UTair Aviation Joint-Stock Company

Consolidated Financial Statements

for the year ended 31 December 2011

Contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2011

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 its subsidiaries (the "Group").

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

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on the 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 IFRSs;
- 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 2011 were approved by management on 29 June 2012 and were signed on their behalf by:

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

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Independent auditors' report to the shareholders of UTair Aviation OJSC

To the shareholders of UTair Aviation OJSC

We have audited the accompanying consolidated financial statements of UTair Aviation OJSC and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of UTair Aviation OJSC and its subsidiaries as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

29 June 2012

	Note	31 December 2011 '000 RUB	31 December 2010 '000 RUB	31 December 2011 '000 USD	31 December 2010 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	7	47,380,859	27,956,603	1,471,633	917,305
Advances for property, plant and equipment		591,369	445,617	18,369	14,621
Goodwill	8	583,524	119,624	18,124	3,925
Other intangible assets	8	355,446	336,150	11,040	11,030
Investments in equity accounted investees	9	55,201	192,086	1,715	6,303
Other investments	10	73,211	52,285	2,274	1,716
Loans issued	11	92,734	57,856	2,880	1,898
Net investment in finance leases	12	327,829	240,286	10,182	7,884
Advances related to operating leases	13	1,371,563	123,975	42,600	4,068
Deferred tax assets	15	48,503	115,828	1,506	3,801
Total non-current assets		**50,880,239**	**29,640,310**	**1,580,323**	**972,551**
Current assets					
Inventories	16	2,555,689	1,823,435	79,379	59,830
Trade and other receivables	14	16,549,664	8,208,327	514,027	269,330
Other advances issued	13	1,548,587	1,475,852	48,099	48,425
Income tax receivable		90,691	131,486	2,816	4,314
Net investment in finance leases	12	131,933	55,676	4,098	1,827
Loans issued	11	735,591	863,416	22,847	28,330
Other investments	10	2,769	4,956	86	163
Security deposits	17	1,202,702	476,654	37,356	15,640
Cash and cash equivalents	18	718,227	443,998	22,308	14,568
Total current assets		**23,535,853**	**13,483,800**	**731,016**	**442,427**
Assets classified as held for sale	19	156,256	252,232	4,853	8,276
Total assets		**74,572,348**	**43,376,342**	**2,316,192**	**1,423,254**

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 87.

	Note	31 December 2011 '000 RUB	31 December 2010 '000 RUB	31 December 2011 '000 USD	31 December 2010 '000 USD
EQUITY AND LIABILITIES					
Equity					
Share capital	20	577,208	577,208	20,871	20,871
Treasury shares	20	(80,933)	(174,859)	(3,672)	(6,868)
Foreign currency translation reserve		132,133	93,349	2,272	(6,211)
Revaluation reserve		22,043,306	7,913,459	684,658	259,654
Retained earnings		(2,278,791)	(2,236,830)	(70,732)	(64,921)
Total equity attributable to equity holders of the Company		**20,392,923**	**6,172,327**	**633,397**	**202,525**
Non-controlling interest		587,045	549,221	18,234	18,021
Total equity		**20,979,968**	**6,721,548**	**651,631**	**220,546**
Non-current liabilities					
Loans and borrowings	21	25,362,200	21,124,041	787,741	693,116
Derivatives	22	16,583	45,009	515	1,477
Trade and other payables	23	710,486	70,695	22,067	2,320
Deferred income	24	496,644	674,305	15,426	22,125
Employee benefits	25	165,859	195,573	5,152	6,418
Deferred tax liabilities	15	5,649,645	1,830,022	175,476	60,046
Total non-current liabilities		**32,401,417**	**23,939,645**	**1,006,377**	**785,502**
Current liabilities					
Loans and borrowings	21	8,222,527	6,037,624	255,389	198,105
Derivatives	22	44,485	66,347	1,382	2,177
Put option liability	6	285,355	-	8,863	-
Trade and other payables	23	9,183,271	4,666,209	285,229	153,106
Deferred income	24	281,152	422,146	8,732	13,852
Income tax payable		63,138	49,840	1,961	1,635
Other taxes payable	26	1,397,468	521,288	43,405	17,104
Advances received	27	1,700,197	933,271	52,808	30,622
Employee benefits	25	13,370	18,424	415	605
Total current liabilities		**21,190,963**	**12,715,149**	**658,184**	**417,206**
Total liabilities		**53,592,380**	**36,654,794**	**1,664,561**	**1,202,708**
Total equity and liabilities		**74,572,348**	**43,376,342**	**2,316,192**	**1,423,254**

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 87.

	Note	2011 ’000 RUB	2010 ’000 RUB	2011 ’000 USD	2010 ’000 USD
Passenger traffic and helicopter services revenue	28	52,447,982	42,715,358	1,784,710	1,406,535
Other revenue	28	2,889,731	1,683,116	98,332	55,422
		55,337,713	**44,398,474**	**1,883,042**	**1,461,957**
Operating expenses					
Direct operating expenses	29	(36,216,011)	(24,735,998)	(1,232,365)	(814,511)
Personnel expenses	30	(11,153,708)	(7,829,582)	(379,540)	(257,813)
Depreciation and amortisation		(3,340,016)	(3,077,837)	(113,655)	(101,347)
Repair expenses		(2,882,793)	(2,439,014)	(98,098)	(80,312)
Commissions		(1,845,069)	(1,386,106)	(62,784)	(45,642)
Gain on sale of assets classified as held for sale		220,664	4,679	7,509	154
Sales-leaseback transaction	31	6,953,793	465,918	236,625	15,342
Other income	32	800,918	311,240	27,254	10,249
Other expenses	32	(3,586,236)	(2,562,073)	(122,033)	(84,364)
		(51,048,458)	**(41,248,773)**	**(1,737,087)**	**(1,358,244)**
Results from operating activities		**4,289,255**	**3,149,701**	**145,955**	**103,713**
Net foreign exchange (loss)/gain		(396,867)	166,185	(13,504)	5,472
Impairment of doubtful debts	13, 14	17,227	(88,442)	586	(2,912)
Share of loss of equity accounted investees (net of income tax)	9	(137,243)	(7,402)	(4,670)	(244)
Other finance income	33	721,294	609,046	24,544	20,055
Other finance costs	33	(4,043,672)	(3,317,703)	(137,599)	(109,245)
Profit before income tax		**449,994**	**511,385**	**15,312**	**16,839**
Income tax expense	34	(336,007)	(112,373)	(11,433)	(3,700)
Profit for the year		**113,987**	**399,012**	**3,879**	**13,139**
Other comprehensive income					
Foreign currency translation differences		72,676	(3,764)	(51,633)	(1,776)
Revaluation of property, plant and equipment		18,104,884	-	616,076	-
Income tax on change in property, plant and equipment revaluation reserve		(3,620,968)	-	(123,215)	-
Other comprehensive income for the year, net of income tax		**14,556,592**	**(3,764)**	**441,228**	**(1,776)**
Total comprehensive income for the year		**14,670,579**	**395,248**	**445,107**	**11,363**

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 87.

	Note	2011 ’000 RUB	2010 ’000 RUB	2011 ’000 USD	2010 ’000 USD
Profit attributable to:					
Owners of the Company		178,941	382,538	6,089	12,597
Non-controlling interest		(64,954)	16,474	(2,210)	542
Profit for the year		**113,987**	**399,012**	**3,879**	**13,139**
Total comprehensive income attributable to:					
Owners of the Company		13,701,713	357,976	413,214	10,269
Non-controlling interest		968,866	37,272	31,893	1,094
Total comprehensive income for the year		**14,670,579**	**395,248**	**445,107**	**11,363**
Earnings per share					
Basic and diluted earnings per share	35	RUB 0.32	RUB 0.69	USD 0.011	USD 0.023

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 87.

'000 RUB

	Share capital	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)	117,911	8,133,733	(5,300,397)	5,879,459	511,949	**6,391,408**
Reclassification (Note 20)	(2,524,248)	-	-	-	2,524,248	-	-	**-**
Balance at 1 January 2010	577,208	(173,244)	117,911	8,133,733	(2,776,149)	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	**577,208**	**(174,859)**	**93,349**	**7,913,459**	**(2,236,830)**	**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 87.

’000 RUB

	Share capital	Treasury shares	Translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	577,208	(174,859)	93,349	7,913,459	(2,236,830)	6,172,327	549,221	**6,721,548**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	178,941	178,941	(64,954)	**113,987**
Other comprehensive income								
Foreign currency translation differences	-	-	38,784	-	22,682	61,466	11,210	**72,676**
Revaluation of property, plant and equipment	-	-	-	16,826,622	-	16,826,622	1,278,262	**18,104,884**
Realisation of property, plant and equipment revaluation reserve	-	-	-	(429,050)	429,050	-	-	**-**
Income tax on change in property, plant and equipment revaluation reserve	-	-	-	(3,279,506)	(85,810)	(3,365,316)	(255,652)	**(3,620,968)**
Total other comprehensive income	**-**	**-**	**38,784**	**13,118,066**	**365,922**	**13,522,772**	**1,033,820**	**14,556,592**
Total comprehensive income for the year	**-**	**-**	**38,784**	**13,118,066**	**544,863**	**13,701,713**	**968,866**	**14,670,579**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Own shares sold	-	93,926	-	-	-	93,926	-	**93,926**
Dividends to equity holders	-	-	-	-	(69,241)	(69,241)	-	**(69,241)**
Total contributions by and distributions to owners	-	93,926	-	-	(69,241)	24,685	-	**24,685**
Charges in ownership interest in subsidiaries								
Acquisition of a subsidiary (Note 6)	-	-	-	-	-	-	244,814	**244,814**
Recognition of put option liability on non-controlling interest in a subsidiary (Note 6)	-	-	-	1,011,781	(54,200)	957,581	(1,242,936)	**(285,355)**
Recognition of treasury shares repurchase obligation under REPO	-	-	-	-	(396,303)	(396,303)	-	**(396,303)**
Change in non-controlling interest due to merger of subsidiaries (Note 6)	-	-	-	-	(67,080)	(67,080)	67,080	**-**
Total charges in ownership interest in subsidiaries	**-**	**-**	**-**	**1,011,781**	**(517,583)**	**494,198**	**(931,042)**	**(436,844)**
Total transactions with owners	**-**	**93,926**	**-**	**1,011,781**	**(586,824)**	**518,883**	**(931,042)**	**(412,159)**
Balance at 31 December 2011	**577,208**	**(80,933)**	**132,133**	**22,043,306**	**(2,278,791)**	**20,392,923**	**587,045**	**20,979,968**

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 87.

’000 USD

	Share capital	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)	(4,632)	268,935	(175,233)	194,400	16,927	**211,327**
Reclassification (Note 20)	(91,274)	-	-	-	91,274	-	-	**-**
Balance at 1 January 2010	20,871	(6,815)	(4,632)	268,935	(83,959)	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	**20,871**	**(6,868)**	**(6,211)**	**259,654**	**(64,921)**	**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 87.

’000 USD

	Share capital	Treasury shares	Translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	20,871	(6,868)	(6,211)	259,654	(64,921)	202,525	18,021	**220,546**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	6,089	6,089	(2,210)	**3,879**
Other comprehensive income								
Foreign currency translation differences	-	-	8,483	(55,808)	(3,612)	(50,937)	(694)	**(51,631)**
Revaluation of property, plant and equipment	-	-	-	572,579	-	572,579	43,497	**616,076**
Realisation of property, plant and equipment revaluation reserve	-	-	-	(14,600)	14,600	-	-	**-**
Income tax on change of property, plant and equipment revaluation reserve	-	-	-	(111,596)	(2,920)	(114,516)	(8,699)	**(123,215)**
Total other comprehensive income	**-**	**-**	**8,483**	**390,575**	**8,068**	**407,126**	**34,104**	**441,230**
Total comprehensive income for the year	**-**	**-**	**8,483**	**390,575**	**14,157**	**413,215**	**31,894**	**445,109**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Own shares acquired	-	3,196	-	-	-	3,196	-	**3,196**
Dividends to equity holders	-	-	-	-	(2,356)	(2,356)	-	**(2,356)**
Total contributions by and distributions to owners	**-**	**3,196**	**-**	**-**	**(2,356)**	**840**	**-**	**840**
Charges in ownership interest in subsidiaries								
Acquisition of a subsidiary (Note 6)	-	-	-	-	-	-	8,331	**8,331**
Recognition of put option liability on non-controlling interest in a subsidiary (Note 6)	-	-	-	34,429	(1,844)	32,585	(42,295)	**(9,710)**
Recognition of treasury shares repurchase obligation under REPO	-	-	-	-	(13,485)	(13,485)	-	**(13,485)**
Change in non-controlling interest due to merger of subsidiaries (Note 6)	-	-	-	-	(2,283)	(2,283)	2,283	**-**
Total charges in ownership interest in subsidiaries	**-**	**-**	**-**	**34,429**	**(17,612)**	**16,817**	**(31,681)**	**(14,864)**
Total transactions with owners	**-**	**3,196**	**-**	**34,429**	**(19,968)**	**17,657**	**(31,681)**	**(14,024)**
Balance at 31 December 2011	**20,871**	**(3,672)**	**2,272**	**684,658**	**(70,732)**	**633,397**	**18,234**	**651,631**

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 87.

	2011 ’000 RUB	**2010 ’000 RUB**	**2011 ’000 USD**	**2010 ’000 USD**
Cash flows from operating activities				
Profit before income tax	449,994	511,385	15,312	16,839
Adjustments for:				
Depreciation and amortisation	3,340,016	3,077,837	113,655	101,347
Loss on revaluation of property, plant and equipment	301,980	-	10,276	-
(Gain)/Loss on disposal of property, plant and equipment	(6,534,985)	316,743	(222,374)	10,430
Finance costs, net	3,322,378	2,708,657	113,055	89,190
Impairment of doubtful debts	(17,227)	88,442	(586)	2,912
Share of loss of equity accounted investees (net of income tax)	137,243	7,402	4,670	244
Unrealised foreign exchange differences	(587,204)	(95,509)	(21,530)	(3,145)
Cash from operating activities before changes in working capital and provisions	**412,195**	**6,614,957**	**12,478**	**217,817**
Increase in inventories	(608,626)	(157,492)	(20,710)	(5,186)
Increase in trade and other receivables and net investment in finance leases	(430,400)	(1,957,769)	(14,646)	(64,466)
(Increase)/Decrease in other advances	(2,070)	1,136,812	(70)	37,433
Increase/(Decrease) in trade and other payables	3,846,130	(330,100)	130,877	(10,870)
(Decrease)/Increase in employee benefits	(34,768)	35,485	(1,183)	1,168
Increase/(Decrease) in advances received and deferred income	442,124	(50,402)	15,045	(1,660)
Increase in other taxes payable	851,213	424,427	28,965	13,976
Increase of assets classified as held for resale	123,640	506,527	4,207	16,679
Cash flows from operations before income taxes and interest paid	**4,599,438**	**6,222,445**	**154,963**	**204,891**
Income tax paid	(124,075)	(144,005)	(4,222)	(4,742)
Interest paid	(3,954,383)	(3,209,841)	(134,561)	(105,694)
Net cash from operating activities	**520,980**	**2,868,599**	**16,180**	**94,455**

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 87.

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Cash flows from investing activities				
Acquisition of property, plant and equipment	(5,206,776)	(6,581,726)	(177,177)	(216,724)
Proceeds from sale of property, plant and equipment	115,569	39,123	3,933	1,288
Acquisition of intangible assets	(95,895)	(88,819)	(3,263)	(2,925)
Interest received from deposits	26,164	404,973	890	13,335
Interest received from other investments held for sale	397,153	81,679	13,514	2,690
Acquisition of other investments	(4,858,358)	(841,919)	(165,321)	(27,723)
Proceeds from sale of other investments	5,252,885	1,481,126	178,746	48,771
Short-term loans provided to third parties	(745,003)	(7,098)	(25,351)	(234)
Short-term loans repaid by third parties	574,691	5,170	19,556	170
Deposits	364,786	5,830,480	12,413	191,987
Acquisition of subsidiaries	(1,014,111)	-	(32,959)	-
Net cash (used in)/from investing activities	**(5,188,895)**	**322,989**	**(175,019)**	**10,635**
Cash flows from financing activities				
Proceeds from borrowings	63,650,202	32,378,765	2,165,901	1,066,171
Repayment of borrowings	(57,536,086)	(35,055,955)	(1,957,849)	(1,154,325)
Dividends paid to equity holders of the Company	(70,905)	(43,687)	(2,413)	(1,439)
Dividends paid to non-controlling holders	(36,374)	(530)	(1,238)	(17)
Repayment of liability under finance lease agreements	(1,158,619)	(539,154)	(39,426)	(17,753)
Acquisition of treasury shares	93,926	(1,615)	3,196	(53)
Net cash from/(used in) financing activities	**4,942,144**	**(3,262,176)**	**168,171**	**(107,416)**
Net increase/(decrease) in cash and cash equivalents	**274,229**	**(70,588)**	**9,332**	**(2,326)**
Effect of movements in exchange rates	-	-	(1,592)	(120)
Cash and cash equivalents at 1 January	443,998	514,586	14,568	17,014
Cash and cash equivalents at 31 December	**718,227**	**443,998**	**22,308**	**14,568**

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 87.

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. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy, but they 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 future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

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. While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

(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: provision of passenger and cargo air transportation, catering, airport services, aircraft repairs and maintenance services 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 Non-State Pension Fund Surgutneftegaz (Russia) owned 60.67% of the Company (2010: 55.68%).

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

Entity	Activity	2011 % share	2010 % 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

Entity	Activity	2011 % share	2010 % share
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	51.00	100.00
UTair-Express LLC	Aviation services	100.00	100.00
Tsentr ekonomicheskikh preobrazovaniy LLC	Investing activities	81.00	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
UT Project Services Ltd. (India)	Regional office of UTair, agency services	100.00	100.00
WestSib-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
UTair Armenia LLC (Armenia)	Regional office of UTair	100.00	-
UTair Jug LLC (Russia)	Regional office of UTair	100.00	-
Turukhan Aviation Company LLC	Aviation services	100.00	-
UTair Sierra Leone Limited	Aviation services and maintenance of aircraft fleet	99.00	99.00
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
Helicopteros del Sur S.A. (Peru)	Aviation services	63.00	70.00
Zapadno-sibirskoe agentstvo vozdushnykh soobscheniy LLC	Ticket sales	51.00	51.00
Vostok Aviation Company OJSC	Aviation services	51.00	-
Dalnevostochnaya aviatsionnaya leasingovaya kompania LLC	Repair and maintenance of aircraft fleet	51.00	-
UTG CJSC	Ground maintenance services	50.00	50.00
Ukrainskaya handlingovaya kompania LLC (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

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 2011	32.1961
Average rate in 2011	29.3874
As at 31 December 2010	30.4769
Average rate in 2010	30.3692
As at 1 January 2010	30.2442

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

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:

Consolidation of special purpose entities

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 2011 and 2010, 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 2011 and 2010, 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 2011 and 2010, because this is a special purpose entity.

Leases – Group as lessee

To provide transportation services the Group leases significant number of aircrafts. Based on the evaluation of terms and conditions of the lease arrangements, the Group accounts for lease arrangements stipulating bargain purchase option at the end of lease term as finance lease, while remaining lease arrangements are accounted for as operating leases.

(ii) Estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRSs requires management to make 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:

Revaluation of property, plant and equipment

The Group measures its property, plant and equipment at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2011. Besides the comparable market data, the appraiser used a valuation technique based on a discounted cash flow model. Therefore the estimated values are most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The key assumptions used to determine the fair value of property, plant and equipment are further explained in Note 7.

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.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of 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 (CGU) 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. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Revenue recognition – bonus miles for frequent flyer programme

The Group estimates the fair value of customer loyalty award credits (bonus miles) under frequent flyer programme "Status" by applying statistical techniques. Inputs to the models includes making assumptions about expected redemptions rates, the mix of products that will be available for redemption in the future and customer preferences. Such estimates are subject to significant uncertainty. More details are provided in Note 3 (k) (v).

Provisions and allowances

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. In 2011 management reassessed its estimation in respect of creditworthiness of clients and potential losses resulting from inability of customers to make required payments based on the historical data on accounts receivable ageing, allowance accrued and actual losses incurred. This resulted in change in estimate amounting to RUB 94,360 thousand/USD 2,931 thousand decrease in provision compared to prior year estimate.

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).

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, post-employment benefit obligations are highly sensitive to changes in these assumptions. 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. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate RUB denominated bonds with at least AA rating, with extrapolated maturities corresponding to the expected duration of the post-employment benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for Russia. Future salary increases and pension increases are based on expected future inflation rates. More details are provided in note 25.

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. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As at 31 December 2011 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, no contingent liability has been recognized. More details are provided in note 38(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. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized , based upon the likely timing and the level of future taxable profits together with the future tax planning strategies.

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

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

(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) Business combination and goodwill

The acquisition method of accounting was used to account for business combinations.

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. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(iii) Put option on non-controlling interest

Where the acquisition of controlling interest by the Group triggers a legally binding requirement to make an offer to all other shareholders, the put option liability on the non-controlling interest is recognized. Any put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. The Group then performs an analysis, whether the acquisition of controlling interest by the Group provides the parent with a present ownership interest in the shares subject to the put. When a present ownership was not passed to the acquirer, and therefore still resides with the non-controlling interest holders, the non-controlling interest is recognized at the date of a business combination, in accordance with *IFRS 3 Business Combination* at the non-controlling interest's proportionate share of the acquiree's identifiable net assets as of the date of acquisition. The Group then continues to recognize the non-controlling interest within equity in accordance with IAS 27. At the end of reporting period the carrying value of the non-controlling interest is updated for the acquiree's share in the activities of a subsidiary for the reporting period. Then the non-controlling interest is derecognized, a financial liability at the present value of the amount payable upon exercise of the put option is recognized, and any difference is recognized within any component of equity except for non-controlling interest. If the option is then exercised, the liability existing at that date is extinguished by the payment of the exercise price. If the option expires unexercised, the position is unwound such that non-controlling interest is recognised at the amount it would have been, as if the put option was not granted.

(iv) 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.

(v) 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.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Goodwill realting to the associate is included into the carrying amount of the investment and is neither amortized nor individually tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(vi) 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

The Group's functional currency is RUB, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

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 monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(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.

Prior to January 2005, the Group treated goodwill, and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, as assets and liabilities of the parent. Therefore, those assets and liabilities are already expressed in the functional currency or are non-monetary assets and no further translation differences occur.

(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 14 and cash and cash equivalents as presented in note 18.

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 component 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. For the purpose of hedge accounting, this hedge is classified as fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

The change in the fair value of a hedging derivative is recognised in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

(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 recognized in retained earnings.

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. Non-controlling 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 2011.

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.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

(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 separate 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 separate 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 borrowings 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. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

(i) 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.

(ii) Amortisation

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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 asset 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
- customer relationship identified in acquisition of a foreign subsidiary 25 years
- software 3-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(f) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

(i) Group as a lessor - finance leases

Leases in which the Group transfers substantially all the risks and benefits of ownership of an asset are classified as 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(k)).

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) Group as a lessor - operating lease

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

(iii) Group as a lessee - finance leases

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.

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.

(iv) Group as a lesse - 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.

Lease incentives received and incremental costs of lease paid (such as related customs expenses) are recognised as an integral part of the total lease expense, over the term of the lease.

(g) 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.

(h) 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.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(i) 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.

(j) 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

(k) 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.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

(v) Customer loyalty programme

Customer loyalty award credits (bonus miles) earned but unused under frequent flyer programme “Status” (see note 24) 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 24) and the miles collected from third parties as well as promotional miles are recognised under other liabilities (see notes 23, 24).

(l) Other expenses

(i) 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.

(m) 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.

(n) 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, expected to be recovered from or paid to the taxation authorities.

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.

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. The carrying amount of the deferred tax assets is reviewed at each reporting date and are reduced to the extent that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

(o) 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.

(p) New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- *IAS 24 Related Party Transactions (Amendment).* The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.
- *IAS 32 Financial Instruments: Presentation (Amendment).* The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment).* The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.
- *Improvements to IFRSs*

  In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.
- *IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- *IFRS 7 Financial Instruments — Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 2 (d).
- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the statement of changes in equity.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))*
- *IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements.*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.*

(q) New and Amended Standards and Interpretations

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- *IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income.* The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.
- *IAS 12 Income Taxes – Recovery of Underlying Assets.* The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.
- *IAS 19 Employee Benefits (Amendment).* The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. 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 27 Separate Financial Statements (as revised in 2011).* As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011).* As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint

ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group has no Joint Ventures currently.

- *IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition* Disclosure Requirements. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.
- *IFRS 9 Financial Instruments: Classification and Measurement.* IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- *IFRS 10 Consolidated Financial Statements.* IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. 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. This standard becomes effective for annual periods beginning on or after 1 January 2013. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- *IFRS 11 Joint Arrangements.* IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group has no Joint Ventures currently.
- *IFRS 12 Disclosure of Involvement with Other Entities* . IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the

disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

- *IFRS 13 Fair Value Measurement.* IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 reasonable 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

During the year ended 31 December 2011, the chief operating decision maker received financial information for the Group’s two strategic business units: passenger traffic and helicopter services, on a quarterly basis.

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 2011	Passenger traffic 2010	Helicopter services 2011	Helicopter services 2010	Total 2011	Total 2010
External revenues	36,702,909	27,544,932	18,027,935	15,864,494	54,730,844	43,409,426
Inter-unit revenues	26,421	24,994	97,729	13,078	124,150	38,072
Interest income	206,008	177,703	948	8,905	206,956	186,608
Interest expense	(415,207)	(347,046)	(1,208,691)	(849,162)	(1,623,898)	(1,196,208)
Depreciation and amortisation	(779,115)	(765,479)	(2,547,288)	(2,243,318)	(3,326,403)	(3,008,797)
Share of loss of equity accounted investees	-	-	(137,243)	(7,402)	(137,243)	(7,402)
(Loss)/Profit before tax	(5,953,788)	(2,658,124)	2,038,378	4,702,823	(3,915,410)	2,044,699
Assets	13,189,389	9,871,899	46,513,781	26,849,185	59,703,170	36,721,084
Capital expenditure	2,112,469	801,691	3,274,663	9,039,807	5,387,132	9,841,498
Liabilities	(11,592,222)	(8,790,286)	(12,797,611)	(10,041,181)	(24,389,833)	(18,831,467)

’000 USD	Passenger traffic 2011	Passenger traffic 2010	Helicopter services 2011	Helicopter services 2010	Total 2011	Total 2010
External revenues	1,248,934	907,002	613,458	522,388	1,862,392	1,429,390
Inter-unit revenues	899	823	3,326	431	4,225	1,254
Interest income	7,010	5,851	32	294	7,042	6,145
Interest expense	(14,129)	(11,428)	(41,129)	(27,961)	(55,258)	(39,389)
Depreciation and amortisation	(26,512)	(25,206)	(86,679)	(73,868)	(113,191)	(99,074)
Share of loss of equity accounted investees	-	-	(4,670)	(244)	(4,670)	(244)
(Loss)/Profit before tax	(202,597)	(87,527)	69,363	154,855	(133,234)	67,328
Assets	409,658	323,914	1,444,702	880,969	1,854,360	1,204,883
Capital expenditure	71,883	26,398	111,431	297,664	183,314	324,062
Liabilities	(360,051)	(288,425)	(397,489)	(329,468)	(757,540)	(617,893)

(ii) *Major customers and geographical areas*

Breakdown of revenue by types of customers and geographical areas is presented in note 28.

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

	2011 ’000 RUB	2010 ’000 RUB	2011 ’000 USD	2010 ’000 USD
Revenues				
Total revenue for strategic business units	54,854,994	43,447,498	1,866,617	1,430,644
Other revenue	606,869	989,048	20,650	32,567
Elimination of inter-unit revenues	(124,150)	(38,072)	(4,225)	(1,254)
	55,337,713	**44,398,474**	**1,883,042**	**1,461,957**
Profit before income tax				
Total profit before tax for strategic business units	(3,915,410)	2,044,699	(133,234)	67,328
Other profit	6,670,003	159,975	226,968	5,268
Elimination of inter-unit profits	(5,912)	(1,813)	(201)	(60)
Unallocated amounts, including:	(2,298,687)	(1,691,476)	(78,221)	(55,697)
Depreciation and amortisation	(13,613)	(69,040)	(463)	(2,273)
Interest income	100,714	145,774	3,427	4,800
Interest expense	(2,369,649)	(2,101,304)	(80,635)	(69,192)
Net foreign exchange gain	(396,867)	166,186	(13,505)	5,472
Other	380,728	166,908	12,955	5,496
	449,994	**511,385**	**15,312**	**16,839**
Assets				
Total assets for strategic business units	59,703,170	36,721,084	1,854,360	1,204,883
Cash placed in trust management	22,946	-	713	-
Other investments	75,980	57,241	2,360	1,879
Loans issued	828,325	921,272	25,727	30,228
Receivables for operations with securities	94,887	1,068,441	2,947	35,057
Other assets	10,773,132	663,046	334,610	21,756
Other unallocated amounts	3,073,908	3,945,258	95,475	129,451
	74,572,348	**43,376,342**	**2,316,192**	**1,423,254**
Liabilities				
Total liabilities for strategic business units	(24,389,833)	(18,831,467)	(757,540)	(617,893)
Other unallocated amounts (mainly loans and borrowings)	(29,202,547)	(17,823,327)	(907,021)	(584,815)
	(53,592,380)	**(36,654,794)**	**(1,664,561)**	**(1,202,708)**

(iv) Other material items in 2011

	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	206,956	100,714	307,670	7,042	3,427	10,469
Interest expense	(1,623,898)	(2,369,649)	(3,993,547)	(55,258)	(80,635)	(135,893)
Capital expenditure	5,387,132	614,736	6,001,868	183,314	20,918	204,233
Depreciation and amortisation	(3,326,403)	(13,613)	(3,340,016)	(113,191)	(463)	(113,655)

(v) 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)

6 Acquisition of and change in ownership of subsidiaries

(a) Acquisition of Turukhan Aviation Company LLC

On 11 February 2011 the Group acquired 25% share in equity of Turukhan Aviation Company LLC (first stage of acquisition), which was initially accounted by the Group as equity investment.

On 7 September 2011 (second stage of acquisition) the Group acquired further 75% share in equity of Turukhan Aviation Company LLC, and as a result obtained control over this company. Turukhan Aviation Company LLC is a Russian company rendering helicopter transportation services.

Control over Turukhan Aviation Company LLC will enable the Group to gain access to the Krasnoyarsk Territory helicopter transportation market.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of obtaining control over this subsidiary:

	As at the date of acquisition	
	'000 RUB	'000 USD
Property, plant and equipment	239,239	7,506
Trade and other receivables; prepaid expenses	107,584	3,375
Inventories	57,220	1,795
Cash and cash equivalents	14,949	469
Trade account payable	(50,273)	(1,577)
Deferred tax liability	(38,771)	(1,216)
Fair value of net assets acquired	**329,948**	**10,352**

	As at the date of acquisition	
	'000 RUB	'000 USD
Fair value of initial 25% interest at acquisition date	183,138	5,812
Consideration paid in the second stage of acquisition	576,496	18,020
Goodwill	**429,686**	**13,480**
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	(14,949)	(469)
Cash paid	759,634	23,832
Net cash outflow	**744,685**	**23,363**

The difference between the fair value of net assets acquired and the consideration paid is accounted for as goodwill in the consolidated balance sheet. Since the date of acquisition Turukhan Aviation Company LLC contributed net profit of RUB 11,961 thousand/USD 407 thousand to the Group's net profit.

(b) Acquisition of Vostok Aviation Company OJSC

On 30 June 2011 the Group received control over Vostok Aviation Company OJSC, a Russian company rendering helicopter transportation services and aviation services.

Control over Vostok Aviation Company OJSC will enable the Group to gain access to the Far East helicopter transportation market.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	As at the date of acquisition	
	'000 RUB	'000 USD
Property, plant and equipment	435,100	15,497
Trade and other receivables; prepaid expenses	228,847	8,151
Inventories	63,373	2,257
Cash and cash equivalents	13,089	466
Other investments	175	6
Intangible assets	5	-
Non-controlling interest	(244,814)	(8,720)
Long-term accounts receivable and prepayments	(108,340)	(3,859)
Deferred tax liability	(69,969)	(2,492)
Trade account payable	(62,660)	(2,232)
Fair value of net assets	**254,806**	**9,074**
Consideration paid	282,515	10,063
Goodwill	**27,709**	**989**
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	(13,089)	(466)
Cash paid	282,515	10,063
Net cash outflow	**269,426**	**9,596**

The difference between the fair value of net assets acquired and the consideration paid is accounted for as goodwill in the consolidated balance sheet. Since the date of acquisition Vostok Aviation

Company LLC contributed net loss of RUB 26,105 thousand/USD 888 thousand to the Group's net profit.

Following the acquisition of controlling interest in Vostok Aviation OJSC the Group was legally required to make an offer to all other shareholders. Therefore as of 31 December 2011 the Group derecognized the non-controlling interest in this subsidiary and recognized the put option liability on the non-controlling interest for the present value of amounts payable to non-controlling shareholders (RUB 285,355 thousand/USD 8,863 thousand).

(c) Merger of Aviacion del Sur S.A. and Helicopteros del Sur S.A.

As of 1 January 2011 the Peruvian subsidiary of the Group, Aviacion del Sur S.A. merged with its subsidiary, Helicopteros del Sur S.A. The newly created entity was named Helicopteros del Sur S.A. As a result of merger, the share of the Group in this subsidiary decreased from 70% down to 63%; and the Group recognized the corresponding increase in non-controlling interest attributable to minority shareholders amounting to RUB 67,080 thousand/USD 2,283 thousand. No consideration was received by the Group in this respect.

7 Property, plant and equipment

'000 RUB	**Land and buildings**	**Rotables, aircraft, helicopter and engines**	**Other**	**Construction in progress**	**Total**
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)**
Cost					
Balance at 1 January 2011	5,619,037	26,997,011	1,923,274	567,101	35,106,423
Acquisition through business combinations (Note 6)	126,234	505,083	38,295	4,727	674,339
Additions	228,814	5,287,068	478,711	(177,289)	5,817,304
Disposals	(40,223)	(2,688,598)	(132,807)	(14,894)	(2,876,522)
Revaluation	1,065,279	20,456,050	-	-	21,521,329
Effect of movements in exchange rates	832	261,974	3,483	65	266,354
Balance at 31 December 2011	**6,999,973**	**50,818,588**	**2,310,956**	**379,710**	**60,509,227**
Depreciation and impairment losses					
Balance at 1 January 2011	**(781,808)**	**(5,218,947)**	**(1,149,065)**	**-**	**(7,149,820)**
Depreciation for the year	(215,327)	(2,842,111)	(181,937)	-	(3,239,375)
Disposals	3,209	919,060	105,347	-	1,027,616
Revaluation	80,566	(3,798,972)	-	-	(3,718,406)
Effect of movements in exchange rates	(75)	(47,193)	(1,115)	-	(48,383)
Balance at 31 December 2011	**(913,435)**	**(10,988,163)**	**(1,226,770)**	**-**	**(13,128,368)**
Carrying amounts					
At 1 January 2010	**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**
At 31 December 2011	**6,086,538**	**39,830,425**	**1,084,186**	**379,710**	**47,380,859**

’000 USD	Land and buildings	Rotables, aircraft, helicopter and engines	Other	Construction in progress	Total
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)**
Cost					
Balance at 1 January 2011	184,370	885,819	63,106	18,608	1,151,903
Acquisition through business combinations (Note 6)	4,296	17,187	1,303	217	23,003
Additions	7,786	179,909	16,290	(6,033)	197,952
Disposals	(1,369)	(91,488)	(4,519)	(507)	(97,883)
Revaluation	36,250	696,082	-	-	732,332
Effect of movements in exchange rates	(13,916)	(109,101)	(4,402)	(492)	(127,911)
Balance at 31 December 2011	**217,417**	**1,578,408**	**71,778**	**11,793**	**1,879,396**
Depreciation and impairment losses					
Balance at 1 January 2011	(25,652)	(171,243)	(37,703)	-	(234,598)
Depreciation for the year	(7,327)	(96,712)	(6,191)	-	(110,230)
Disposals	109	31,274	3,585	-	34,968
Effect of movements in exchange rates	4,499	(104,608)	2,206	-	(97,903)
Balance at 31 December 2011	**(28,371)**	**(341,289)**	**(38,103)**	**-**	**(407,763)**
Carrying amounts					
At 1 January 2010	**159,055**	**521,768**	**15,774**	**10,488**	**707,085**
At 31 December 2010	**158,718**	**714,576**	**25,403**	**18,608**	**917,305**
At 31 December 2011	**189,046**	**1,237,119**	**33,675**	**11,793**	**1,471,633**

As at 31 December 2011 the cost of fully depreciated property, plant and equipment was RUB 678,111 thousand/USD 21,062 thousand (2010: RUB 1,194,684 thousand/USD 39,200 thousand).

Expenses capitalised in property, plant and equipment, which consist of overhaul costs, in 2011 amounted to RUB 933,582 thousand/USD 28,997 thousand (2010: RUB 992,908 thousand/ USD 32,695 thousand).

(a) Security

At 31 December 2011 properties with a carrying amount of RUB 4,127,014 thousand/USD 128,184 thousand (2010: RUB 4,680,226 thousand/USD 153,566 thousand) are pledged to secure bank loans (see note 21).

(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 37.

(c) Finance leases

In 2008-2011 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 2011 the carrying value of the aircraft used by the Group under finance leases was RUB 11,068,461 thousand/USD 343,783 thousand (2010: RUB 6,296,941 thousand/ USD 206,614 thousand). Finance lease obligations are disclosed in note 21.

(d) Revaluation of property, plant and equipment

The Company undertook revaluation of land and buildings, and rotables, aircrafts, helicopters and engines as of 31 December 2011. For this purposes the Company engaged an independent appraiser. As at 31 December 2011 the fair value of these groups of property, plant and equipment was determined to be RUB 42,105,240 thousand/USD 1,307,775 thousand, of which RUB 34,883,135 thousand/USD 1,083,458 thousand was primarily determined based on the market comparison approach (also referred to as sales comparison approach). This approach considers sales in similar or substitute properties and related market data, and establishes a value estimate by a process involving comparison:

- with an identical object which is being sold on a secondary market,
- with a similar object which is being sold in a secondary market using adjustments, if there is not identical object; or
- with new analogous equipment using adjustments for depreciation in the absence of a secondary market.

The fair value of the remaining items of property, plant and equipment of RUB 7,222,106 thousand/USD 224,316 thousand was determined based on 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. The values derived as a result of using depreciated replacement cost method were then subject to the test of adequate profitability in relation to the whole of the assets of respective cash generating unit.

8 Intangible assets

(a) Goodwill

Goodwill arose in 2011 on the acquisition of subsidiaries (Note 6) and in 2008 on the acquisition of a foreign subsidiary. Based on impairment test of the goodwill, performed as at 31 December 2011, no impairment loss was recognised.

(b) Other intangible assets

Other intangible assets in the total amount of RUB 355,446 thousand/USD 11,040 thousand (2010: RUB 336,150 thousand/USD 11,030 thousand) include customer relationships identified as a result of acquisition of a foreign subsidiary in 2008 in the amount of RUB 239,613 thousand/ USD 7,442 thousand and RUB 249,114 thousand/USD 8,174 thousand as at 31 December 2011 and 2010 accordingly.

9 Equity accounted investees

Changes in the equity accounted investments between 1 January and 31 December 2010 and 2011 were as follow:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Balance at 1January	192,086	199,488	6,303	6,596
Acquisition of investment	187,500	-	6,380	-
Share of loss net of income tax	(137,243)	(7,402)	(4,670)	(244)
Disposals	(4,004)	-	(136)	-
Changes in consolidated Group	(183,138)	-	(6,232)	-
Translation difference	-	-	70	(49)
Balance at 31 December	**55,201**	**192,086**	**1,715**	**6,303**

Additions to equity-accounted investments relate to the acquisition of 25% shares of Turukhan Aviation Company LLC in February 2011. The changes in consolidated Group in 2011 relate to the reclassification of the shares of Turukhan Aviation Company as a result of its consolidation in the amount of RUB 183,138 thousand/USD 6,232 thousand after acquiring control over this entity in September 2011 (Note 6).

In 2011 the Group sold its equity investment in the shares of Kondaavia CJSC, the related discontinuation of equity accounting was reported under disposals.

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
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)**
2011					
Nefteyuganskiy Aviaotryad OJSC	24.4%	3,893,301	1,700,303	2,456,583	(546,836)
		3,893,301	**1,700,303**	**2,456,583**	**(546,836)**

’000 USD	Ownership	Total assets	Total liabilities	Revenues	Loss
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)**
2011					
Nefteyuganskiy Aviaotryad OJSC	24.4%	120,925	52,811	83,593	(18,608)
		120,925	**52,811**	**83,593**	**(18,608)**

10 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.

	2011 ’000 RUB	2010 ’000 RUB	2011 ’000 USD	2010 ’000 USD
Long-term				
Available-for-sale investments	73,211	52,285	2,274	1,716
	73,211	**52,285**	**2,274**	**1,716**
Short-term				
Investments held for trading (classified as at fair value through profit or loss)	-	3,569	-	117
Available-for-sale investments	2,769	1,387	86	46
	2,769	**4,956**	**86**	**163**

The Group’s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 36.

11 Loans issued

As at 31 December 2011 long-term loans include unsecured loans denominated in USD amounting to RUB 83,387 thousand/USD 2,590 thousand (2010: RUB 54,858 thousand/USD 1,800 thousand), which bear interest rate of 0% per annum (2010: 8% per annum) and mature before 10 June 2013.

As at 31 December 2011 unsecured short-term loans amounting to RUB 735,591 thousand/USD 22,847 thousand (2010: RUB 863,416 thousand/USD 28,330 thousand) are denominated in RUB, bear interest rate of 6% to 10% per annum (2010: 11.50% to 12.08% per annum) and mature before 30 June 2012.

For information about the Group’s exposure to credit and currency risk related to loans issued see note 36.

12 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:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Gross investments in leases	606,777	421,919	18,846	13,844
Less: unearned finance lease income	(147,015)	(125,957)	(4,566)	(4,133)
Net investment in finance leases	**459,762**	**295,962**	**14,280**	**9,711**

Rate of return under the lease agreements varies from 15% to 21% per annum (2010: 16% to 39% 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	**2011**		**2010**	
	Gross investment	**Net investment**	**Gross investment**	**Net investment**
Less than 1 year	218,801	131,933	126,482	55,676
1 to 5 years	387,976	327,829	295,437	240,286
Total	**606,777**	**459,762**	**421,919**	**295,962**

'000 USD	**2011**		**2010**	
	Gross investment	**Net investment**	**Gross investment**	**Net investment**
Less than 1 year	6,796	4,098	4,150	1,827
1 to 5 years	12,050	10,182	9,694	7,884
Total	**18,846**	**14,280**	**13,844**	**9,711**

13 Other advances issued

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Long-term				
Advances issued under operating lease agreements	1,356,636	122,099	42,137	4,006
Other	14,927	1,876	463	62
	1,371,563	**123,975**	**42,600**	**4,068**
Short-term				
Advances issued under operating lease agreements	134,037	83,107	4,163	2,727
Other	1,414,550	1,392,745	43,936	45,698
	1,548,587	**1,475,852**	**48,099**	**48,425**

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

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
1 January	**85,316**	**83,778**	**2,799**	**2,770**
Utilised during the year	(6,506)	(52,850)	(221)	(1,740)
Reversed during the year	(64,135)	(11,582)	(2,183)	(381)
Charged during the year	75,794	65,970	2,580	2,172
Effect of movements in exchange rates	-	-	(165)	(22)
31 December	**90,469**	**85,316**	**2,810**	**2,799**

14 Trade and other receivables

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Sales-leaseback transaction (see note 31)	8,713,799	1,219,076	270,648	40,000
Trade receivables	5,370,427	3,788,165	166,804	124,296
Receivables from related parties (see note 39)	1,027,062	577,355	31,900	18,944
Other taxes receivable	869,453	926,919	27,005	30,414
Receivables for operations with securities	94,887	1,068,441	2,947	35,057
VAT recoverable	52,060	319,833	1,617	10,494
Deferred expenses	65,239	43,102	2,026	1,414
Other accounts receivable	437,311	383,880	13,582	12,597
Less:				
Provision for impairment of trade receivables	(60,083)	(76,284)	(1,866)	(2,503)
Provision for impairment of other receivables	(20,491)	(42,160)	(636)	(1,383)
	16,549,664	**8,208,327**	**514,027**	**269,330**

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 405,307 thousand/USD 12,589 thousand (2010: RUB 186,201 thousand/USD 6,110 thousand) which remains as at 31 December 2011 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:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
1 January	**118,444**	**103,520**	**3,886**	**3,423**
Utilised during the year	(8,984)	(19,130)	(306)	(630)
Reversed during the year	(74,435)	(20,496)	(2,533)	(675)
Charged during the year	45,549	54,550	1,551	1,796
Effect of movements in exchange rates	-	-	(95)	(28)
31 December	**80,574**	**118,444**	**2,503**	**3,886**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 36.

15 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	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Property, plant and equipment	6,729	34,667	(6,126,714)	(2,460,522)	(6,119,985)	(2,425,855)
Intangible assets	3,003	-	(76,856)	(75,174)	(73,853)	(75,174)
Investments	25,197	-	(7,134)	-	18,063	-
Inventories	141,560	14,381	(591)	(621)	140,969	13,760
Trade and other receivables	58,252	87,435	(19,786)	(1,362)	38,466	86,073
Advance received and deferred income	154,884	198,125	(43,177)	(30,688)	111,707	167,437
Trade and other payables	110,223	346,317	(6,985)	(2,466)	103,238	343,851
Tax loss carry-forwards	169,252	145,980	-	-	169,252	145,980
Other differences	21,679	38,528	(10,678)	(8,794)	11,001	29,734
Tax assets/(liabilities)	690,779	865,433	(6,291,921)	(2,579,627)	(5,601,142)	(1,714,194)
Set off of tax	(642,276)	(749,605)	642,276	749,605	-	-
Net tax assets/(liabilities)	**48,503**	**115,828**	**(5,649,645)**	**(1,830,022)**	**(5,601,142)**	**(1,714,194)**

	Assets		Liabilities		Net	
’000 USD	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Property, plant and equipment	209	1,138	(190,294)	(80,734)	(190,085)	(79,596)
Intangible assets	93	-	(2,387)	(2,466)	(2,294)	(2,466)
Investments	783	-	(222)	-	561	-
Inventories	4,397	472	(18)	(21)	4,379	451
Trade and other receivables	1,809	2,869	(615)	(45)	1,194	2,824
Advance received and deferred income	4,811	6,501	(1,341)	(1,007)	3,470	5,494
Trade and other payables	3,423	11,363	(217)	(81)	3,206	11,282
Tax loss carry-forwards	5,257	4,790	-	-	5,257	4,790
Other differences	673	1,264	(331)	(288)	342	976
Tax assets/(liabilities)	21,455	28,397	(195,425)	(84,642)	(173,970)	(56,245)
Set off of tax	(19,949)	(24,596)	19,949	24,596	-	-
Net tax assets/(liabilities)	**1,506**	**3,801**	**(175,476)**	**(60,046)**	**(173,970)**	**(56,245)**

(b) Unrecognised deferred tax assets

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

	2011 ’000 RUB	**2010 ’000 RUB**	**2011 ’000 USD**	**2010 ’000 USD**
Tax losses	279,782	29,967	8,690	983
	279,782	**29,967**	**8,690**	**983**

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 there from.

(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 2011	Recognised in profit or loss	Recognised in other comprehensive income	Foreign currency translation reserve	Acquired in business combination	31 December 2011
Property, plant and equipment	(2,425,855)	38,674	(3,620,968)	(3,096)	(108,740)	(6,119,985)
Intangible assets	(75,174)	5,051	-	(3,730)	-	(73,853)
Investments	-	18,063	-	-	-	18,063
Inventories	13,760	127,209	-	-	-	140,969
Trade and other receivables	86,073	(47,607)	-	-	-	38,466
Advance received and deferred income	167,437	(55,730)	-	-	-	111,707
Trade and other payables	343,851	(240,613)	-	-	-	103,238
Other items	29,734	(18,733)	-	-	-	11,001
Tax loss carry-forwards	145,980	23,272	-	-	-	169,252
	(1,714,194)	**(150,414)**	**(3,620,968)**	**(6,826)**	**(108,740)**	**(5,601,142)**

'000 RUB	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	Foreign currency translation reserve	Acquired in business combination	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 USD	1 January 2011	Recognised in profit or loss	Recognised in other comprehen-sive income	Foreign currency translation reserve	Acquired in business combination	31 December 2011
Property, plant and equipment	(79,596)	1,315	(123,215)	15,111	(3,700)	(190,085)
Intangible assets	(2,466)	172	-	-	-	(2,294)
Investments	-	615	-	(54)	-	561
Inventories	451	4,330	-	(402)	-	4,379
Trade and other receivables	2,824	(1,621)	-	(9)	-	1,194
Advance received and deferred income	5,494	(1,896)	-	(128)	-	3,470
Trade and other payables	11,282	(8,189)	-	113	-	3,206
Other items	976	(636)	-	2	-	342
Tax loss carry-forwards	4,790	792	-	(325)	-	5,257
	(56,245)	**(5,118)**	**(123,215)**	**14,308**	**(3,700)**	**(173,970)**

'000 USD	1 January 2010	Recognised in profit or loss	Recognised in other comprehen-sive income	Foreign currency translation reserve	Acquired in business combination	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)**

16 Inventories

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Spare parts	1,626,600	1,233,043	50,522	40,458
Fuel	663,531	364,626	20,609	11,964
Work in progress	58,933	27,180	1,830	892
Finished goods and goods for resale	1,236	3,760	38	123
Other inventories	506,893	496,867	15,745	16,303
Allowance for impairment	(301,504)	(302,041)	(9,365)	(9,910)
	2,555,689	**1,823,435**	**79,379**	**59,830**

17 Security deposits

As at 31 December 2011 security deposits in the amount of RUB 1,202,702 thousand/USD 37,356 (2010: RUB 476,654 thousand/USD 15,640 thousand) are under operating lease agreements, carry interest rate of 6% per annum (2010: 6% per annum), denominated in USD, and are to be returned by a lessor within one year of the balance sheet date.

18 Cash and cash equivalents

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Ruble denominated cash on hand and balances with banks	371,400	243,209	11,536	7,980
Foreign currency denominated balances with banks	324,244	200,789	10,071	6,588
Other	22,583	-	701	-
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**718,227**	**443,998**	**22,308**	**14,568**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 36.

19 Assets classified as held for sale

	2011 '000 RUB	2010 'RUB	2011 '000 USD	2010 '000 USD
As at 1 January	252,232	758,759	8,276	25,088
Additions	34,732	1,847,963	1,182	60,850
Disposals	(130,708)	(2,354,490)	(4,448)	(77,529)
Effect of movements in exchange rates	-	-	(157)	(133)
As at 31 December	**156,256**	**252,232**	**4,853**	**8,276**

As at 31 December 2011 and 2010 assets classified as held for sale mainly comprise real estate.

20 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 2010	**554,016**	**23,192**	**3,101,456**	**173,244**	**13,010**
Reclassification	-	-	(2,524,248)	-	-
As at 1 January 2010	**554,016**	**23,192**	**577,208**	**173,244**	**13,010**
Purchase of treasury shares	(196)	196	-	1,615	-
As at 31 December 2010	**553,820**	**23,388**	**577,208**	**174,859**	**13,010**
Sale of treasury shares	15,341	(15,341)	-	(93,926)	-
As at 31 December 2011	**569,161**	**8,047**	**577,208**	**80,933**	**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 2010	**554,016**	**23,192**	**112,145**	**6,815**	**451**
Reclassification	-	-	(91,274)	-	-
As at 1 January 2010	**554,016**	**23,192**	**20,871**	**6,815**	**451**
Purchase of treasury shares	(196)	196	-	53	-
As at 31 December 2010	**553,820**	**23,388**	**20,871**	**6,868**	**451**
Sale of treasury shares	15,341	(15,341)	-	(3,196)	-
As at 31 December 2011	**569,161**	**8,047**	**20,871**	**3,672**	**451**

In 2011 the Company made a reclassification retrospectively reversing the hyperinflation adjustment initially made during transition to IFRS as of 1 January 2003 those adjusting its share capital to its nominal value.

As at 31 December 2011 the number of authorised ordinary shares amounted to 577,208,000 (2010: 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 2011, the Company had retained earnings of RUB 1,478,422 thousand/USD 45,919 thousand (2010: RUB 1,286,140 thousand/ USD 42,200 thousand), including profit for the current year, of RUB 261,176 thousand/ USD 8,887 thousand (2010: RUB 215,420 thousand/ USD 7,093 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 2011 traded at RUB 17.800 per share (2010: RUB 16.350 per share).

The following dividends were declared by the Company:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
0.12 RUB per ordinary share (2010: 0.11 RUB)	69,241	63,493	2,356	2,091
	69,241	**63,493**	**2,356**	**2,091**

21 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 36.

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Non-current liabilities				
Unsecured bonds issued	8,568,529	4,307,466	266,136	141,335
Unsecured promissory notes issued	6,723,152	850,000	208,819	27,890
Finance lease liabilities	4,602,662	4,992,729	142,957	163,820
Secured bank loans	4,324,059	10,304,715	134,304	338,116
Loans from related parties (see note 39)	-	638,776	-	20,959
Unsecured bank loans	1,143,798	30,355	35,525	996
	25,362,200	**21,124,041**	**787,741**	**693,116**
Current liabilities				
Current portion of secured bank loans	4,072,350	2,646,211	126,486	86,827
Unsecured promissory notes issued	1,633,758	1,839,574	50,744	60,359
Current portion of finance lease liabilities	1,460,064	1,199,068	45,349	39,344
Liabilities under REPO transactions	356,713	-	11,079	-
Unsecured bank overdraft	351,591	-	10,920	-
Unsecured bank loans	310,296	182,007	9,638	5,972
Unsecured bonds issued	37,755	7,635	1,173	251
Loans from related parties (see note 39)	-	132,858	-	4,359
Secured bank overdraft	-	30,271	-	993
	8,222,527	**6,037,624**	**255,389**	**198,105**

(a) Terms and debt repayment schedule

Terms and conditions of the outstanding loans were as follows:

					Carrying amount	
'000 RUB	**Currency**	**Nominal interest rate**	**Effective interest rate**	**Year of maturity**	**31 December 2011**	**31 December 2010**
Unsecured bonds issued	RUB	9 -12,5%	10,42%	2013-2014	8,454,256	4,315,101
Unsecured promissory notes	USD	5%	5%	2013	6,439,220	-
Finance lease liabilities	USD	6-45,88%	24,16%	2013-2016	6,062,726	6,191,797
Secured bank loans	USD	2,1-10%	5,6%	2012-2016	4,043,855	3,426,674
Secured bank loans	RUB	8,9-15%	9,94%	2012-2016	2,955,549	6,755,674
Unsecured promissory notes	RUB	8,6-10%	9,44%	2012-2013	1,917,690	2,689,574
Unsecured bank loans	USD	4,5-5,5%	4,5%	2013	1,402,507	212,362
Secured bank loans	EUR	EURIBOR +4,35%	6,1%	2013	859,074	1,249,140
Secured bank loans	USD	LIBOR+ 1,6-2,5%	2,5%	2012-2013	537,931	1,519,438
Liabilities under REPO transactions	RUB	-	-	2012	356,713	-
Unsecured bank overdraft	USD	3,75-5,5%	4,08%	2012	294,011	-
Secured bank loans from related parties	USD	-	-	-	-	610,824
Unsecured bonds issued	USD	10%	10%	2013	152,028	-
Unsecured bank overdraft	EUR	5,5%	5,5%	2012	57,580	-
Unsecured bank loans	RUB	12,25%	12,25%	2012	51,587	-
Secured bank loans from related parties	RUB	-	-	-	-	160,810
Secured bank overdraft	EUR	-	-	-	-	30,271
					33,584,727	**27,161,665**

'000 USD	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2011	Carrying amount 31 December 2010
Unsecured bonds issued	RUB	9 -12,5%	10,42%	2013-2014	262,586	141,586
Unsecured promissory notes	USD	5%	5%	2013	200,000	-
Finance lease liabilities	USD	6-45,88%	24,16%	2013-2016	188,306	203,164
Secured bank loans	USD	2,1-10%	5,6%	2012-2016	125,601	112,436
Secured bank loans	RUB	8,9-15%	9,94%	2012-2016	91,798	221,666
Unsecured promissory notes	RUB	8,6-10%	9,44%	2012-2013	59,563	88,249
Unsecured bank loans	USD	4,5-5,5%	4,5%	2013	43,561	6,968
Secured bank loans	EUR	EURIBOR +4,35%	6,1%	2013	26,683	40,986
Secured bank loans	USD	LIBOR+ 1,6-2,5%	2,5%	2012-2013	16,708	49,855
Liabilities under REPO transactions	RUB	-	-	2012	11,079	-
Unsecured bank overdraft	USD	3,75-5,5%	4,08%	2012	9,133	-
Unsecured bonds issued	USD	10%	10%	2013	4,722	-
Unsecured bank overdraft	EUR	5,5%	5,5%	2012	1,788	-
Unsecured bank loans	RUB	12,25%	12,25%	2012	1,602	-
Secured bank loans from related parties	USD	-	-	-	-	20,042
Secured bank loans from related parties	RUB	-	-	-	-	5,276
Secured bank overdraft	EUR	-	-	-	-	993
					1,043,130	**891,221**

As at 31 December 2011 finance lease liabilities include liabilities of RUB 775,617 thousand/ USD 24,090 thousand (2010: RUB 856,261 thousand/USD 28,095 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 4,127,014 thousand/USD 128,184 thousand (2010: RUB 4,680,226 thousand/ USD 153,556 thousand).

Finance lease liabilities are secured by the leased assets, see note 7.

As at the 31 December 2011 unutilised credit lines amounted to RUB 13,002,882 thousand/ USD 403,865 thousand nominated in RUB, RUB 12,893,884 thousand/USD 400,480 thousand nominated in USD and RUB 5,157 thousand/ USD 160 thousand nominated in EUR (2010: RUB 3,417,207 thousand/USD 112,124 nominated in RUB and RUB 161,985 thousand/USD 5,315 thousand nominated in USD).

(b) Finance lease liabilities are payable as follows:

As at 31 December 2011 the Group has entered into finance lease agreements under which 30 aircraft have been received (see note 7) with a bargain purchase 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:

	2011			2010		
'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	2,453,901	993,837	1,460,064	2,064,368	865,300	1,199,068
Between one and five years	6,333,905	1,731,243	4,602,662	6,624,553	1,886,438	4,738,115
More than five years	-	-	-	265,081	10,467	254,614
	8,787,806	**2,725,080**	**6,062,726**	**8,954,002**	**2,762,205**	**6,191,797**

	2011			2010		
'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	76,217	30,868	45,349	67,735	28,391	39,344
Between one and five years	196,729	53,772	142,957	217,363	61,897	155,466
More than five years	-	-	-	8,698	344	8,354
	272,946	**84,640**	**188,306**	**293,796**	**90,632**	**203,164**

22 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 2011 and 2010 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 (2011: LIBOR USD 1m – 0.276% to 0.744%, LIBOR USD 3m – 0.571% to 0.709%, and LIBOR USD 6m – 0.719% to 0.747%; 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%).

- A discount rate of 11.32% (2010: 11.32%) 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 36.

23 Trade and other payables

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Non-current				
Frequent flyer programme liabilities (see note 24(a))	80,723	69,679	2,507	2,286
Trade payables	629,076	-	19,539	-
Other account payables	687	1,016	21	34
	710,486	**70,695**	**22,067**	**2,320**
Current				
Trade payables	6,510,874	2,457,307	202,226	80,629
Unused vacation accrual	1,304,836	948,163	40,528	31,111
Accrued payroll	725,685	632,919	22,539	20,767
Payables to related parties (see note 39)	377,407	460,136	11,722	15,097
Accrued liabilities and other payables	194,585	88,395	6,044	2,900
Frequent flyer programme liabilities (see note 24(a))	52,227	50,187	1,622	1,647
Dividends payable	17,657	29,102	548	955
	9,183,271	**4,666,209**	**285,229**	**153,106**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 36.

24 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:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Deferred income, non-current	333,611	486,601	10,362	15,966
Deferred income, current	231,809	372,803	7,200	12,233
Other non-current liabilities (see note 23)	80,723	69,679	2,507	2,286
Other current liabilities (see note 23)	52,227	50,187	1,622	1,647
	698,370	**979,270**	**21,691**	**32,132**

(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 19) 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 2011 deferred income related to the sale and finance leaseback comprised:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Deferred income, non-current	163,033	187,704	5,064	6,159
Deferred income, current	49,343	49,343	1,532	1,619
	212,376	**237,047**	**6,596**	**7,778**

25 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 2011 and 2010 and amounts recognised in consolidated statement of financial position as at 31 December 2011 and 2010 are as follows:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Liabilities as at 1 January	**213,997**	**178,512**	**7,023**	**5,902**
(Decrease)/Increase in benefit expense	(33,766)	50,854	(1,149)	1,675
Benefits paid	(13,712)	(15,369)	(467)	(506)
Acquisitions	12,710	-	432	-
Effect of movements in exchange rates	-	-	(272)	(48)
Liabilities as at 31 December, including:	**179,229**	**213,997**	**5,567**	**7,023**
non-current part	165,859	195,573	5,152	6,418
current part	13,370	18,424	415	605

The movement in the benefit obligation and transformation to the benefit liability was as follows:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Liabilities as at January 1	**240,161**	**206,222**	**7,880**	**6,819**
Interest cost on benefit obligation	19,201	19,567	653	644
Current service cost	13,423	14,492	457	477
Past service cost	(23,183)	-	(789)	-
Benefits paid	(13,712)	(15,369)	(467)	(506)
Actuarial (gains)/losses on obligation	(68,084)	15,249	(2,317)	502
Acquisition	12,710	-	432	-
Effect of movements in exchange rates	-	-	(242)	(56)
As at December 31, including:	**180,516**	**240,161**	**5,607**	**7,880**
Unrecognized past service cost	(1,287)	(26,164)	**(40)**	**(858)**
Benefit Liabilities	**179,229**	**213,997**	**5,567**	**7,022**

Amounts for the reporting and previous four periods are as follows:

			'000 RUB		
	2011	**2010**	**2009**	**2008**	**2007**
Defined benefit obligation	180,516	240,161	215,037	177,866	188,407
Experience adjustment on plan liabilities	(35,302)	(630)	(5,605)	(26,303)	(21,493)

			'000 USD		
	2011	**2010**	**2009**	**2008**	**2007**
Defined benefit obligation	5,607	7,880	7,110	6,054	7,676
Experience adjustment on plan liabilities	(1,096)	(21)	(185)	(895)	(876)

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

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Current service costs	13,423	14,492	457	478
Past service costs	1,694	1,546	58	51
Interest on obligation	19,201	19,567	653	644
Net actuarial (gains)/losses recognised in year	(68,084)	15,249	(2,317)	502
(Decrease)/Increase in net post-employment benefit expenses	**(33,766)**	**50,854**	**(1,149)**	**1,675**

(b) Actuarial assumptions

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

	2011 %	2010 %
Discount rate at 31 December	8.0	8.0
Average long-term payroll increase rate	7.5	7.5
Benefit increase rate	6.0	6.0

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.

26 Taxes payable

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Value added tax payable	1,166,648	135,296	36,236	4,439
Social insurance charges	92,111	38,999	2,861	1,280
Personal income tax	75,514	49,306	2,345	1,618
Property tax	43,335	38,148	1,346	1,252
Contributions to pension fund	1,532	161,377	48	5,294
Other taxes and tax provisions	18,328	98,162	569	3,221
	1,397,468	**521,288**	**43,405**	**17,104**

27 Advances received

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2019 '000 USD
Advances from passengers	1,261,231	692,357	39,173	22,717
Advances from customers	436,063	176,831	13,545	5,802
Advances from related parties (see note 39)	2,903	64,083	90	2,103
	1,700,197	**933,271**	**52,808**	**30,622**

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.

28 Revenue

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Aircraft transportation services, regular	30,157,488	23,517,013	1,026,205	774,369
Helicopters transportation services, abroad	10,147,621	11,683,595	345,305	384,719
Helicopters transportation services, inland	6,089,074	4,051,959	207,200	133,423
Aircraft transportation services, charter	5,048,875	2,509,458	171,804	82,632
Repair and maintenance services	842,575	815,982	28,671	26,869
Airport services	162,349	137,351	5,525	4,523
Passenger traffic and helicopter services revenue	52,447,982	42,715,358	1,784,710	1,406,535
Marketing services	793,002	616,133	26,984	20,288
Other	2,096,729	1,066,983	71,348	35,134
	55,337,713	**44,398,474**	**1,883,042**	**1,461,957**

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 2011 amounted to RUB 356,314 thousand/USD 12,125 thousand (2010: RUB 148,047 thousand/USD 4,875 thousand) and is included in regular aircraft transportation services revenue.

In 2011 and 2010 the Group generated revenue from the following major customer groups and geographical areas:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Group of customers				
Individual customers	30,157,488	23,517,013	1,026,205	774,370
Commercial organizations	17,758,489	10,953,739	604,289	360,686
United Nations	7,421,736	9,927,722	252,548	326,901
	55,337,713	**44,398,474**	**1,883,042**	**1,461,957**
Geographical area				
Russia	37,813,687	29,464,319	1,286,731	970,204
Other countries	17,524,026	14,934,155	596,311	491,753
	55,337,713	**44,398,474**	**1,883,042**	**1,461,957**

29 Direct operating expenses

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Airport services	6,763,265	4,932,757	230,142	162,427
Rent of air fleet and equipment	5,859,031	3,662,824	199,372	120,611
Air navigation and meteo services	2,396,860	1,545,111	81,561	50,878
Spare parts and other materials	2,073,600	1,432,258	70,561	47,162
Passenger servicing	1,995,366	1,590,717	67,899	52,380
Travel expenses	1,647,630	1,430,704	56,066	47,110
Freight transportation services	651,230	572,201	22,160	18,841
UN missions support	327,750	296,018	11,153	9,747
Custom duties	299,251	357,551	10,183	11,773
Other direct operating expense	166,283	334,679	5,657	11,020
Direct operating expenses except fuel	**22,180,266**	**16,154,820**	**754,754**	**531,949**
Fuel expenses	14,035,745	8,581,178	477,611	282,562
	36,216,011	**24,735,998**	**1,232,365**	**814,511**

30 Personnel expenses

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Remuneration	9,177,157	6,501,331	312,282	214,076
Social insurance charges	2,010,317	1,277,397	68,407	42,062
Expenses related to defined benefit plans (see note 25)	(33,766)	50,854	(1,149)	1,675
	11,153,708	**7,829,582**	**379,540**	**257,813**

31 Sales-leaseback transaction

In 2011 the Group performed a sale-leaseback transaction in respect of its 21 helicopters. As of 31 December 2011 eight helicopters were leased back for approximately a year based on operating lease agreements and the remaining thirteen are expected to be leased back by the end of 2012. The carrying amount of assets sold in 2011 comprised RUB 974,980 thousand/USD 33,177 thousand (2010: RUB 2,344,368 thousand/USD 77,196 thousand), and the sales revenue comprised RUB 7,928,773 thousand/USD 269,802 thousand (2010: RUB 2,810,286 thousand/USD 92,537 thousand).

32 Other operating income and expenses

Other operating income comprised:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Penalties	668,095	-	22,734	-
Other operating income	132,823	311,240	4,520	10,249
	800,918	**311,240**	**27,254**	**10,249**

Other operating expenses comprised:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Utilities	457,909	198,731	15,582	6,544
Training expenses	447,672	271,691	15,233	8,946
Consulting, audit and legal expenses	426,209	271,661	14,503	8,945
Insurance expenses	398,853	402,566	13,572	13,256
Loss from disposal of property, plant and equipment	369,465	316,743	12,572	10,430
Taxes other than income tax	344,276	384,685	11,715	12,667
Bank charges	228,379	178,004	7,771	5,861
Communication services	166,026	130,852	5,650	4,309
Advertising	109,621	96,742	3,730	3,186
Other operating expenses	637,826	310,398	21,705	10,220
	3,586,236	**2,562,073**	**122,033**	**84,364**

33 Other finance income and finance costs

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Interest income on loans and receivables	128,763	170,675	4,382	5,620
Interest income on security deposits	178,907	161,707	6,088	5,325
Gain from disposal of other investments	413,624	276,664	14,074	9,110
Other finance income	**721,294**	**609,046**	**24,544**	**20,055**
Interest expense on financial liabilities measured at amortised cost	3,882,014	3,207,382	132,098	105,613
Interest on loans from related parties (see note 39)	-	90,130	-	2,968
Interest on borrowings	111,533	-	3,795	-
Dividends	26,594	530	905	17
Hedge expenses	23,531	19,661	801	647
Other finance costs	**4,043,672**	**3,317,703**	**137,599**	**109,245**

34 Income tax expense

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

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Current tax expense				
Current year	185,593	200,913	6,315	6,615
	185,593	**200,913**	**6,315**	**6,615**
Deferred tax expense				
Origination and reversal of temporary differences	(155,593)	(205,131)	(5,295)	(6,755)
Underaccrued in prior years	26,225	86,624	893	2,853
Current year losses for which no deferred tax asset was recognised	279,782	29,967	9,520	987
	150,414	**(88,540)**	**5,118**	**(2,915)**
Income tax expense, excluding share of income tax of equity accounted investees	**336,007**	**112,373**	**11,433**	**3,700**

(a) Income tax recognised directly in other comprehensive income

'000 RUB	**2011**			**2010**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Revaluation of property, plant and equipment	(18,091,357)	3,618,270	(14,473,087)	-	-	-
Realisation of property, plant and equipment revaluation reserve	429,050	(85,810)	343,240	275,355	(55,081)	220,274
	(17,662,307)	**3,532,460**	**(14,129,847)**	**275,355**	**(55,081)**	**220,274**

'000 USD	**2011**			**2010**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Revaluation of property, plant and equipment	(615,616)	123,123	(492,493)	-	-	-
Realisation of property, plant and equipment revaluation reserve	14,600	(2,920)	11,680	9,067	(1,814)	7,253
	(601,016)	**120,203**	**(480,813)**	**9,067**	**(1,814)**	**7,253**

Reconciliation of effective tax rate:

	2011		2010	
	’000 RUB	**%**	**’000 RUB**	**%**
Profit before income tax	**449,994**	**100**	**511,385**	**100**
Income tax at applicable tax rate	89,999	20	102,277	20
Effect of income taxed at higher rates	13,276	3	13,722	2
Non-deductible expenses	84,973	19	41,253	8
Current year losses for which no deferred tax asset was recognised	249,815	56	29,967	6
Recognition of previously unrecognised tax losses	(128,281)	(29)	(161,470)	(31)
Underaccrued in prior years	26,225	6	86,624	17
	336,007	**75**	**112,373**	**22**

	2011		2010	
	’000 USD	**%**	**’000 USD**	**%**
Profit before income tax	**15,312**	**100**	**16,839**	**100**
Income tax at applicable tax rate	3,062	20	3,368	20
Effect of income taxed at higher rates	452	3	451	2
Non-deductible expenses	2,891	19	1,358	8
Current year losses for which no deferred tax asset was recognised	8,501	56	987	6
Recognition of previously unrecognised tax losses	(4,365)	(29)	(5,317)	(31)
Underaccrued in prior years	892	6	2,853	17
	11,433	**75**	**3,700**	**22**

35 Earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding of 558,431 thousand (2010: 553,918 thousand), calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	**2011**	**2010**
Issued shares at 1 January	553,820	554,016
Effect of own shares held	4,611	(98)
Weighted average number of shares for the year ended 31 December	**558,431**	**553,918**
Profit for the year attributable to owners of the Company, ’000 RUB	**178,941**	**382,538**
Basic and diluted earnings per share, RUB	**0.32**	**0.69**
Profit for the year attributable to owners of the Company, ’000 USD	**6,089**	**12,597**
Basic and diluted earnings per share, USD	**0.011**	**0.023**

36 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 2011 accounts receivable from the Group's major debtor amounted to RUB 8,713,799 thousand/USD 270,648 thousand (2010: RUB 1,693,639 thousand/USD 55,571 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			
	2011 '000 RUB	**2010 '000 RUB**	**2011 '000 USD**	**2010 '000 USD**
Long-term loans issued	92,734	57,856	2,880	1,898
Long-term net investments in leases	327,829	240,286	10,182	7,884
Long-term other investments	73,211	52,285	2,274	1,716
Long-term receivables	13,536	-	420	-
Trade and other receivables	15,562,912	6,918,473	483,379	227,008
Security deposits	1,202,702	476,654	37,356	15,640
Short-term loans issued	735,591	863,416	22,847	28,330
Short-term net investments in leases	131,933	55,676	4,098	1,827
Short-term other investments	2,769	4,956	86	163
Cash and cash equivalents	718,227	443,998	22,308	14,568
	18,861,444	**9,113,600**	**585,830**	**299,034**

Impairment losses

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

'000 RUB	**Gross 2011**	**Impairment 2011**	**Gross 2010**	**Impairment 2010**
Not past due	5,478,111	-	5,386,700	-
Overdue	10,178,911	(80,574)	1,650,217	(118,444)
less than 30 days	1,117,219	-	720,769	-
from 30 to 60 days	8,772,078	-	201,646	-
from 60 to 150 days	77,227	-	448,289	-
over 150 days	212,387	(80,574)	279,513	(118,444)
	15,657,022	**(80,574)**	**7,036,917**	**(118,444)**

'000 USD	**Gross 2011**	**Impairment 2011**	**Gross 2010**	**Impairment 2010**
Not past due	170,148	-	176,748	-
Overdue	316,154	(2,503)	54,146	(3,886)
less than 30 days	34,700	-	23,650	-
from 30 to 60 days	272,458	-	6,616	-
from 60 to 150 days	2,399	-	14,709	-
over 150 days	6,597	(2,503)	9,171	(3,886)
	486,302	**(2,503)**	**230,894**	**(3,886)**

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.

(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.

2011

'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	8,396,409	9,173,144	-	1,427,017	3,090,361	4,655,766	-
Finance lease liabilities	6,062,726	8,787,806	-	638,464	1,815,437	6,333,905	-
Trade and other payables	10,046,162	10,046,162	4,499,731	4,617,642	514,196	414,372	221
Unsecured bonds issued	8,606,284	10,461,431	-	260,044	666,865	9,534,522	-
Unsecured promissory notes	8,356,910	8,868,163	-	745,776	1,026,064	7,096,323	-
Unsecured bank loans	1,454,094	1,551,099	-	32,828	339,785	1,178,486	-
Unsecured bank overdrafts	351,591	351,591	-	351,591	-	-	-
Liabilities under REPO transactions	356,713	357,373	-	357,373	-	-	-
	43,630,889	**49,596,769**	**4,499,731**	**8,430,735**	**7,452,708**	**29,213,374**	**221**
Derivative financial liabilities							
Interest rate swaps used for hedging	61,068	70,207	-	15,140	34,380	20,687	-
	61,068	**70,207**	**-**	**15,140**	**34,380**	**20,687**	**-**

2011

'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	260,790	284,916	-	44,323	95,986	144,607	-
Finance lease liabilities	188,306	272,946	-	19,830	56,387	196,729	-
Trade and other payables	312,030	312,030	139,760	143,422	15,971	12,870	7
Unsecured bonds issued	267,308	324,929	-	8,077	20,713	296,139	-
Unsecured promissory notes	259,563	275,442	-	23,164	31,869	220,409	-
Unsecured bank loans	45,164	48,177	-	1,020	10,554	36,603	-
Unsecured bank overdrafts	10,920	10,920	-	10,920	-	-	-
Liabilities under REPO transactions	11,079	11,100	-	11,100	-	-	-
	1,355,160	**1,540,460**	**139,760**	**261,856**	**231,480**	**907,357**	**7**
Derivative financial liabilities							
Interest rate swaps used for hedging	1,897	2,181	-	470	1,068	643	-
	1,897	**2,181**	**-**	**470**	**1,068**	**643**	**-**

2010

’000 RUB	**Carrying amount**	**Contrac-tual 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	-
Trade and other payables	4,617,038	4,617,038	1,917,399	1,440,096	1,258,527	1,016	-
Finance lease liabilities	6,191,797	8,954,002	-	508,846	1,555,522	6,624,553	265,081
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**	**Contrac-tual 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	-
Trade and other payables	151,493	151,493	62,913	47,252	41,294	34	-
Finance lease liabilities	203,164	293,796	-	16,696	51,039	217,363	8,698
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**	**-**

(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 2011**	**EUR-denominated 2011**	**USD-denominated 2010**	**EUR-denominated 2010**
Trade and other receivables	3,761,826	257,202	3,809,572	36,257
Secured deposits	1,202,702	-	476,654	-
Cash and cash equivalents	152,182	4,733	81,742	695
Long-term loans issued	83,387	-	54,858	-
Finance lease liabilities	(6,062,726)	-	(5,918,479)	-
Bank loans and overdrafts	(12,869,552)	(916,654)	(4,817,366)	(1,279,411)
Trade and other payables	(1,791,635)	(209,830)	(601,913)	(140,353)
Net exposure	**(15,523,816)**	**(864,549)**	**(6,914,932)**	**(1,382,812)**

'000 USD	**USD-denominated 2011**	**EUR-denominated 2011**	**USD-denominated 2010**	**EUR-denominated 2010**
Trade and other receivables	116,841	6,172	124,999	1,190
Secured deposits	37,356	-	15,640	-
Cash and cash equivalents	4,727	114	2,682	23
Long-term loans issued	2,590	-	1,800	-
Finance lease liabilities	(188,306)	-	(194,196)	-
Bank loans and overdrafts	(399,724)	(21,997)	(158,066)	(41,979)
Trade and other payables	(55,648)	(5,035)	(19,750)	(4,605)
Net exposure	**(482,164)**	**(20,746)**	**(226,891)**	**(45,371)**

The following significant exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2011	**2010**	**2011**	**2010**
USD 1	29.3874	30.3692	32.1961	30.4769
EUR 1	40.8848	40.2980	41.6714	40.3331

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 2010.

	2011		2010	
'000 RUB	**Strengthening of RUB**	**Profit or loss**	**Strengthening of RUB**	**Profit or loss**
USD	5%	776,191	10%	691,493
USD	10%	1,552,382	20%	1,382,986
EUR	5%	43,227	5%	69,141
EUR	10%	86,455	10%	138,281

	2011		2010	
'000 USD	**Strengthening of RUB**	**Profit or loss**	**Strengthening of RUB**	**Profit or loss**
USD	5%	24,108	10%	22,689
USD	10%	48,216	20%	45,378
EUR	5%	1,037	5%	2,269
EUR	10%	2,075	10%	4,537

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 2011 the share of the Group's liabilities bearing a floating interest rate constituted 6.7% of the total liabilities (2010: 13.7%).

Profile

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

	Carrying amount			
	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Fixed rate instruments				
Financial assets	2,490,789	1,693,888	77,363	55,579
Finance lease liabilities	(5,287,108)	(5,335,536)	(164,216)	(175,069)
Other financial liabilities	(26,130,072)	(18,201,290)	(811,591)	(597,216)
	(28,926,391)	**(21,842,938)**	**(898,444)**	**(716,706)**
Variable rate instruments				
Finance lease liabilities	(775,618)	(856,261)	(24,090)	(28,095)
Other financial liabilities	(1,452,997)	(2,879,934)	(45,130)	(94,495)
	(2,228,615)	**(3,736,195)**	**(69,220)**	**(122,590)**

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 basis 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 2010.

	Profit or loss 2011		Profit or loss 2010	
'000 RUB	**Increase**	**Decrease**	**Increase**	**Decrease**
EUR-denominated borrowings	(8,513)	8,513	(12,491)	12,491
USD-denominated borrowings	-	-	(6,095)	6,095
USD-denominated borrowings with hedged interest rate	(13,135)	13,135	(17,660)	17,660
Hedge liabilities related to credit line agreements	3,802	(3,802)	9,753	(9,753)
Hedge liabilities related to lease contracts	17,569	(17,569)	20,356	(20,356)
Cash flow sensitivity (net)	**(277)**	**277**	**(6,137)**	**6,137**

	Profit or loss 2011		Profit or loss 2010	
'000 USD	**Increase**	**Decrease**	**Increase**	**Decrease**
EUR-denominated borrowings	(265)	265	(410)	410
USD-denominated borrowings	-	-	(200)	200
USD-denominated borrowings with hedged interest rate	(408)	408	(579)	579
Hedge liabilities related to credit line agreements	118	(118)	320	(320)
Hedge liabilities related to lease contracts	546	(546)	668	(668)
Cash flow sensitivity (net)	**(9)**	**9**	**(201)**	**201**

(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 2011				
Available-for-sale financial assets	-	-	75,980	75,980
Financial assets held for trading	-	-	-	-
	-	**-**	**75,980**	**75,980**
Derivative financial liabilities	-	(61,068)	-	(61,068)
	-	**(61,068)**	**75,980**	**14,912**
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)**

'000 USD	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2011				
Available-for-sale financial assets	-	-	2,360	2,360
Financial assets held for trading	-	-	-	-
	-	**-**	**2,360**	**2,360**
Derivative financial liabilities	-	(1,897)	-	(1,897)
	-	**(1,897)**	**2,360**	**463**
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)**

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:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Total liabilities	53,592,380	36,654,794	1,664,561	1,202,708
Less: cash and cash equivalents	(718,227)	(443,998)	(22,308)	(14,568)
Net debt	**52,874,153**	**36,210,796**	**1,642,253**	**1,188,140**
Total equity	**20,979,968**	**6,721,548**	**651,631**	**220,546**
Debt to capital ratio at 31 December	**2.52**	**5.39**	**2.52**	**5.39**

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.

37 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:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Less than one year	5,601,985	2,707,510	173,996	88,838
Between one and five years	16,202,338	6,493,399	503,239	213,060
More than five years	6,780,791	654,333	210,609	21,470
	28,585,114	**9,855,242**	**887,844**	**323,368**

As at 31 December 2011 RUB 26,979,838 thousand/USD 837,985 thousand (2010: RUB 8,036,034 thousand/USD 263,676 thousand) out of total rent payments relates to the contracts denominated in USD; and RUB 68,398 thousand/USD 2,124 thousand (2010: RUB 68,667 thousand/USD 2,253 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 dated 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.

38 Capital commitments

As at 31 December 2011 the Group had contractual commitments to purchase property, plant and equipment for RUB 66,507,250 thousand/USD 2,065,487 thousand (2010: RUB 2,905,188 thousand/USD 95,324 thousand), of which RUB 1,362,728 thousand/USD 42,326 thousand (2010: RUB 525,560 thousand/USD 17,245 thousand) had been advanced.

(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 242,179 thousand/USD 7,522 thousand (2010: RUB 399,600 thousand/USD 13,112 thousand). Management believes that it is possible, but not probable, that an outflow of economic resources will be required to settle the obligations.

39 Related party transactions

(a) Control relationships

As at 31 December 2011 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 2011 and amounted to RUB 263,556 thousand/USD 8,968 thousand (2010: RUB 214,741 thousand/USD 7,071 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:

	2011 ’000 RUB	**2010 ’000 RUB**	**2011 ’000 USD**	**2010 ’000 USD**
Trade receivables (note 14):				
Entities with joint control or significant influence over the Group	144,969	313,098	4,503	10,273
Associates	881,028	263,549	27,364	8,648
Other	1,065	708	33	23
	1,027,062	**577,355**	**31,900**	**18,944**

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 2011 and as at 31 December 2010.

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

	2011 ’000 RUB	**2010 ’000 RUB**	**2011 ’000 USD**	**2010 ’000 USD**
Trade and accounts payable (note 23):				
Entities with joint control or significant influence over the Group	292,665	420,273	9,090	13,790
Associates	69,530	21,500	2,160	705
Other	253	366	7	12
	362,448	**442,139**	**11,257**	**14,507**
Advances received (note 27):				
Entities with joint control or significant influence over the Group	1,089	60,782	34	1,995
Associates	1,791	2,727	55	89
Other	23	574	1	19
	2,903	**64,083**	**90**	**2,103**
Loans payable (note 21):				
Entities with joint control or significant influence over the Group	-	771,634	-	25,318
	-	**771,634**	**-**	**25,318**
Other (note 23):				
Entities with joint control or significant influence over the Group	-	15,579	-	511
Associates	-	1,501	-	49
Key management personnel	14,959	917	465	31
	14,959	**17,997**	**465**	**591**
	380,310	**1,295,853**	**11,812**	**42,519**

There were the following related party transactions in 2011 and 2010:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD	2010 '000 USD
Sales – transportation services:				
Entities with joint control or significant influence over the Group	67,593	2,670,247	2,300	87,926
Associates	419,726	346,675	14,283	11,415
Key management personnel	-	185	-	6
Other	83	263	2	9
	487,402	**3,017,370**	**16,585**	**99,356**
Other sales				
Entities with joint control or significant influence over the Group	263,664	164,065	8,972	5,402
Associates	303,761	154,145	10,336	5,076
Other	339	185	12	6
	567,764	**318,395**	**19,320**	**10,484**
Other operating income:				
Entities with joint control or significant influence over the Group	52	156,467	2	5,152
Associates	683,418	4,022	23,255	132
	683,470	**160,489**	**23,257**	**5,284**
Total sales to related parties	**1,738,636**	**3,496,254**	**52,162**	**115,124**
Direct operating expenses:				
Entities with joint control or significant influence over the Group	1,306,250	2,025,748	44,449	66,704
Associates	710,636	402,461	24,182	13,252
	2,016,886	**2,428,209**	**68,631**	**79,956**
Other operating expenses:				
Entities with joint control or significant influence over the Group	25,019	413,088	851	13,602
Associates	15,100	799	514	26
	40,119	**413,887**	**1,365**	**13,628**
Interest expenses on loans payable:				
Entities with joint control or significant influence over the Group	-	90,130	-	2,968
Total purchases from related parties	**2,057,005**	**2,932,226**	**69,996**	**96,552**
Proceeds from loans and borrowings:				
Entities with joint control or significant influence over the Group	-	2,404,721	-	79,183
Repayment of loans and borrowings:				
Entities with joint control or significant influence over the Group	-	(2,689,489)	-	(88,560)
Net proceeds of borrowings from related parties	**-**	**(284,768)**	**-**	**(9,377)**

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

40 Events subsequent to the reporting date

In January 2012 the Group registered a new subsidiary in Peru UTAIR ENGINEERING AL S.A.C.

On February 20, 2012 UTair Aviation ordinary shares were placed on the A-1 quotation list on the MICEX Stock Exchange. UTair shares are listed under the name UTAR.

According to trading on the MICEX-RTS exchange, UTair Aviation capitalization has increased by $400 million and Reuters has listed UTair among the top 15 BRICS airlines and among the top 25 airlines from emerging market countries. These achievements follow a 15% growth in UTair capitalization over the past two months.

In April 2012 the Group placed BO-06 and BO-07 bonds issuances with a total nominal value of RUB 3 000 000 thousand/USD 102,402 thousand denominated in RUB. The coupon interest rate was set at 10% per annum, bonds were placed for 3 years without an interim offer.

In April 2012 the Group registered a new subsidiary in Bermuda UTAIR INVESTMENTS LIMITED.

In May Group concluded an agreement with Turbomeca Germany for the construction of a new MRO Center for Turbomeca engines and their components. Turbomeca is a global leader in the manufacture of helicopter engines and components.

In May 2012 the Group registered a new subsidiary in Ireland UTAIR LEASING IRELAND LIMITED.

UTair Aviation has been certified for flight operations with AW139 helicopters manufactured by AgustaWestland and intends to exploit this helicopter model for passenger, corporate and VIP-transportation in Russia. UTair expects the first helicopter of ten such rotorcraft to be delivered this summer, with the remaining helicopters completed and delivered by mid-2013.

In May 2012 the Group placed bonds issuances with a total nominal value of RUB 2,500,000 thousand/USD 78,550 thousand denominated in RUB. The coupon interest rate was set 8.71% - 10% per annum, bonds were placed for 3 years without an interim offer.

In June 2012 the Russian rating agency Expert RA increased the creditworthiness rating of UTair Finance LLC up to A+ (very high level of creditworthiness, with stable prognosis).