 31 December	**443,998**	**514,586**	**14,568**	**17,014**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 78.

1 Background

(a) Russian business environment

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

(b) Organisation and operations

The core businesses of UTair Aviation Joint Stock Company (the "Company" or "UTair") and its subsidiaries (collectively referred to as the "Group") are passenger and cargo transportation using airplanes and helicopters, helicopter services. The Group operates more than 300 aircraft. Cargo and passenger aircraft transportation is performed in Russia, CIS and non-CIS countries. The main customers of helicopter services of the Group are Russian oil and gas companies, and the United Nations Organisation (UN) outside Russia. The main aviation services are: catering, airport services, aircraft repairs and maintenance services, provision of passenger and cargo air transportation and aeronautical personnel training.

UTair, the parent company, was incorporated as an open joint stock company in the Russian Federation on 28 October 1992. The registered office of the Company is: 628012, Russia, Tyumen oblast, Khanty-Mansiysk, Airport.

As at 31 December the Company's ordinary shares were owned by:

Name	2010 % share	2009 % share
Surgutneftegaz NPF (Russia)	55.68	-
La Manche LLC (Russia)	4.99	19.99
Triseltco LLC (Russia)	4.99	19.84
Polint LLC (Russia)	4.99	18.80
Krajel LLC (Russia)	4.99	17.00
Individuals	14.01	14.20
Other legal entities	6.30	6.15
Treasury shares	4.05	4.02

The Company has the following subsidiaries, which are included in the consolidated financial statements:

Entity	Activity	2010 % share	2009 % share
Tsentr realizatsii perevozok i uslug LLC	Ticket sales agency	100.00	100.00
UTair-Leasing LLC	Leasing company	100.00	100.00
NP Tsentr podgotovki personala	Staff training and assessment	100.00	100.00
UTair-Cargo CJSC	Aviation services	100.00	100.00
Tyumenaviatekhsnab LLC	Delivery of property, plant, equipment and materials	100.00	100.00
UTair-Finance LLC	Finance services	100.00	100.00
UTair-Technique LLC	Repair and maintenance of aircraft fleet	100.00	100.00
UTair-Ufa LLC	Regional office of UTair	100.00	100.00
UTair-Samara LLC	Regional office of UTair	100.00	100.00
Tobolskavia LLC	Airport services	100.00	100.00
UTair-Express LLC	Aviation services	100.00	100.00
Tsentr ekonomicheskikh preobrazovaniy LLC	Investing activities	100.00	100.00
UTair-Development LLC	Finance agency, sale/purchase of real estate	100.00	100.00
UTair South Africa (Pty) Ltd.	Aviation services and maintenance of aircraft fleet	100.00	100.00
UTair Sierra Leone Limited	Aviation services and maintenance of aircraft fleet	100.00	100.00
UT Project Services Ltd. (India)	Regional office of UTair, agency services	100.00	100.00
West Sib-Capital Limited (Cyprus)	Investing activities	100.00	100.00
UTair-Irkutsk LLC	Regional office of UTair	100.00	100.00
UTair-Murmansk LLC	Regional office of UTair	100.00	100.00
Ukraine UTair Aviation Company LLC	Aviation services	100.00	100.00
Tyumensky nauchno-proizvodstvenniy tsentr aviatsii obschego naznachenia LLC	Research and development	100.00	100.00
UTair India Private Limited (India)	Aviation services	100.00	100.00
NP Tyumenskoe letno-tekhnicheskoe uchilische grazhdanskoy aviatsii LLC	Training center	100.00	100.00
UTair Africa (Pty) Ltd.	Aviation services	100.00	100.00
Utstar LLC	Advertising services	99.00	99.00
Airport Ust-Kut OJSC	Airport services	85.57	85.57
UTair-Engineering OJSC	Repair and maintenance of aircraft fleet	82.17	82.17
Aviation del Sur S.A. (Peru)	Aviation services	70.00	70.00
Zapadno-sibirskoe agentstvo vozdushnykh soobscheniy LLC	Ticket sales	51.00	51.00
UTG CJSC	Ground maintenance services	50.00	50.00
Ukrainskaya handlingovaya kompania (Ukraine)	Trade in fuel, organisation of cargo transportation	50.00	50.00
HeliExpress LLC	Aviation services, agent services	50.00	50.00
UTair Europe s.r.o. (Slovakia)	Aviation services	20.00	20.00
ChOP Tsentr aviatsionnoy bezopasnosti LLC	Aircraft security services	-	100.00
Utravel LLC	Travel agency services	-	100.00

All subsidiaries of the Group are incorporated under the laws of the Russian Federation except for subsidiaries in South Africa, India, Cyprus, Slovakia, Peru and Ukraine.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except:

- derivative financial instruments and financial investments classified as available-for-sale are stated at fair value;
- certain items of property, plant and equipment are remeasured at fair value on a regular basis.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented.

In addition, these consolidated financial statements are presented in US dollars ("USD") for the convenience of foreign users. The assets and liabilities, both monetary and non-monetary, have been translated at the exchange rates at the date of each balance sheet presented in accordance with International Accounting Standard ("IAS") 21 *The Effect of Changes in Foreign Exchange Rates*. Income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or at a rate that approximates the actual exchange rates. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency reserve in equity.

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

The following table details the exchange rates used to translate RUB to USD:

	Exchange rate:
As at 31 December 2010	30.4769
Average rate in 2010	30.3692
As at 31 December 2009	30.2442
Average rate in 2009	31.7231
As at 1 January 2009	29.3804

All financial information presented in RUB and USD has been rounded to the nearest thousand.

(d) Use of estimates and judgments

(i) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

The Group determined that the substance of the relationship between the Group and UTG CJSC, with a 50% share belonging to the Group, indicates that UTG CJSC is controlled by the Group. As a result, this entity has been included in the Group's consolidated financial statements as at 31 December 2010 and 2009, because this is a special purpose entity.

In 2007 the Group reduced its share in Ukrainskaya handlingovaya kompania (Ukraine) from 100% to 50% due to the specifics of local legislation. Nevertheless, Ukrainskaya handlingovaya kompania (Ukraine) still remains under the control of the Group. As a result, the entity has been included in the Group's consolidated financial statements as at 31 December 2010 and 2009, because this is a special purpose entity.

The Group determined that the substance of the relationship between the Group and UTair Europe s.r.o. (Slovakia), with a 20% share belonging to the Group, indicates that UTair Europe s.r.o. (Slovakia) is controlled by the Group. As a result, this entity has been included in the Group's consolidated financial statements as at 31 December 2010 and 2009, because this is a special purpose entity.

(ii) Estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgmental estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of resulting in a material adjustment within the next financial year are discussed below:

Useful life of property, plant and equipment

The Group assesses the remaining useful lives, residual values and methods of depreciation of items of property, plant and equipment at least at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for specific impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in the fair value reserve in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one cash-generating unit. Corporate assets are allocated to cash-generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash-generating unit to which the corporate asset is allocated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Provisions

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

The Group makes an allowance for obsolete inventories. Estimates of the net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the reporting period.

Post-employment benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees (rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary increases).

In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially. More details are provided in note 24.

Legal claims

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in note 37(c).

Deferred tax assets and liabilities

The management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction.

Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Group may be negatively affected. In the event that an assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

Some comparative figures have been re-presented to provide comparability with the current year amounts.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Acquisition of subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of acquisition. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognizes any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result goodwill or negative goodwill is adjusted accordingly.

Comparative information for the periods before the completion of the initial accounting for the acquisition is presented as if the initial accounting had been completed at the acquisition date.

(iii) Special purpose entities

The Group has established a number of special purpose entities ("SPEs") for trading and investment purposes. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005 such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans, receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 13 and cash and cash equivalents as presented in note 17.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a co mponent of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 2(d)(ii)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Derivative financial instruments

The Group holds interest rate swaps to manage interest rate volatility.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Treasury shares

When share capital recognised as equity is repurchased by the Company or its subsidiaries, the amount of the consideration paid, including any attributable costs, net of income taxes, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in surplus from sale of treasury shares.

Non-controlling interest

Non-controlling interest represents the interest in subsidiaries not held by the Group. Non-controlling interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the acquisition. Minority interest is presented within shareholders' equity.

(d) Property, plant and equipment

(i) Aircraft, helicopters, engines, land and buildings

Aircraft, helicopters, engines, land and buildings are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Following initial recognition, they are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group involved independent appraisers to determine the fair value of aircraft, helicopters, engines, land and buildings. The most recent valuation was performed as of 31 December 2008.

A revaluation increase is recognised directly in the revaluation reserve in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income. The Group does not recognise an annual transfer from the revaluation reserve to retained earnings for the depreciation relating to the revaluation surplus, due to impracticability of such a disclosure. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When a revalued asset is sold, the amount included in the revaluation reserve is transferred to retained earnings.

(ii) Rotables

Rotables acquired as a part of aircraft and helicopters or separately are recorded as property, plant and equipment and amortised according to their useful lives (mainly 5 years).

(iii) Construction in progress

Construction in progress is recorded at purchase or construction cost.

(iv) Impairment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss except to the extent that the impairment reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognized in other comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

(v) Depreciation

Depreciation is based on the cost of an asset or its revalued amount less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation for aircraft, helicopters and engines is calculated using the straight-line method over the estimated remaining useful lives defined in years by independent appraisers for each specific aircraft, helicopter and engine, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset The remaining useful lives for the current and comparative periods vary from 1 to 42 years.

Depreciation for other property, plant and equipment is calculated using the straight-line method over the following estimated useful lives for the current and comparative periods, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset:

- buildings 20-57 years
- rotables 5 years
- other 3-8 years

Land is not depreciated.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

(vi) Accounting for major overhauls

Consistent with IAS 16 *Property, Plant and Equipment*, the Group identifies as a sep arate component of its aircraft, helicopters and engines an amount representing major overhaul and depreciates that component over the period to the next major overhaul to reflect the consumption of benefits, which are replaced or restored by the subsequent major overhaul. Amounts spent on major maintenance overhauls are subsequently capitalised as a sep arate component of an aircraft, helicopter or an engine with a different useful life.

(vii) Repair and maintenance

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated statement of comprehensive income as incurred.

(viii) Borrowing costs

Interest costs on bo rrowings to finance the construction of property, plant and equipment are capitalised in the cost of relevant asset, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

Acquisitions of subsidiaries

Goodwill represents the excess of the fair value of the consideration paid over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the assets. The estimated useful lives for the current and comparative periods are as follows:

- patents and trademarks 10-20 years
- software 3-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leases (Group as a lessor)

(i) Finance leases

When assets are leased to non-Group companies under a finance lease, the present value of the lease payments ("net investment in finance leases") is recognised as a receivable.

The sales revenue recognised at the commencement of the lease term is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the Group, discounted at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the Group's policy for outright sales (see note 3(l)).

The difference between the gross receivable and the present value of the receivable, which is a finance income, is recognised based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. The net investment in the lease and the related obligation to purchase the asset are recorded when the lease contract is signed. Any advance payments made by the lessee prior to commencement of the lease reduces the net investment in the lease.

Provisions against net investment in leases are based on the evaluation by the management of the collectability of the net investment in leases. Specific provisions are made against amounts which recovery has been identified as doubtful. The aggregate provisions made as at the year end are charged against profit or loss

Settlements on equipment purchased for leasing purposes are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(ii) Operating lease

Payments made under operating leases are charged against income in equal instalments over the period of the lease.

(g) Leases (Group as a lessee)

(i) Finance leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the commencement of the lease term, and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets ant the arrangement conveys the right to use the asset.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. If there is not reasonably certain that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term or its useful life.

(ii) Operating lease

Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Group are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle ("FIFO"), and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Assets held for sale are not depreciated.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including the Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the services are discounted to their present value.

(ii) Defined benefit plans

The Group companies provide additional pensions and other post-employment benefits to its employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The entitlement to some benefits is conditional on the period during which a retiree resides at places where the Group is based.

The liability recognised in the consolidated statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligations at the reporting date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The discount rate is the yield at the reporting date on investment grade government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The defined benefit obligation is calculated annually by a qualified actuary using the projected unit credit method. Actuarial gains and losses are recognised in profit or loss in the period in which they occur. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(iii) Short-term benefits

The Group incurs employee costs related to the provision of benefits such as medical insurance and kindergartens. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to operating expenses.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is realised as a separate asset but only when the reimbursement is virtually certain.

(l) Revenue

Operating revenue from the sale of airline and other services is measured at the fair value of the consideration received or receivable , net of any discounts and taxes.

(i) Tickets sold

Revenue from sales of tickets for regular flights is recognised in the period in which the service is provided. Unearned revenue represents tickets sold but not yet flown and is included in deferred income. It is released to profit or loss as flights occur. Unused non-valid tickets which are not refundable are recognised as revenue.

(ii) Other services

Sales of other services (cargo, charters, helicopter services, airport and technical support services) are recognised in the period in which the services are provided.

(iii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. When the grant relates to an expense item, it is recognised as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of comprehensive income over the expected useful life of the relevant asset in equal annual instalments.

(v) Customer loyalty programme

Customer loyalty award credits (bonus miles) earned but unused under frequent flyer programme “Status” (see note 23) are accounted for as a separate component of the sales transaction in which they are granted, and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period in which the award credits are fulfilled.

Bonus miles earned but unused under the frequent flyer programme “Status” are deferred using the deferred income method to the extent that they are likely to be used on flights of the Group. The fair value of miles accumulated on the Group’s own flights is recognised under deferred income (see note 23) and the miles collected from third parties as well as promotional miles are recognised under other liabilities (see notes 22, 23).

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group’s contributions to social programmes benefit the community at large and are not restricted to the Group’s employees, they are recognised in profit or loss as incurred.

(n) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(i) Strategic business units

During the year ended 31 December 2010, the only financial information regularly provided to the CEO, who is the Group's chief operating decision maker ("CODM"), consisted of quarterly statutory financial statements for each Group entity prepared in accordance with Russian accounting principles, which differ in a number of respects from the IFRSs. The Group considers that it has two strategic business units. No segment information is regularly available to the CODM because the financial information available to the CODM is not presented by strategic business unit.

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IAS 24 (2010) *Related Party Disclosures* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including

commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

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

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

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

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.

- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

- Amendment to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on i ts financial position or performance.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a r easonable profit margin based on the effort required to complete and sell the inventories.

(d) Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

(e) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(f) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(g) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Strategic business units

Management of the Group is currently in the process of establishing an IFRS reporting system. During the year ended 31 December 2010, the chief operating decision maker did not regularly receive financial information for the Group’s two strategic business units: passenger traffic and helicopter services.

Passenger traffic includes aircraft regular and charter flights, cargo services. The Group provides aircraft and cargo services on the internal and international airlines using aircraft of various types. The major part of these transportation services is represented by regular flights.

Helicopter services include installation works, forestry surveillance and aerial-chemical services, search and rescue works, urgent medical evacuation, aerial-visual works, monitoring of oil and gas pipelines, as well as passenger transportation services. The main helicopter service provided by the Group abroad is an air-transportation support of peacemaking missions of the UN in a number of countries.

Capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Unallocated items mainly comprise corporate assets, certain borrowings and receivables and tax balances.

Information regarding the results of each strategic business unit is included below.

(i) Information about strategic business units

’000 RUB	Passenger traffic 2010	Passenger traffic 2009	Helicopter services 2010	Helicopter services 2009	Total 2010	Total 2009
External revenues	27,544,932	18,924,715	15,864,494	13,648,699	43,409,426	32,573,414
Inter-unit revenues	24,994	6,916	13,078	16,484	38,072	23,400
Interest income	177,703	282,551	8,905	62,868	186,608	345,419
Interest expense	(347,046)	(477,922)	(849,162)	(285,487)	(1,196,208)	(763,409)
Depreciation and amortisation	(765,479)	(557,152)	(2,243,318)	(1,521,456)	(3,008,797)	(2,078,608)
Share of loss of equity accounted investees	-	-	(7,402)	(55,507)	(7,402)	(55,507)
Profit before tax	(2,658,124)	(2,958,660)	4,702,823	3,985,210	2,044,699	1,026,550
Assets	9,871,899	14,712,750	26,849,185	15,848,319	36,721,084	30,561,069
Capital expenditure	801,691	827,009	9,039,807	3,001,327	9,841,498	3,828,336
Liabilities	(8,790,286)	(10,008,290)	(10,041,181)	(6,520,009)	(18,831,467)	(16,528,299)

’000 USD	Passenger traffic 2010	Passenger traffic 2009	Helicopter services 2010	Helicopter services 2009	Total 2010	Total 2009
External revenues	907,002	596,559	522,388	430,245	1,429,390	1,026,804
Inter-unit revenues	823	218	431	520	1,254	738
Interest income	5,851	8,907	294	1,982	6,145	10,889
Interest expense	(11,428)	(15,065)	(27,961)	(8,999)	(39,389)	(24,064)
Depreciation and amortisation	(25,206)	(17,563)	(73,868)	(47,961)	(99,074)	(65,524)
Share of loss of equity accounted investees	-	-	(244)	(1,750)	(244)	(1,750)
Profit before tax	(87,527)	(93,265)	154,855	125,625	67,328	32,360
Assets	323,914	486,466	880,969	524,011	1,204,883	1,010,477
Capital expenditure	26,398	26,070	297,664	94,610	324,062	120,680
Liabilities	(288,425)	(330,916)	(329,468)	(215,579)	(617,893)	(546,495)

(ii) *Major customers and geographical areas*

Breakdown of revenue by types of customers and geographical areas is presented in note 27.

(iii) *Reconciliations of revenues, profit or loss, assets and liabilities and other material items*

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Revenues				
Total revenue for strategic business units	43,447,498	32,596,814	1,430,644	1,027,542
Other revenue	989,048	929,511	32,567	29,301
Elimination of inter-unit revenues	(38,072)	(23,400)	(1,254)	(738)
	44,398,474	**33,502,925**	**1,461,957**	**1,056,105**
Profit before income tax				
Total profit before tax for strategic business units	2,044,699	1,026,550	67,328	32,360
Other profit	159,975	423,353	5,268	13,345
Elimination of inter-unit profits	(1,813)	(330)	(60)	(11)
Unallocated amounts, including:	(1,691,476)	(1,261,787)	(55,697)	(39,775)
Depreciation and amortisation	(69,040)	(134,609)	(2,273)	(4,243)
Interest income	145,774	69,463	4,800	2,189
Interest expense	(2,101,304)	(1,924,206)	(69,192)	(60,657)
Net foreign exchange gain	166,186	667,531	5,472	21,043
Other	166,908	60,034	5,496	1,893
	511,385	**187,786**	**16,839**	**5,919**
Assets				
Total assets for strategic business units	36,721,084	30,561,069	1,204,883	1,010,477
Other investments	57,241	421,438	1,879	13,934
Loans issued	921,272	854,024	30,228	28,238
Receivables for operations with securities	1,068,441	746,675	35,057	24,688
Other assets	663,046	447,027	21,756	14,782
Other unallocated amounts	3,945,258	9,007,823	129,451	297,836
	43,376,342	**42,038,056**	**1,423,254**	**1,389,955**
Liabilities				
Total liabilities for strategic business units	(18,831,467)	(16,528,299)	(617,893)	(546,495)
Other unallocated amounts (mainly loans and borrowings)	(17,823,327)	(19,118,349)	(584,815)	(632,133)
	(36,654,794)	**(35,646,648)**	**(1,202,708)**	**(1,178,628)**

(iv) *Other material items in 2010*

	Strategic business units totals '000 RUB	Adjustments '000 RUB	Consolidated totals '000 RUB	Strategic business units totals '000 USD	Adjustments '000 USD	Consolidated totals '000 USD
Interest income	186,608	145,774	332,382	6,145	4,800	10,945
Interest expense	(1,196,208)	(2,101,304)	(3,297,512)	(39,389)	(69,192)	(108,581)
Capital expenditure	9,841,498	49,508	9,891,006	324,062	1,630	325,692
Depreciation and amortisation	(3,008,797)	(69,040)	(3,077,837)	(99,074)	(2,273)	(101,347)

(v) Other material items in 2009

	Strategic business units totals ’000 RUB	Adjustments ’000 RUB	Consolidated totals ’000 RUB	Strategic business units totals ’000 USD	Adjustments ’000 USD	Consolidated totals ’000 USD
Interest income	345,419	69,463	414,882	10,889	2,189	13,078
Interest expense	(763,409)	(1,924,206)	(2,687,615)	(24,064)	(60,657)	(84,721)
Capital expenditure	3,828,336	36,122	3,864,458	120,680	1,138	121,818
Depreciation and amortisation	(2,078,608)	(134,609)	(2,213,217)	(65,524)	(4,243)	(69,767)

6 Property, plant and equipment

’000 RUB	Land and buildings	Rotables, aircraft, helicopter and engines	Other	Construction in progress	Total
Cost					
Balance at 1 January 2009	5,452,774	16,013,737	1,898,066	222,253	23,586,830
Additions	108,174	3,448,391	212,939	94,954	3,864,458
Disposals	(65,792)	(301,265)	(119,246)	-	(486,303)
Disposal of subsidiary	(85,280)	-	-	-	(85,280)
Effect of movements in exchange rates	473	(6,498)	593	-	(5,432)
Balance at 31 December 2009	**5,410,349**	**19,154,365**	**1,992,352**	**317,207**	**26,874,273**
Depreciation and impairment losses					
Balance at 1 January 2009	(401,096)	(1,513,472)	(1,495,812)	-	(3,410,380)
Depreciation for the year	(199,594)	(1,897,765)	(86,855)	-	(2,184,214)
Disposals	901	39,370	67,728	-	107,999
Effect of movements in exchange rates	(70)	(2,014)	(364)	-	(2,448)
Balance at 31 December 2009	**(599,859)**	**(3,373,881)**	**(1,515,303)**	**-**	**(5,489,043)**
Cost					
Balance at 1 January 2010	5,410,349	19,154,365	1,992,352	317,207	26,874,273
Additions	228,723	8,961,395	447,472	253,416	9,891,006
Disposals	(20,437)	(1,131,022)	(517,509)	(3,533)	(1,672,501)
Effect of movements in exchange rates	402	12,273	959	11	13,645
Balance at 31 December 2010	**5,619,037**	**26,997,011**	**1,923,274**	**567,101**	**35,106,423**
Depreciation and impairment losses					
Balance at 1 January 2010	(599,859)	(3,373,881)	(1,515,303)	-	(5,489,043)
Depreciation for the year	(192,270)	(2,669,576)	(112,981)	-	(2,974,827)
Disposals	10,580	826,301	479,754	-	1,316,635
Effect of movements in exchange rates	(259)	(1,791)	(535)	-	(2,585)
Balance at 31 December 2010	**(781,808)**	**(5,218,947)**	**(1,149,065)**	**-**	**(7,149,820)**
Carrying amounts					
At 1 January 2009	**5,051,678**	**14,500,265**	**402,254**	**222,253**	**20,176,450**
At 31 December 2009	**4,810,490**	**15,780,484**	**477,049**	**317,207**	**21,385,230**
At 31 December 2010	**4,837,229**	**21,778,064**	**774,209**	**567,101**	**27,956,603**

'000 USD	Land and buildings	Rotables, aircraft, helicopter and engines	Other	Construction in progress	Total
Cost					
Balance at 1 January 2009	185,592	545,048	64,603	7,565	802,808
Additions	3,410	108,703	6,712	2,993	121,818
Disposals	(2,074)	(9,497)	(3,759)	-	(15,330)
Disposal of subsidiary	(2,688)	-	-	-	(2,688)
Effect of movements in exchange rates	(5,353)	(10,929)	(1,682)	(70)	(18,034)
Balance at 31 December 2009	**178,887**	**633,325**	**65,874**	**10,488**	**888,574**
Depreciation and impairment losses					
Balance at 1 January 2009	(13,652)	(51,513)	(50,912)	-	(116,077)
Depreciation for the year	(6,292)	(59,823)	(2,737)	-	(68,852)
Disposals	28	1,241	2,135	-	3,404
Effect of movements in exchange rates	82	(1,459)	1,413	-	36
Balance at 31 December 2009	**(19,834)**	**(111,554)**	**(50,101)**	**-**	**(181,489)**
Cost					
Balance at 1 January 2010	**178,887**	**633,325**	**65,874**	**10,488**	**888,574**
Additions	7,531	295,082	14,734	8,345	325,692
Disposals	(673)	(37,242)	(17,041)	(116)	(55,072)
Effect of movements in exchange rates	(1,375)	(5,346)	(461)	(109)	(7,291)
Balance at 31 December 2010	**184,370**	**885,819**	**63,106**	**18,608**	**1,151,903**
Depreciation and impairment losses					
Balance at 1 January 2010	**(19,834)**	**(111,554)**	**(50,101)**	**-**	**(181,489)**
Depreciation for the year	(6,331)	(87,904)	(3,720)	-	(97,955)
Disposals	348	27,209	15,797	-	43,354
Effect of movements in exchange rates	165	1,006	321	-	1,492
Balance at 31 December 2010	**(25,652)**	**(171,243)**	**(37,703)**	**-**	**(234,598)**
Carrying amounts					
At 1 January 2009	**171,940**	**493,535**	**13,691**	**7,565**	**686,731**
At 31 December 2009	**159,053**	**521,771**	**15,773**	**10,488**	**707,085**
At 31 December 2010	**158,718**	**714,576**	**25,403**	**18,608**	**917,305**

As at 31 December 2010 the cost of fully depreciated property, plant and equipment was RUB 1,194,684 thousand/USD 39,200 thousand (2009: RUB 803,969 thousand/USD 26,583 thousand).

Expenses capitalised in property, plant and equipment, which consist of overhaul costs, in 2010 amounted to RUB 992,908 thousand/USD 32,695 thousand (2009: RUB 927,270 thousand/USD 29,230 thousand).

(a) Security

At 31 December 2010 properties with a carrying amount of RUB 4,680,226 thousand/USD 153,566 thousand (2009: RUB 8,046,415 thousand/USD 266,048 thousand) are pledged to secure bank loans (see note 20).

(b) Operating leases

The Group has entered into operating lease contracts for a number of fixed assets: buildings, installations and aircraft (frames and engines). These leases have an average life of 1 to 7 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed in note 35.

(c) Finance leases

In 2008-2010 the Group entered into aircraft lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term of 5 to 8 years. The estimated average remaining useful life of leased assets varies from 25 to 41 years. As at 31 December 2010 the carrying value of the aircraft used by the Group under finance leases was RUB 6,296,941 thousand/USD 206,614 thousand (2009: RUB 3,048,195 thousand/USD 100,787 thousand). Finance lease obligations are disclosed in note 20.

7 Intangible assets

(a) Goodwill

Goodwill arose in 2008 on the acquisition of a foreign subsidiary. Based on impairment test of the goodwill, performed as at 31 December 2010, no impairment loss was recognised.

(b) Other intangible assets

Other intangible assets in the total amount of RUB 336,150 thousand/USD 11,030 thousand (2009: RUB 350,341 thousand/USD 11,584 thousand) include customer relationships identified as a result of acquisition of a foreign subsidiary in the amount of RUB 249,114 thousand/USD 8,174 thousand and RUB 260,100 thousand/USD 8,600 thousand as at 31 December 2010 and 2009 accordingly.

8 Equity accounted investees

The Group's share of loss in its equity accounted investees for 2010 was RUB 7,402 thousand/USD 244 thousand (2009: RUB 55,507 thousand/USD 1,750 thousand).

In 2010 and 2009 the Group did not receive dividends from any of its investments in equity accounted investees.

The following is summarised financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

'000 RUB	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Loss**
2009					
Kondaavia CJSC (Russia)	45.5%	47,546	13,388	62, 639	(57)
Nefteyuganskiy Aviaotryad OJSC	24.4%	1,265,437	533,413	1, 298,735	(278,258)
		1,312,983	**546,801**	**1,361,374**	**(278,315)**

’000 RUB	Ownership	Total assets	Total liabilities	Revenues	Loss
2010					
Kondaavia CJSC (Russia)	45.5%	42,053	9,439	39,952	(1,054)
Nefteyuganskiy Aviaotryad OJSC	24.4%	1,206,742	532,707	1,941,948	(28,484)
		1,248,795	**542,146**	**1,981,900**	**(29,538)**

’000 USD	Ownership	Total assets	Total liabilities	Revenues	Loss
2009					
Kondaavia CJSC	45.5%	1,572	443	1,974	(2)
Nefteyuganskiy Aviaotryad OJSC	24.4%	41,841	17,637	40,940	(8,771)
		43,413	**18,080**	**42,914**	**(8,773)**
2010					
Kondaavia CJSC	45,5%	1,380	310	1,315	(35)
Nefteyuganskiy Aviaotryad OJSC	24,4%	39,595	17,479	63,945	(938)
		40,975	**17,789**	**65,260**	**(973)**

9 Other investments

Investments held for trading comprise equity instruments that are mainly listed on the RTS. The fair value of these investments was determined by reference to their quoted market prices.

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Long-term				
Available-for-sale investments	52,285	16,455	1,716	544
	52,285	**16,455**	**1,716**	**544**
Short-term				
Investments held for trading (classified as at fair value through profit or loss)	3,569	274,207	117	9,066
Available-for-sale investments	1,387	130,776	46	4,324
	4,956	**404,983**	**163**	**13,390**

The Group’s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 34.

10 Loans issued

As at 31 December 2010 long-term loans include unsecured loans denominated in USD amounting to RUB 54,858 thousand/USD 1,800 thousand (2009: RUB 54,500 thousand/USD 1,802 thousand), which bear interest rate of 8% per annum (2009: 8% per annum) and mature before 10 June 2013.

As at 31 December 2010 unsecured short-term loans amounting to RUB 863,416 thousand/USD 28,330 thousand (2009: RUB 794,654 thousand/USD 26,275 thousand) are denominated in RUB, bear interest rate of 11.50% to 12.08% per annum (2009: 10.00% to 12.00% per annum) and mature before 31 December 2011.

For information about the Group's exposure to credit and currency risk related to loans issued see note 34.

11 Net investment in finance leases

The net investment in finance leases, resulting from the long-term finance lease agreements entered into by the Group as a lessor through a subsidiary, comprise the following:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Gross investments in leases	421,919	159, 959	13,844	5,289
Less: unearned finance lease income	(125,957)	(29,161)	(4,133)	(964)
Net investment in finance leases	**295,962**	**130,798**	**9,711**	**4,325**

Rate of return under the lease agreements varies from 16% to 39% per annum (2009: 19% to 32% per annum) depending on the total amount and duration of the contract as well as other terms. The amounts receivable under lease agreements are secured by the leased assets.

Lease payments are payable in RUB. The maturity structure of the net and gross investment in finance leases is as follows:

'000 RUB	**2010**		**2009**	
	Gross investment	**Net investment**	**Gross investment**	**Net investment**
Less than 1 year	126,482	55,676	111,322	91,028
1 to 5 years	295,437	240,286	48,637	39,770
Total	**421,919**	**295,962**	**159,959**	**130,798**

'000 USD	**2010**		**2009**	
	Gross investment	**Net investment**	**Gross investment**	**Net investment**
Less than 1 year	4,150	1,827	3,681	3,010
1 to 5 years	9,694	7,884	1,608	1,315
Total	**13,844**	**9,711**	**5,289**	**4,325**

12 Other advances issued

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Long-term				
Advances issued under operating lease agreements	122,099	-	4,006	-
Other	1,876	25,760	62	852
	123,975	**25,760**	**4,068**	**852**
Short-term				
Advances issued under operating lease agreements	83,107	-	2,727	-
Advances issued for assets classified as held for sale (see note 18)	-	1,900,102	-	62,825
Other	1,392,745	810,777	45,698	26,808
	1,475,852	**2,710,879**	**48,425**	**89,633**

The table below summarises the changes in the provision for impairment of advances issued as at 31 December:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
1 January	**83,778**	**73,799**	**2,770**	**2,512**
Utilised during the year	(52,850)	-	(1,740)	-
Reversed during the year	(11,582)	-	(381)	-
Charged during the year	65,970	9,979	2,172	314
Effect of movements in exchange rates	-	-	(22)	(56)
31 December	**85,316**	**83,778**	**2,799**	**2,770**

13 Trade and other receivables

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Trade receivables	5,007,241	2,861,050	164,296	94,598
VAT recoverable	319,833	250,161	10,494	8,271
Other taxes receivable	926,919	895,638	30,414	29,614
Receivables for operations with securities	1,068,441	746,675	35,057	24,688
Receivables from related parties (see note 38)	577,355	512,087	18,944	16,932
Deferred expenses	43,102	64,829	1,414	2,144
Other accounts receivable	383,880	514,542	12,597	17,013
Less:				
Provision for impairment of trade receivables	(76,284)	(69,680)	(2,503)	(2,304)
Provision for impairment of other receivables	(42,160)	(33,840)	(1,383)	(1,119)
	8,208,327	**5,741,462**	**269,330**	**189,837**

Receivables for operations with securities are amounts receivable from trust account manager for securities which were paid for but had not been transferred to the Group as at the reporting date.

The total amount of current trade and other receivables includes revenue from passenger transportation in the amount of RUB 186,201 thousand/USD 6,110 thousand (2009: RUB 213,861 thousand/USD 7,071 thousand) which remains as at 31 December 2010 at transportation sales agent cash desks. This amount of revenue is subject to transfer to the Group's bank account in early January.

The following table summarises the changes in the provision for impairment of trade and other receivables during the year ended 31 December:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
1 January	**103,520**	**214,343**	**3,423**	**7,295**
Utilised during the year	(19,130)	-	(630)	-
Reversed during the year	(20,496)	(151,894)	(675)	(4,788)
Charged during the year	54,550	41,071	1,796	1,295
Effect of movements in exchange rates	-	-	(28)	(379)
31 December	**118,444**	**103,520**	**3,886**	**3,423**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 34.

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	34,667	40,629	(2,460,522)	(2,621,369)	(2,425,855)	(2,580,740)
Intangible assets	-	-	(75,174)	(106,511)	(75,174)	(106,511)
Investments	-	-	-	(16,051)	-	(16,051)
Inventories	14, 381	72,134	(621)	(323)	13,760	71,811
Trade and other receivables	87,435	197,175	(1,362)	(23,023)	86,073	174,152
Advance received and deferred income	198,125	259,561	(30,688)	(17,647)	167,437	241,914
Trade and other payables	346,317	283,648	(2,466)	-	343,851	283,648
Tax loss carry-forwards	145,980	115,400	-	-	145,980	115,400
Other differences	38,528	44,210	(8,794)	(26,160)	29,734	18,050
Tax assets/(liabilities)	865,433	1,012,757	(2,579,627)	(2,811,084)	(1,714,194)	(1,798,327)
Set off of tax	(749,605)	(943,771)	749,605	943,771	-	-
Net tax assets/(liabilities)	**115,828**	**68,986**	**(1,830,022)**	**(1,867,313)**	**(1,714,194)**	**(1,798,327)**

	Assets		Liabilities		Net	
'000 USD	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	1,138	1,343	(80,734)	(86,673)	(79,596)	(85,330)
Intangible assets	-	-	(2,466)	(3,522)	(2,466)	(3,522)
Investments		-	-	(531)	-	(531)
Inventories	472	2,385	(21)	(11)	451	2,374
Trade and other receivables	2,869	6,519	(45)	(761)	2,824	5,758
Advance received and deferred income	6,501	8,582	(1,007)	(583)	5,494	7,999
Trade and other payables	11,363	9,378	(81)	-	11,282	9,378
Tax loss carry-forwards	4,790	3,816	-	-	4,790	3,816
Other differences	1,264	1,462	(288)	(865)	976	597
Tax assets/(liabilities)	28,397	33,485	(84,642)	(92,946)	(56,245)	(59,461)
Set off of tax	(24,596)	(31,205)	24,596	31,205	-	-
Net tax assets/(liabilities)	**3,801**	**2,280**	**(60,046)**	**(61,741)**	**(56,245)**	**(59,461)**

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2010 '000 RUB	**2009 '000 RUB**	**2010 '000 USD**	**2009 '000 USD**
Tax losses	29,967	74,117	983	2,450
	29,967	**74,117**	**983**	**2,450**

The tax losses expire in 2018. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(c) Unrecognised deferred tax liability

A deferred tax liability for temporary differences related to investments in subsidiaries has not been recognised as the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(d) Movement in temporary differences during the year

'000 RUB	1 January 2010	Recognised in profit or loss	Foreign currency translation reserve	31 December 2010
Property, plant and equipment	(2,580,740)	158,718	(3,833)	(2,425,855)
Intangible assets	(106,511)	31,911	(574)	(75,174)
Investments	(16,051)	16,051	-	-
Inventories	71,811	(58,051)	-	13,760
Trade and other receivables	174,152	(88,079)	-	86,073
Advance received and deferred income	241,914	(74,477)	-	167,437
Trade and other payables	283,648	60,203		343,851
Other items	18,050	11,684	-	29,734
Tax loss carry-forwards	115,400	30,580	-	145,980
	(1,798,327)	**88,540**	**(4,407)**	**(1,714,194)**

'000 RUB	1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Foreign currency translation reserve	Disposed of	31 December 2009
Property, plant and equipment	(2,385,323)	(220,905)	13,112	(4,541)	16,917	(2,580,740)
Intangible assets	(67,934)	(36,348)	-	(2,229)	-	(106,511)
Investments	(6,918)	(9,133)	-	-	-	(16,051)
Inventories	102,375	(30,564)	-	-	-	71,811
Trade and other receivables	96,140	78,012	-	-	-	174,152
Advance received and deferred income	184,678	57,236	-	-	-	241,914
Trade and other payables	207,024	76,624				283,648
Other items	47,305	(29,255)	-	-	-	18,050
Tax loss carry-forwards	113,600	1,800	-	-	-	115,400
	(1,709,053)	**(112,533)**	**13,112**	**(6,770)**	**16,917**	**(1,798,327)**

’000 USD	1 January 2010	Recognised in profit or loss	Foreign currency translation reserve	31 December 2010
Property, plant and equipment	(85,330)	5,226	508	(79,596)
Intangible assets	(3,522)	1,051	5	(2,466)
Investments	(531)	528	3	
Inventories	2,374	(1,912)	(11)	451
Trade and other receivables	5,758	(2,900)	(34)	2,824
Advance received and deferred income	7,999	(2,452)	(53)	5,494
Trade and other payables	9,378	1,982	(78)	11,282
Other items	597	385	(6)	976
Tax loss carry-forwards	3,816	1,007	(33)	4,790
	(59,461)	**2,915**	**301**	**(56,245)**

’000 USD	1 January 2009	Recognised in profit or loss	Recognised in other comprehen-sive income	Foreign currency translation reserve	Disposed of	31 December 2009
Property, plant and equipment	(81,187)	(6,963)	413	1,848	559	(85,330)
Intangible assets	(2,312)	(1,146)	-	(64)	-	(3,522)
Investments	(235)	(288)	-	(8)	-	(531)
Inventories	3,484	(963)	-	(147)	-	2,374
Trade and other receivables	3,272	2,459	-	27	-	5,758
Advance received and deferred income	6,286	1,804	-	(91)	-	7,999
Trade and other payables	7,046	2,415		(83)		9,378
Other items	1,610	(922)	-	(91)	-	597
Tax loss carry-forwards	3,866	57	-	(107)	-	3,816
	(58,170)	**(3,547)**	**413**	**1,284**	**559**	**(59,461)**

15 Inventories

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Spare parts	1,233,043	1,048,630	40,458	34,672
Fuel	364,626	464,592	11,964	15,361
Work in progress	27,180	9,833	892	325
Finished goods and goods for resale	3,760	22,076	123	730
Other inventories	496,867	450,478	16,303	14,895
Allowance for impairment	(302,041)	(329,666)	(9,910)	(10,900)
	1,823,435	**1,665,943**	**59,830**	**55,083**

16 Security deposits

As at 31 December 2010 security deposits in the amount of RUB 476,654 thousand/USD 15,640 (2009: RUB 6,450,010 thousand/USD 213,264 thousand) are under operating lease agreements, carry interest rate of 6% per annum (2009: 6% per annum), denominated in USD, and are to be returned by a lessor within one year of the balance sheet date.

17 Cash and cash equivalents

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Ruble denominated cash on hand and balances with banks	243,209	226,248	7,980	7,481
Foreign currency denominated balances with banks	200,789	288,338	6,588	9,533
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**443,998**	**514,586**	**14,568**	**17,014**

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 34.

18 Assets classified as held for sale

	2010 ’000 RUB	2009 ’RUB	2010 ’000 USD	2009 ’000 USD
As at 1 January	758,759	452,403	25,088	15,398
Additions	1,847,963	2,074,736	60,850	65,401
Disposals	(2,354,490)	(1,768,380)	(77,529)	(55,744)
Effect of movements in exchange rates	-	-	(133)	33
As at 31 December	**252,232**	**758,759**	**8,276**	**25,088**

As at 31 December 2010 assets classified as held for sale mainly comprise real estate (2009: mainly Mi-171 helicopters and engines for them that have been purchased by the Group for resale and further leaseback, see note 23(b)).

19 Capital and reserves

(a) Share capital

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital ’000 RUB	Treasury shares at cost ’000 RUB	Surplus from reissuance of treasury shares ’000 RUB
As at 1 January 2009	**554,016**	**23,192**	**3,101,456**	**173,244**	**13,010**
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2009	**554,016**	**23,192**	**3,101,456**	**173,244**	**13,010**
Purchase of treasury shares	(196)	196	-	1,615	-
As at 31 December 2010	**553,820**	**23,388**	**3,101,456**	**174,859**	**13,010**

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital ’000 USD	Treasury shares at cost ’000 USD	Surplus from reissuance of treasury shares ’000 USD
As at 1 January 2009	**554,016**	**23,192**	**112,145**	**6,815**	**451**
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2009	**554,016**	**23,192**	**112,145**	**6,815**	**451**
Purchase of treasury shares	(196)	196	-	53	-
As at 31 December 2010	**553,820**	**23,388**	**112,145**	**6,868**	**451**

As at 31 December 2010 the number of authorised ordinary shares amounted to 577,208,000 (2009: 577,208,000) with a nominal value of 1 RUB per share. All authorised shares have been issued and fully paid.

All shares rank equally with regard to the Company’s residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In respect of the Company’s shares that are held by the Group, all rights are suspended until those shares are reissued.

Treasury shares represent ordinary shares held by the Company or by its subsidiaries.

(b) Dividends

In accordance with Russian legislation, the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010, the Company had retained earnings of RUB 1,286,140 thousand/USD 42,200 thousand (2009: RUB 1,145,464 thousand/ USD 37,874 thousand), including profit for the current year, of RUB 215,420 thousand/ USD 7,093 thousand (2009: RUB 203,554 thousand/ USD 6,417 thousand).

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Stock Exchange ("MICEX") and on 31 December 2010 traded at RUB 16.350 per share (2009: RUB 10.378 per share).

The following dividends were declared by the Company:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
0.11 RUB per ordinary share (2009: 0.04 RUB)	63,493	23,088	2,091	728
	63,493	**23,088**	**2,091**	**728**

20 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see note 34.

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Non-current liabilities				
Secured bank loans	10,304,715	8,895,512	338,116	294,122
Finance lease liabilities	4,992,729	2,810,916	163,820	92,941
Unsecured bonds issued	4,307,466	-	141,335	-
Loans from related parties (see note 38)	638,776	255,821	20,959	8,459
Unsecured promissory notes issued	850,000	580,000	27,890	19,177
Unsecured bank loans	30,355	6,624	996	219
	21,124,041	**12,548,873**	**693,116**	**414,918**
Current liabilities				
Current portion of secured bank loans	2,646,211	9,602,898	86,827	317,512
Unsecured promissory notes issued	1,839,574	371,414	60,359	12,280
Current portion of finance lease liabilities	1,199,068	487,746	39,344	16,127
Unsecured bank loans	182,007	112,789	5,972	3,729
Loans from related parties (see note 38)	132,858	805,601	4,359	26,637
Secured bank overdraft	30,271	3,197	993	106
Unsecured bonds issued	7,635	1,637,447	251	54,141
Liabilities under REPO transactions	-	563,594	-	18,635
	6,037,624	**13,584,686**	**198,105**	**449,167**

(a) Terms and debt repayment schedule

Terms and conditions of the outstanding loans were as follows:

'000 RUB	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2010	Carrying amount 31 December 2009
Secured bank loans	RUB	9.5-14%	9.83%	2011-2014	6,755,674	11,387,980
Finance lease liabilities	USD	6-34%	17.72%	2011-2016	6,191,797	3,298,662
Unsecured bonds issued	RUB	9.45-12.5%	11.57%	2011-2013	4,315,101	1,637,447
Secured bank loans	USD	4.5-8%	7.85%	2011-2014	3,426,674	3,620,203
Unsecured promissory notes	RUB	8.18-9.53%	8.94%	2011-2012	2,689,574	951,414
Secured bank loans	USD	LIBOR+ 1.6-5.5%	3.65%	2011-2013	1,519,438	1,712,510
Secured bank loans	EUR	EURIBOR +5.85%	7.11%	2011-2013	1,249,140	1,777,717
Secured bank loans from related parties	USD	7%	7%	2011-2013	610,824	-
Unsecured bank loans	USD	7-9%	8.50%	2011-2012	212,362	119,413
Secured bank loans from related parties	RUB	10.5-15%	13.51%	2011-2015	160,810	557,169
Secured bank overdraft	EUR	5%	5%	2011	30,271	-
Liabilities under REPO transactions	RUB	-	-	-	-	563,594
Unsecured promissory notes held by related parties	RUB	-	-	-	-	504,253
Secured bank overdraft	USD	-	-	-	-	3,197
					27,161,665	**26,133,559**

'000 USD	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2010	Carrying amount 31 December 2009
Secured bank loans	RUB	9.5-14%	9.83%	2011-2014	221,666	376,533
Finance lease liabilities	USD	6-34%	17.72%	2011-2016	203,164	109,068
Unsecured bonds issued	RUB	9.45-12.5%	11.57%	2011-2013	141,586	54,141
Secured bank loans	USD	4.5-8%	7.85%	2011-2014	112,436	119,699
Unsecured promissory notes	RUB	8.18-9.53%	8.94%	2011-2012	88,249	31,457
Secured bank loans	USD	LIBOR+ 1.6-5.5%	3.65%	2011-2013	49,855	56,623
Secured bank loans	EUR	EURIBOR +5.85%	7.11%	2011-2013	40,986	58,779
Secured bank loans from related parties	USD	7%	7%	2011-2013	20,042	-
Unsecured bank loans	USD	7-9%	8.50%	2011-2012	6,968	3,948
Secured bank loans from related parties	RUB	10.5-15%	13.51%	2011-2015	5,276	18,422
Secured bank overdraft	EUR	5%	5%	2011	993	-
Liabilities under REPO transactions	RUB	-	-	-	-	18,635
Unsecured promissory notes held by related parties	RUB	-	-	-	-	16,674
Secured bank overdraft	USD	-	-	-	-	106
					891,221	**864,085**

As at 31 December 2010 finance lease liabilities include liabilities of RUB 856,261 thousand/ USD 28,095 thousand (2009: RUB 956,953 thousand/USD 31,641 thousand) under lease agreements with a floating interest rate, set at LIBOR + 4% per annum.

Bank loans are secured by property, plant and equipment with a carrying amount of RUB 4,680,226 thousand/USD 153,566 thousand (2009: RUB 8,046,415 thousand/USD 266,048 thousand).

Finance lease liabilities are secured by the leased assets, see note 6.

As at the 31 December 2010 un utilised credit lines amounted to RUB 3,417,207 thousand/ USD 112,124 thousand nominated in RUB and RUB 161,985 thousand/USD 5,315 thousand nominated in USD (2009: RUB 478,550 thousand/USD 15,823 nominated in RUB and RUB 90,733 thousand/USD 3,000 thousand nominated in USD).

(b) Finance lease liabilities are payable as follows:

As at 31 December 2010 the Group has entered into finance lease agreements under which 30 aircraft have been received (see note 6) with a bargain option to acquire the leased assets at the end of lease term of 5 to 8 years. The minimum future lease payments under the agreements as well as the present value of the minimum lease payments are presented in the following table:

	2010			2009		
'000 RUB	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	2,064,368	865,300	1,199,068	804,869	317,123	487,746
Between one and five years	6,624,553	1,886,438	4,738,115	2,859,574	740,136	2,119,438
More than five years	265,081	10,467	254,614	750,769	59,291	691,478
	8,954,002	**2,762,205**	**6,191,797**	**4,415,212**	**1,116,550**	**3,298,662**

	2010			2009		
'000 USD	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	67,735	28,391	39,344	26,612	10,485	16,127
Between one and five years	217,363	61,897	155,466	94,549	24,472	70,077
More than five years	8,698	344	8,354	24,824	1,960	22,864
	293,796	**90,632**	**203,164**	**145,985**	**36,917**	**109,068**

21 Derivatives

In 2008 the Group concluded agreements, valid until 2012-2014, on hedging of financial risks relating to volatility of interest rates, stipulated in non-renewable credit line contracts and in aircraft operating and finance lease contracts. In accordance with the agreements, the hedged items are floating rates LIBOR USD 1m, LIBOR USD 3m and LIBOR USD 6m; the type of derivative used is interest rate swap.

Although management believes that the effectiveness of the hedge can be reliably measured and the hedge is expected to be highly effective, the hedging relationships do not qualify for hedge accounting since at the inception of the hedge a full set of formal documentation, containing appropriately defined components of hedging relationships, had not been prepared.

The fair value of hedge liabilities was determined by discounting the future cash flows to be received or paid as a result of hedge agreements. The calculation of the fair value was based on the following key assumptions:

- Cash flows for 2010 and 2009 were projected based on the amounts and dates of transactions, stipulated in the hedge agreements, and the anticipated LIBOR rates for the period of hedge agreements validity as provided by Reuters (2010: LIBOR USD 1m – 0.261% to 1.465%, LIBOR USD 3m – 0.382% to 1.465%, and LIBOR USD 6m – 0.467% to 1.691%; 2009: LIBOR USD 1m – 0.344% to 2.340%, LIBOR USD 3m – 0.414% to 2.340%, and LIBOR USD 6m – 0.775% to 2.656%).

- A discount rate of 9.95% (2009: 9.95%) was applied in determining the fair value of hedge liabilities. The discount rate was estimated based on the market interest rate.

The values assigned to the key assumptions are based mainly on external sources of information. The determination of the fair value is sensitive to changes in anticipated LIBOR rates.

Changes in the fair value of hedge liabilities are accounted for in profit or loss as other finance costs.

The impact of hedge relationships on the Group's exposure to interest rate risk relating to variable rate instruments is disclosed in note 34.

22 Trade and other payables

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Non-current				
Frequent flyer programme liabilities (see note 23(a))	69,679	117,134	2,286	3,873
Other account payables	1,016	-	34	-
	70,695	**117,134**	**2,320**	**3,873**
Current				
Trade payables	2,457,307	2,938,661	80,629	97,165
Unused vacation accrual	948,163	661,321	31,111	21,866
Accrued payroll	632,919	444,599	20,767	14,700
Payables to related parties (see note 38)	460,136	559,665	15,097	18,505
Accrued liabilities and other payables	88,395	178,875	2,900	5,915
Frequent flyer programme liabilities (see note 23(a))	50,187	39,045	1,647	1,291
Dividends payable	29,102	8,846	955	292
	4,666,209	**4,831,012**	**153,106**	**159,734**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 34.

23 Deferred income

(a) Incentive programme liabilities

Liabilities related to the frequent flyer programme “Status” have been assessed in accordance with the requirements of IFRIC 13 *Customer Loyalty Programmes*. The amount of deferred income comprises the quantity of bonus miles earned by passengers but unused assessed at fair value, taking into consideration probability of their usage on flights of the Group

As at 31 December deferred income and other liabilities related to the frequent flyer programme “Status” included the following:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Deferred income, non-current	486,601	895,201	15,966	29,599
Deferred income, current	372,803	298,400	12,233	9,866
Other non-current liabilities (see note 22)	69,679	117,134	2,286	3,873
Other current liabilities (see note 22)	50,187	39,045	1,647	1,291
	979,270	**1,349,780**	**32,132**	**44,629**

The significant reduction of liabilities and deferred income as per the frequent flyers programme is primarily associated with the tightening of the rules for the accumulation and realisation of bonus miles by programme participants which was implemented at the end of 2010.

(b) Deferred income on sale and finance leaseback

In 2010 the Group sold a number of Mi-171 helicopters (previously classified as non-current assets held for sale, see note 18) and leased them back under finance lease agreements. In accordance with IAS 17 *Leases*, the amount of the gain realised on the sale was recognised as deferred income to be released to profit or loss over the lease term.

As at 31 December 2010 deferred income related to the sale and finance leaseback comprised:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Deferred income, non-current	187,704	-	6,159	-
Deferred income, current	49,343	-	1,619	-
	237,047	**-**	**7,778**	**-**

24 Employee benefits

Group companies provide additional pensions and other post-employment benefits to its employees in accordance with collective agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The components of net benefit expense recognised in profit or loss for the years ended 31 December 2010 and 2009 and amounts recognised in consolidated statement of financial position as at 31 December 2010 and 2009 are as follows:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Liabilities as at 1 January	**178,512**	**133,198**	**5,902**	**4,534**
Benefit expense	50,854	54,787	1,675	1,727
Benefits paid	(15,369)	(9,473)	(506)	(299)
Effect of movements in exchange rates	-	-	(48)	(60)
Liabilities as at 31 December, including:	**213,997**	**178,512**	**7,023**	**5,902**
non-current part	195,573	165,296	6,418	5,465
current part	18,424	13,216	605	437

(a) Expense recognised in profit or loss within personnel expenses

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Current service costs	14,492	11,214	478	353
Past service costs	1,546	32,535	51	1,026
Interest on obligation	19,567	14,630	644	461
Net actuarial losses/(gains) recognised in year	15,249	(3,592)	502	(113)
Net post-employment benefit expenses	**50,854**	**54,787**	**1,675**	**1,727**

(b) Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2010 %	2009 %
Discount rate at 31 December	8.0	9.5
Average long-term payroll increase rate	7.5	8.0
Employee turnover rate	2.0	2.0
Probability of a non-working pensioner residing where the Group companies are located	30.0	30.0

Assumptions regarding future mortality are based on published statistics and mortality tables. The retirement age in Russia is currently 60 for men and 55 for women.

25 Taxes payable

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Contributions to pension fund	161,377	18,148	5,294	600
Value added tax payable	135,296	78,413	4,439	2,593
Personal income tax	49,306	32,734	1,618	1,082
Social insurance charges	38,999	33,294	1,280	1,101
Property tax	38,148	24,466	1,252	809
Other taxes and tax provisions	98,162	57,472	3,221	1,900
	521,288	**244,527**	**17,104**	**8,085**

26 Advances received

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Advances from passengers	692,357	587,982	22,717	19,441
Advances from customers	176,831	287,302	5,802	9,499
Advances from related parties (see note 38)	64,083	11,239	2,103	372
	933,271	**886,523**	**30,622**	**29,312**

Advances from customers comprised amounts received for transportation services which will be rendered later. Advances from passengers comprised the tickets sold but not yet flown and the amounts to be paid to other airlines for future joint flights.

27 Revenue

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Aircraft transportation services, regular	23,517,013	16,685,408	774,369	525,970
Helicopters transportation services, abroad	11,683,595	9,766,145	384,719	307,856
Helicopters transportation services, inland	4,051,959	3,578,464	133,423	112,803
Aircraft transportation services, charter	2,509,458	1,989,466	82,632	62,714
Repair and maintenance services	815,982	427,315	26,869	13,470
Airport services	137,351	290,643	4,523	9,162
Passenger traffic and helicopter services revenue	42,715,358	32,737,441	1,406,535	1,031,975
Marketing services	616,133	90,733	20,288	2,860
Other	1,066,983	674,751	35,134	21,270
	44,398,474	**33,502,925**	**1,461,957**	**1,056,105**

Grants from the regional government were provided to the Group for the execution of regular flights to several Russian regions. The grants are provided both in the form of cash remuneration to cover the Group's losses from performing such flights and in the form of reduced airport duties, etc. Since 2005 the Group has taken part in a new regional programme where the Group sells tickets at a discount to passengers flying within the Tyumen and other regions. This discount is reimbursed by the regional government. The amount of reimbursement received in 2010 amounted to RUB 148,047 thousand/USD 4,875 thousand (2009: RUB 217,179 thousand/USD 6,846 thousand) and is included in regular aircraft transportation services revenue.

In 2010 and 2009 the Group generated revenue from the following major customer groups and geographical areas:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Group of customers				
Individual customers	23,517,013	16,685,408	774,370	525,970
Commercial organizations	10,953,739	8,128,972	360,686	256,248
United Nations	9,927,722	8,688,545	326,901	273,887
	44,398,474	**33,502,925**	**1,461,957**	**1,056,105**
Geographical area				
Russia	29,464,319	23,649,584	970,204	745,500
Other countries	14,934,155	9,853,341	491,753	310,605
	44,398,474	**33,502,925**	**1,461,957**	**1,056,105**

28 Direct operating expenses

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Airport services	4,932,757	3,756,946	162,427	118,429
Rent of air fleet and equipment	3,662,824	2,976,386	120,611	93,824
Passenger servicing	1,590,717	1,091,236	52,380	34,399
Air navigation and meteo services	1,545,111	1,045,172	50,878	32,947
Spare parts and other materials	1,432,258	1,060,544	47,162	33,432
Travel expenses	1,430,704	1,139,636	47,110	35,924
Freight transportation services	572,201	320,767	18,841	10,111
Custom duties	357,551	292,887	11,773	9,233
UN missions support	296,018	252,170	9,747	7,949
Other direct operating expense	334,679	337,660	11,020	10,644
Direct operating expenses except fuel	**16,154,820**	**12,273,404**	**531,949**	**386,892**
Fuel expenses	8,581,178	6,089,382	282,562	191,954
	24,735,998	**18,362,786**	**814,511**	**578,846**

29 Personnel expenses

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Remuneration	6,501,331	5,095,559	214,076	160,626
Social insurance charges	1,277,397	1,019,513	42,062	32,138
Expenses related to defined benefit plans (see note 24)	50,854	54,787	1,675	1,727
	7,829,582	**6,169,859**	**257,813**	**194,491**

30 Other operating expenses

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Insurance expenses	402,566	374,161	13,256	11,795
Taxes other than income tax	384,685	225,962	12,667	7,123
Loss from disposal of property, plant and equipment	316,743	127,768	10,430	4,028
Training expenses	271,691	272,554	8,946	8,592
Consulting, audit and legal expenses	271,661	229,371	8,945	7,230
Utilities	198,731	134,981	6,544	4,255
Bank charges	178,004	215,741	5,861	6,801
Communication services	130,852	127,104	4,309	4,007
Advertising	96,742	88,855	3,186	2,801
Other operating expenses	310,398	409,792	10,220	12,917
	2,562,073	**2,206,289**	**84,364**	**69,549**

31 Other finance income and finance costs

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Interest income on loans and receivables	170,675	141,822	5,620	4,471
Interest income on security deposits	161,707	273,060	5,325	8,607
Gain from disposal of other investments	276,664	35,844	9,110	1,130
Other finance income	**609,046**	**450,726**	**20,055**	**14,208**
Interest expense on financial liabilities measured at amortised cost	3,207,382	2,321,016	105,613	73,165
Interest on loans from related parties (see note 38)	90,130	366,599	2,968	11,556
Impairment loss on other investments	-	36,397	-	1,147
Dividends	530	8,002	17	252
Loss from disposal of equity accounted investee	-	15,472	-	488
Loss from disposal of subsidiary	-	35,731	-	1,126
Hedge expenses	19,661	60,484	647	1,907
Other finance costs	**3,317,703**	**2,843,701**	**109,245**	**89,641**

32 Income tax expense

The Group’s applicable tax rate is the income tax rate of 20% for Russian companies.

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Current tax expense				
Current year	200,913	79,095	6,616	2,493
Adjustment for prior years	-	(94,042)	-	(2,964)
	200,913	**(14,947)**	**6,615**	**(471)**
Deferred tax expense				
Origination and reversal of temporary differences	(205,131)	37,276	(6,755)	1,175
Overaccrued in prior years	86,624	68,563	2,853	2,161
Current year losses for which no deferred tax asset was recognised	29,967	6,694	987	211
	(88,540)	**112,533**	**(2,915)**	**3,547**
Income tax expense, excluding share of income tax of equity accounted investees	**112,373**	**97,586**	**3,700**	**3,076**

(a) Income tax recognised directly in other comprehensive income

’000 RUB	2010			2009		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Revaluation of property, plant and equipment	-	-	-	65,578	(13,112)	52,466
Realisation of property, plant and equipment revaluation reserve	275,355	(55,081)	220,274	318,844	(55,858)	262,986
	275,355	**(55,081)**	**220,274**	**384,422**	**(68,970)**	**315,452**

’000 USD	2010			2009		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Revaluation of property, plant and equipment	-	-	-	2,067	(413)	1,654
Realisation of property, plant and equipment revaluation reserve	9,067	(1,814)	7,253	10,051	(1,761)	8,290
	9,067	**(1,814)**	**7,253**	**12,118**	**(2,174)**	**9,944**

Reconciliation of effective tax rate:

	2010		2009	
	’000 RUB	**%**	**’000 RUB**	**%**
Profit before income tax	**511,385**	**100**	**187, 786**	**100**
Income tax at applicable tax rate	102,277	20	37,557	20
Effect of income taxed at higher rates	13,722	2	5,296	3
Non-deductible expenses	41,253	8	73,518	39
Current year losses for which no deferred tax asset was recognised	29,967	6	6,694	4
Recognition of previously unrecognised tax losses	(161,470)	(31)	(94,042)	(50)
Overaccrued in prior years	86,624	17	68,563	36
	112,373	**22**	**97,586**	**52**

	2010		2009	
	’000 USD	**%**	**’000 USD**	**%**
Profit before income tax	**16,839**	**100**	**5,919**	**100**
Income tax at applicable tax rate	3,368	20	1,184	20
Effect of income taxed at higher rates	451	2	167	3
Non-deductible expenses	1,358	8	2,317	39
Current year losses for which no deferred tax asset was recognised	987	6	211	4
Recognition of previously unrecognised tax losses	(5,317)	(31)	(2,964)	(50)
Overaccrued in prior years	2,853	17	2,161	36
	3,700	**22**	**3,076**	**52**

33 Earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding of 553,918 thousand (2009: 554,016 thousand), calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	**2010**	**2009**
Issued shares at 1 January	554,016	554,016
Effect of own shares held	(98)	-
Weighted average number of shares for the year ended 31 December	**553,918**	**554,016**
Profit for the year attributable to owners of the Company, ’000 RUB	382,538	38,044
Basic and diluted earnings per share, RUB	**0.69**	**0.07**
Profit for the year attributable to owners of the Company, ’000 USD	12,597	1,199
Basic and diluted earnings per share, USD	**0.023**	**0.002**

34 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Group’s management reviews and approves policies for managing each of these risks, which are summarised below.

Risk management framework

The Supervisory Council of the Company has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group’s Supervisory Council oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(b) 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 receivables from customers

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The analysis of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

As at 31 December 2010 accounts receivable from the Group's major debtor amounted to RUB 1,693,639 thousand/USD 55,571 thousand (2009: RUB 1,350,625 thousand/USD 44,657 thousand). Management determines risk concentration by reference to a percentage of receivables from particular customers to the total accounts receivable.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount			
	2010 ’000 RUB	**2009 ’000 RUB**	**2010 ’000 USD**	**2009 ’000 USD**
Long-term loans issued	57,856	59,370	1,898	1,963
Long-term net investments in leases	240,286	39,770	7,884	1,315
Long-term other investments	52,285	16,455	1,716	544
Long-term receivables	-	1,671	-	56
Trade and other receivables	6,918,473	4,530,834	227,008	149,808
Security deposits	476,654	6,450,010	15,640	213,264
Short-term loans issued	863,416	794,654	28,330	26,275
Short-term net investments in leases	55,676	91,028	1,827	3,010
Short-term other investments	4,956	404,983	163	13,390
Cash and cash equivalents	443,998	514,586	14,568	17,014
	9,113,600	**12,903,361**	**299,034**	**426,639**

Impairment losses

The ageing of trade and other receivables at the reporting date was:

'000 RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	5,386,700	-	3,344,689	-
Overdue	1,650,217	(118,444)	1,291,336	(103,520)
less than 30 days	720,769	-	891,965	-
from 30 to 60 days	201,646	-	96,201	-
from 60 to 150 days	448,289	-	101,940	-
over 150 days	279,513	(118,444)	201,230	(103,520)
	7,036,917	**(118,444)**	**4,636,025**	**(103,520)**

'000 USD	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	176,748	-	110,590	-
Overdue	54,146	(3,886)	42,697	(3,423)
less than 30 days	23,650	-	29,492	-
from 30 to 60 days	6,616	-	3,181	-
from 60 to 150 days	14,709	-	3,370	-
over 150 days	9,171	(3,886)	6,654	(3,423)
	230,894	**(3,886)**	**153,287**	**(3,423)**

The Group believes that the unimpaired amounts that are past due by are still collectible, based on historic payment behaviour and analyses on the underlying customers' credit ratings.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables; most of accounts receivable relate to customers that have a good track record with the Group.

The allowance account in respect of trade receivable is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2010 the Group does not have any collective impairments on its trade receivables (2009: nil).

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and debt capital consistent with the management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of debt instruments at competitive rates both in the capital markets and bank sector and coordinates relationships with the banks centrally. At present, the Group believes that it has access to sufficient funding and has also both utilised and unutilised borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate loan portfolio (particularly availability of committed borrowing facilities) and the maintenance of adequate cash.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2010

'000 RUB	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans and overdrafts	13,752,831	15,683,412	-	908,066	2,845,426	11,929,920	-
Finance lease liabilities	6,191,797	8,954,002	-	508,846	1,555,522	6,624,553	265,081
Trade and other payables	4,617,038	4,617,038	1,917,399	1,440,096	1,258,527	1,016	-
Unsecured bonds issued	4,315,101	5,496,141	-	132,274	373,917	4,989,950	-
Unsecured promissory notes	2,689,574	2,849,775	-	1,025,000	947,414	877,361	-
Unsecured bank loans	212,362	214,458	-	1,431	182,660	30,367	-
	31,778,703	**37,814,826**	**1,917,399**	**4,015,713**	**7,163,466**	**24,453,167**	**265,081**
Derivative financial liabilities							
Interest rate swaps used for hedging	111,356	130,810	-	21,152	52,705	56,953	-
	111,356	**130,810**	**-**	**21,152**	**52,705**	**56,953**	**-**

2010

'000 USD	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans and overdrafts	451,254	514,599	-	29,795	93,363	391,441	-
Finance lease liabilities	203,164	293,796	-	16,696	51,039	217,363	8,698
Trade and other payables	151,493	151,493	62,913	47,252	41,294	34	-
Unsecured bonds issued	141,586	180,338	-	4,340	12,269	163,729	-
Unsecured promissory notes	88,249	93,506	-	33,632	31,086	28,788	-
Unsecured bank loans	6,968	7,036	-	47	5,993	996	-
	1,042,714	**1,240,768**	**62,913**	**131,762**	**235,044**	**802,351**	**8,698**
Derivative financial liabilities							
Interest rate swaps used for hedging	3,654	4,292	-	694	1,729	1,869	-
	3,654	**4,292**	**-**	**694**	**1,729**	**1,869**	**-**

2009

’000 RUB	Carrying amount	Contractual cash flows	On demand	0-3 mths	3-12 mths	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Secured bank loans and overdrafts	19,058,776	21,685,182	-	1,860,763	9,509,427	10,184,423	130,569
Trade and other payables	4,791,967	4,791,967	1,807,430	1,531,754	1,451,432	1,347	4
Finance lease liabilities	3,298,662	4,415,212	-	201,217	603,652	2,859,574	750,769
Unsecured bonds issued	1,637,447	1,853,972	-	-	1,853,972	-	-
Unsecured promissory notes	1,455,667	1,599,264	-	110,593	908,671	580,000	-
Liabilities under REPO transactions	563,594	566,561	-	566,561	-	-	-
Unsecured bank loans	119,413	124,986	-	20,300	63,289	41,397	-
	30,925,526	**35,037,144**	**1,807,430**	**4,291,188**	**14,390,443**	**13,666,741**	**881,342**
Derivative financial liabilities							
Interest rate swaps used for hedging	191,808	228,340	-	25,761	77,284	125,295	-
	191,808	**228,340**	**-**	**25,761**	**77,284**	**125,295**	**-**

2009

’000 USD	Carrying amount	Contractual cash flows	On demand	0-3 mths	3-12 mths	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Secured bank loans and overdrafts	630,162	717,004	-	61,525	314,422	336,740	4,317
Trade and other payables	158,443	158,443	59,762	50,646	47,990	45	-
Finance lease liabilities	109,068	145,985	-	6,653	19,959	94,549	24,824
Unsecured bonds issued	54,141	61,300	-	-	61,300	-	-
Unsecured promissory notes	48,131	52,878	-	3,657	30,044	19,177	-
Liabilities under REPO transactions	18,635	18,733	-	18,733	-	-	-
Unsecured bank loans	3,948	4,133	-	671	2,093	1,369	-
	1,022,528	**1,158,476**	**59,762**	**141,885**	**475,808**	**451,880**	**29,141**
Derivative financial liabilities							
Interest rate swaps used for hedging	6,343	7,550	-	852	2,555	4,143	-
	6,343	**7,550**	**-**	**852**	**2,555**	**4,143**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are euro and USD.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Exposure to currency risk

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

'000 RUB	**USD-denominated 2010**	**EUR-denominated 2010**	**USD-denominated 2009**	**EUR-denominated 2009**
Trade and other receivables	3,809,572	36,257	2 263,167	16,349
Secured deposits	476,654	-	6,450,010	-
Cash and cash equivalents	81,742	695	232,646	4,163
Long-term loans issued	54,858	-	54,500	-
Finance lease liabilities	(5,918,479)	-	(2,887,229)	-
Secured bank loans and overdrafts	(4,817,366)	(1,279,411)	(5,332,761)	(1,777,717)
Trade and other payables	(601,913)	(140,353)	(1,005,969)	(183,293)
Net exposure	**(6,914,932)**	**(1,382,812)**	**(225,636)**	**(1,940,498)**

'000 USD	**USD-denominated 2010**	**EUR-denominated 2010**	**USD-denominated 2009**	**EUR-denominated 2009**
Trade and other receivables	124,999	1,190	74,830	541
Secured deposits	15,640	-	213,264	-
Cash and cash equivalents	2,682	23	7,692	138
Long-term loans issued	1,800	-	1,802	-
Finance lease liabilities	(194,196)	-	(95,464)	-
Secured bank loans and overdrafts	(158,066)	(41,979)	(176,323)	(58,779)
Trade and other payables	(19,750)	(4,605)	(33,261)	(6,060)
Net exposure	**(226,891)**	**(45,371)**	**(7,460)**	**(64,160)**

The following significant exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD 1	30.3692	31.7231	30.4769	30.2442
EUR 1	40.2980	44.1299	40.3331	43.3883

Sensitivity analysis

A strengthening of the RUB, as indicated below, against the following currencies at 31 December would have increased profit or loss by the amounts shown below. There would have been no impact directly on equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

	2010		2009	
'000 RUB	**Strengthening of RUB**	**Profit or loss**	**Strengthening of RUB**	**Profit or loss**
USD	10%	691,493	10%	22,564
USD	20%	1,382,986	20%	45,127
EUR	5%	69,141	10%	194,050
EUR	10%	138,281	20%	388,100

	2010		2009	
'000 USD	**Strengthening of RUB**	**Profit or loss**	**Strengthening of RUB**	**Profit or loss**
USD	10%	22,689	10%	746
USD	20%	45,378	20%	1,492
EUR	5%	2,269	10%	6,416
EUR	10%	4,537	20%	12,832

A weakening of the RUB against the above currencies at 31 December would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Interest rate changes affect the market value of financial assets and liabilities of the Group and the level of finance expenses. The Group's policies concerning interest rate risk management comprise risk reduction concurrently with the attainment by the Group of a finance structure, which was determined and approved pursuant to the plans of management. Borrowing requirements of the Group companies are pooled by the Group's central finance department in order to manage net positions and enhance finance portfolio consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and floating rate basis. Floating rates are based on LIBOR and EURIBOR rates.

As at 31 December 2010 the share of the Group's liabilities bearing a floating interest rate constituted 13.7% of the total liabilities (2009: 17.6%).

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount			
	2010 ’000 RUB	**2009 ’000 RUB**	**2010 ’000 USD**	**2009 ’000 USD**
Fixed rate instruments				
Financial assets	1,693,888	7,856,270	55,579	259,761
Finance lease liabilities	(5,335,536)	(2,341,709)	(175,069)	(77,427)
Other financial liabilities	(18,201,290)	(19,344,670)	(597,216)	(639,615)
	(21,842,938)	**(13,830,109)**	**(716,706)**	**(457,281)**
Variable rate instruments				
Finance lease liabilities	(856,261)	(956,953)	(28,095)	(31,641)
Other financial liabilities	(2,879,934)	(3,682,035)	(94,495)	(121,745)
	(3,736,195)	**(4,638,988)**	**(122,590)**	**(153,386)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not have affected profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 ba sis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. There would have been no impact directly on equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss 2010		Profit or loss 2009	
’000 RUB	**Increase**	**Decrease**	**Increase**	**Decrease**
EUR-denominated borrowings	(12,491)	12,491	(17,728)	17,728
USD-denominated borrowings	(6,095)	6,095	(3,629)	3,629
USD-denominated borrowings with hedged interest rate	(17,660)	17,660	(23,044)	23,044
Hedge liabilities related to credit line agreements	9,753	(9,753)	19,320	(19,320)
Hedge liabilities related to lease contracts	20,356	(20,356)	22,322	(22,322)
Cash flow sensitivity (net)	**(6,137)**	**6,137**	**(2,759)**	**2,759**

	Profit or loss 2010		Profit or loss 2009	
’000 USD	**Increase**	**Decrease**	**Increase**	**Decrease**
EUR-denominated borrowings	(410)	410	(586)	586
USD-denominated borrowings	(200)	200	(120)	120
USD-denominated borrowings with hedged interest rate	(579)	579	(762)	762
Hedge liabilities related to credit line agreements	320	(320)	639	(639)
Hedge liabilities related to lease contracts	668	(668)	738	(738)
Cash flow sensitivity (net)	**(201)**	**201**	**(91)**	**91**

(e) Fair values hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

'000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2010				
Available-for-sale financial assets	-	-	53,672	53,672
Financial assets held for trading	3,569	-	-	3,569
	3,569	**-**	**53,672**	**57,241**
Derivative financial liabilities	-	(111,356)		(111,356)
	3,569	**(111,356)**	**53,672**	**(54,115)**
31 December 2009				
Available-for-sale financial assets	-	-	147,231	147,231
Financial assets held for trading	274,207	-	-	274,207
	274,207	**-**	**147,231**	**421,438**
Derivative financial liabilities	-	(191,808)		(191,808)
	274,207	**(191,808)**	**147,231**	**229,630**

'000 USD	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2010				
Available-for-sale financial assets	-	-	1,762	1,762
Financial assets held for trading	117	-	-	117
	117	**-**	**1,762**	**1,879**
Derivative financial liabilities	-	(3,654)	-	(3,654)
	117	(3,654)	**1,762**	**(1,775)**
31 December 2009				
Available-for-sale financial assets	-	-	4,868	4,868
Financial assets held for trading	9,066	-	-	9,066
	9,066	**-**	**4,868**	**13,934**
Derivative financial liabilities	-	(6,343)	-	(6,343)
	9,066	**(6,343)**	**4,868**	**7,591**

Available-for-sale investments stated at cost comprise unquoted equity securities. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows in this industry. However management believes that the fair value at the end of year is likely not to differ significantly from that carrying amount.

(f) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Board of Directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent company. The Group manages its capital structure and adjusts it by dividend payments to shareholders and purchase of treasury shares. The Group monitors the compliance of the amount of statutory general reserve and makes allocations of profits to this reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments.

The Group's debt to capital ratio at the end of the reporting period was as follows:

	2010 '000 RUB	**2009 '000 RUB**	**2010 '000 USD**	**2009 '000 USD**
Total liabilities	36,654,794	35,646,648	1,202,708	1,178,628
Less: cash and cash equivalents	(443,998)	(514,586)	(14,568)	(17,014)
Net debt	36,210,796	35,132,062	1,188,140	1,161,614
Total equity	6,721,548	6,391,408	220,546	211,327
Debt to capital ratio at 31 December	**5.39**	**5.50**	**5.39**	**5.50**

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

35 Operating leases

The Group concluded a number of operating lease agreements. The terms vary from one to seven years without a unilateral prolongation right. Non-cancellable operating lease rentals are payable as follows:

	2010 '000 RUB	**2009 '000 RUB**	**2010 '000 USD**	**2009 '000 USD**
Less than one year	2,707,510	2,587,885	88,838	85,566
Between one and five years	6,493,399	4,782,875	213,060	158,142
More than five years	654,333	319,402	21,470	10,561
	9,855,242	**7,690,162**	**323,368**	**254,269**

As at 31 December 2010 RUB 8,036,034 thousand/USD 263,676 thousand (2009: RUB 4,144,754 thousand/USD 137,043 thousand) out of total rent payments relates to the contracts denominated in USD; and RUB 68,667 thousand/USD 2,253 thousand (2009: RUB 49,749 thousand/USD 1,645 thousand) relates to the contracts nominated in euro.

To perform its activities the Group uses runways and some equipment (mainly air navigation) which is in the ownership of the Russian Federation. Runways are not subject to privatization according to the Decree of the President of the Russian Federation number 2284 da ted 24 December 1993. The Group concluded rental agreements and/or free usage agreements for runways and equipment for 50 years with the Administration of State Property Committees of several regions of the Russian Federation. The land plots on which the runways are situated are also rented by the Group from the Russian Federation, the term is 50 years.

Upon the termination of the agreements the property is to be transferred to the government. However, the Group has a priority right for prolongation of the agreements. The agreements can be terminated ahead of schedule based on the mutual agreement of the parties, court decision or by act of law.

No rent payments are provided in the agreements. The Group is obliged to maintain the property in an appropriate condition, perform repairs and other necessary works in time. Significant modernisation and reconstruction of the rented property is recognised as property, plant and equipment and depreciated over the lower of the remaining useful life and the remaining rental period.

36 Capital commitments

As at 31 December 2010 the Group had contractual commitments to purchase property, plant and equipment for RUB 2,905,188 thousand/USD 95,324 thousand (2009: RUB 7,908,146 thousand/USD 261,476 thousand), of which RUB 525,560 thousand/USD 17,245 thousand (2009: RUB 2,782,754 thousand/USD 92,010 thousand) had been advanced. The amount of contractual commitments as at 31 December 2009 included capital commitments to purchase assets held for sale in the amount of RUB 1,900,102 thousand/USD 62,825 thousand (2010: nil), all of which had been advanced.

37 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

The Group fulfils requirements of the law of the Russian Federation on obligatory insurance and has specific assets insurance policies which are pledged under the loan agreements. The Group insures the aircraft, helicopters, flight personnel, and transportation civil liability.

(b) Litigation

The Group in its ordinary course of business is subject of, or party to, various pending or threatened legal actions. The outcomes of the litigation, where there are probable future outflows of economic benefits, are accrued by the Group in these consolidated financial statements. No other significant litigation is outstanding as at the reporting date.

(c) Taxation contingencies

The major part of the Group’s tax expense relates to taxation in the Russian Federation.

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation. As a result, it is possible that transactions and activities that have not been challenged in the past may be challenged.

As such, significant additional taxes, penalties and interest may be assessed. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. However, the interpretation of the legislation by the relevant authorities may be different. In case the authorities would be able to prove their position that may have significant influence on the consolidated financial statements.

The estimated amount of potential liabilities that could be subject to different interpretations of the tax laws and regulations and are not accrued in the consolidated financial statements could be up to approximately RUB 399,600 thousand/USD 13,112 thousand (2009: RUB 465,000 thousand/USD 15,375 thousand). Management believes that it is possible, but not probable, that an outflow of economic resources will be required to settle the obligations.

The Group is in litigation with the tax authorities after tax audit for 2005-2007over additional tax charge of RUB 110,950 thousand/ USD 3,640 thousand. No provision was recognised by the Group with regards to this litigation as at 31 December 2010, as management believes that the likelihood of economic benefits outflows due to this litigation is remote. Subsequent to the reporting date the Arbitrage Court of Moscow adopted a decision in favour of the Group (refer note 39).

38 Related party transactions

(a) Control relationships

As at 31 December 2010 the Company’s immediate and ultimate controlling party is a non-state pension fund Surgutneftegaz.

(b) Management remuneration

Key management personnel comprise directors, members of the Management Board and the Supervisory Council. The total compensation to key management personnel is reported under personnel expenses in the consolidated statement of comprehensive income for the year ended 31 December 2010 and amounted to RUB 214,741 thousand/USD 7,071 thousand (2009: RUB 170,090 thousand/USD 5,362 thousand). Compensation to key management personnel consists of the contractual salary and performance bonus depending on the achieved operating results.

(c) Transactions with other related parties

In accordance with IAS 24 *Related Parties Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

For the purpose of these financial statements, the following related parties were identified in accordance with IAS 24 *Related Party Disclosures*:

- parties which exercise joint control or significant influence over the Group;
- associates, i.e. enterprises over which the Group has significant influence and which is neither a subsidiary nor a party in a joint venture;
- key management personnel;
- other.

The outstanding amounts due from related parties were as follows as at 31 December:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Trade receivables (note 13):				
Entities with joint control or significant influence over the Group	313,098	314,226	10,273	10,390
Associates	263,549	197,727	8,648	6,539
Other	708	134	23	3
	577,355	**512,087**	**18,944**	**16,932**

The outstanding balances are interest free and short-term, except for where it is specifically noted. Most relate to the rendering of transportation services to the related parties. The outstanding balances are neither guaranteed nor secured. The settlements are performed in cash. No doubtful debts due from related parties existed as at 31 December 2010 and as at 31 December 2009.

The Group also had cash balances of RUB 6,637 thousand/USD 218 thousand (2009: RUB 18,415 thousand/USD 609 thousand) with entities exercising joint control or significant influence over the Group as at 31 December 2010.

The outstanding amounts due to related parties were as follows as at 31 December:

	2010 '000 RUB	2009 '000 RUB	2010 '000 USD	2009 '000 USD
Trade and accounts payable (note 22):				
Entities with joint control or significant influence over the Group	420,273	536,139	13,790	17,727
Associates	21,500	16,403	705	542
Other	366	120	12	4
	442,139	**552,662**	**14,507**	**18,273**
Advances received (note 26):				
Entities with joint control or significant influence over the Group	60,782	665	1,995	22
Associates	2,727	4,857	89	161
Other	574	5,717	19	189
	64,083	**11,239**	**2,103**	**372**
Loans payable (note 20):				
Entities with joint control or significant influence over the Group	771,634	1,061,422	25,318	35,096
	771,634	**1,061,422**	**25,318**	**35,096**
Other (note 22):				
Entities with joint control or significant influence over the Group	15,579	5,778	511	192
Associates	1,501	1,000	49	33
Key management personnel	917	225	30	7
	17,997	**7,003**	**590**	**232**
	1,295,853	**1,632,326**	**42,519**	**53,973**

There were the following related party transactions in 2010 and 2009:

	2010 ’000 RUB	2009 ’000 RUB	2010 ’000 USD	2009 ’000 USD
Sales – transportation services:				
Entities with joint control or significant influence over the Group	2,670,247	2,542,841	87,926	80,157
Associates	346,675	146,815	11,415	4,628
Key management personnel	185	172	6	5
Other	263	277	9	9
	3,017,370	**2,690,105**	**99,356**	**84,799**
Other sales				
Entities with joint control or significant influence over the Group	164,065	74,585	5,402	2,351
Associates	154,145	22,046	5,076	695
Other	185	172	6	5
	318,395	**96,803**	**10,484**	**3,051**
Other operating income:				
Entities with joint control or significant influence over the Group	156,467	19,596	5,152	618
Associates	4,022	-	132	-
	160,489	**19,596**	**5,284**	**618**
Total sales to related parties	**3,496,254**	**2,806,504**	**115,124**	**88,468**
Direct operating expenses:				
Entities with joint control or significant influence over the Group	2,025,748	1,608,861	66,704	50,716
Associates	402,461	162,281	13,252	5,116
	2,428,209	**1,771,142**	**79,956**	**55,832**
Other operating expenses:				
Entities with joint control or significant influence over the Group	413,088	260,970	13,602	8,226
Associates	799	24	26	1
	413,887	**260,994**	**13,628**	**8,227**
Interest expenses on loans payable:				
Entities with joint control or significant influence over the Group	90,130	366,599	2,968	11,556
Total purchases from related parties	**2,932,226**	**2,398,735**	**96,552**	**75,615**
Proceeds from loans and borrowings:				
Entities with joint control or significant influence over the Group	2,404,721	640,741	79,183	20,198
Repayment of loans and borrowings:				
Entities with joint control or significant influence over the Group	(2,689,489)	(2,733,120)	(88,560)	(86,156)
Net proceeds of borrowings from related parties	**(284,768)**	**(2,092,379)**	**(9,377)**	**(65,958)**

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

39 Events subsequent to the reporting date

In February 2011 the Group acquired a 25% interest in Turuhan Aviation LLC (Krasnoyarsk region).

In March 2011 the Group sold a 45.48% interest in its associate Kondaavia CJSC.

In March 2011 the Group concluded at the Heli-Expo 2011 purchase contracts for 15 EC175 helicopters with their manufacturer, Eurocopter S.A.S. The helicopters are expected to be delivered in 2013-2014.

On 30 March 2011 the Group placed BO-04 and BO-05 bonds issuances with a total nominal value of RUB 3 000 000 thousand/USD 98,435 thousand denominated in RUB. The coupon interest rate was set at 9% per annum, bonds were placed for 3 years without an interim offer. The proceeds were used to refinance loans and credits of the Group.

In April-July 2011 stock bonds of BO-03, BO-4, BO-5 series were included in the highest level quotation list A1 of MICEX Stock Exchange CJSC.

In May 2011 the Group registered a new subsidiary, UTair Armenia LLC (Yerevan), which will represent the Group's interests on the territory of the Republic of Armenia.

In May 2011 the Group issued RUB-denominated unsecured promissory notes for RUB 3,000,000 thousand/ USD 98,435 thousand with a maturity of six months. The promissory notes were purchased by Surgutneftegaz OJSC. The funds from borrowing were aimed at financing of deposit for the aircrafts Boeing 737-800.

On 19 May 2011 the Group and Vertolety Rossii LLC signed a letter of intention to acquire 10 Mi-34C1 helicopters. Delivery of the fist helicopter is expected in 2012. According to the letter, the Group has an option to increase the number of Mi34C1 helicopters ordered to 50.

In 2011 the Group entered into operating lease agreements for the following aircrafts, all of which have been received: 2 Boeing 757-200, 5 Boeing 737-524, 8 Boeing 737-800, 6 ATR 72-500. Also, the remaining 4 Bombardier CRJ-200 aircrafts were received under an operating lease agreement concluded in 2009.

On 22 June 2011 the Group concluded an agreement with The Boeing Company for the delivery of 40 Boeing Next-Generation 737 aircrafts, including seven 737-900ER and thirty three 737-800 aircrafts.

On 28 July 2011 the Group placed 05 series bond issuance with a total nominal value of RUB 1,500,000 thousand/ USD 49,218 thousand. The coupon interest was set at 9.5% per annum, bonds were placed for 5 years without an interim offer.

In 2011 the Group borrowed other long-term and short-term loans and issued promissory notes for the total amount of RUB 23,772,977 thousand/ USD 780,033 thousand. For the mentioned period loans for RUB 17,423,838 thousand/ USD 571,706 thousand were paid off. The funds from these borrowings are aimed at renewing fleet of aircrafts and refinancing of the existing borrowings.

On 30 June 2011 a dividend of RUB 0.12/USD 0.003 per ordinary share was declared by the Company in respect of 2010 to the holders of ordinary shares for the total amount of RUB 69,265 thousand/USD 2,253 thousand.

In 2011 the Group won a legal case due to the additional tax charges imputed by tax authorities as a result of tax audit for 2005-2007 (refer note 37(c)).

In 2011 the Group's Personnel Training Center in Tyumen (PTC) has been certified by Eurocopter S.A.S. for both pilot and technical trainings according to Eurocopter program standards.