OPEN JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

Condensed Consolidated Interim Financial Statements

as at and for the six-month period ended 30 June 2012

AEROFLOT
Russian Airlines

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

Management is responsible for the preparation of condensed consolidated interim financial statements in accordance with IAS 34 *Interim Financial Reporting*.

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

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

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group are prepared in accordance with IAS 34 *Interim Financial Reporting*;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2012 were approved on 31 August 2012 by:

V. G. Saveliev
General Director

Sh. R. Kurmashov
Deputy General Director
Finance and Investment

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Independent Auditors' Report

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Aeroflot – Russian Airlines (the "Company") and its subsidiaries (the "Group") as at 30 June 2012, and the related condensed consolidated interim statement of income, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the six-month period then ended (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 June 2012 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
31 August 2012

(All amounts in millions of US dollars)

	Notes	6m 2012	6m 2011
Traffic revenue	5	3,162.6	1,928.3
Other revenue	6	451.8	415.6
Revenue		**3,614.4**	**2,343.9**
Operating costs	7	(2,814.4)	(1,721.3)
Staff costs	8	(568.6)	(420.8)
Depreciation and amortisation	16, 17	(127.1)	(106.9)
Other (expenses)/income, net	10	(6.2)	109.8
Operating costs		**(3,516.3)**	**(2,139.2)**
Operating profit		**98.1**	**204.7**
Finance income	9	5.8	302.6
Finance costs	9	(70.9)	(66.7)
Share of results of equity accounted investments		0.5	(0.2)
Profit before income tax		**33.5**	**440.4**
Income tax	11	(26.4)	(63.6)
Profit for the period		**7.1**	**376.8**
Attributable to:			
Shareholders of the Company		35.1	357.6
Non-controlling interest		(28.0)	19.2
		7.1	**376.8**
Basic earnings per share (US cents)		**3.4**	**35.7**
Diluted earnings per share		**3.3**	**35.0**
Weighted average number of basic shares outstanding (millions)		**1,042.5**	**1,001.2**
Weighted average number of diluted shares outstanding (millions)		**1,054.8**	**1,021.3**

V. G. Saveliev
General Director

Sh. R. Kurmashov
Deputy General Director
Finance and Investment

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 38.

(All amounts in millions of US dollars)

	Notes	6m 2012	6m 2011
Profit for the period		**7.1**	**376.8**
Other comprehensive income:			
Exchange differences on translating to presentation currency		(23.4)	108.8
Deferred tax expense	11	(0.2)	(1.7)
Gain on hedge instrument	18	6.5	16.7
Other comprehensive income for the period		**(17.1)**	**123.8**
Total comprehensive income for the period		**(10.0)**	**500.6**
Total comprehensive income attributable to:			
Shareholders of the Company		14.3	478.0
Non-controlling interest		(24.3)	22.6

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 38.

(All amounts in millions of US dollars)

	Notes	30 June 2012	31 December 2011
ASSETS			
Current assets			
Cash and cash equivalents		549.6	393.1
Short-term investments		13.6	21.0
Accounts receivable and prepayments	12	1,733.7	1,467.4
Aircraft lease deposits		8.6	2.7
Expendable spare parts and inventories	13	121.0	118.3
		2,426.5	**2,002.5**
Non-current assets			
Equity accounted investments		3.1	7.3
Long-term investments		188.0	191.2
Aircraft lease deposits		28.9	29.1
Deferred tax assets	11	165.3	140.1
Other non-current assets	14	201.7	205.9
Prepayments for aircraft	15	248.6	432.9
Property, plant and equipment	16	1,888.5	1,970.2
Derivative instrument		-	1.3
Intangible assets	17	102.8	100.3
Goodwill		250.3	255.1
		3,077.2	**3,333.4**
TOTAL ASSETS		**5,503.7**	**5,335.9**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	19	1,162.0	1,052.7
Unearned transportation revenue		624.2	371.4
Deferred revenue related to frequent flyer programme, current	20	9.2	8.1
Provisions		1.6	2.5
Short-term borrowings	21	475.8	378.2
Finance lease liabilities	23	230.5	202.8
		2,503.3	**2,015.7**
Non-current liabilities			
Long-term borrowings	22	89.3	388.3
Finance lease liabilities	23	1,320.9	1,296.7
Provisions		7.2	6.1
Deferred tax liabilities	11	32.6	41.2
Deferred revenue related to frequent flyer programme, non-current	20	37.6	32.5
Derivative instruments	18	30.2	30.8
Other non-current liabilities	24	149.3	120.4
		1,667.1	**1,916.0**
Equity			
Share capital	25	51.6	51.6
Treasury stock	25	(74.7)	(83.4)
Investment revaluation reserve		(0.3)	(0.3)
Cumulative translation reserve		(301.2)	(274.1)
Hedge reserve	18	(0.5)	(6.8)
Share based payment reserve		9.5	10.7
Retained earnings		1,760.0	1,790.7
Equity attributable to shareholders of the Company		**1,444.4**	**1,488.4**
Non-controlling interest		(111.1)	(84.2)
Total equity		**1,333.3**	**1,404.2**
TOTAL LIABILITIES AND EQUITY		**5,503.7**	**5,335.9**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 38.

(All amounts in millions of US dollars)

	Notes	6m 2012	6m 2011
Cash flows from operating activities:			
Profit before income tax		33.5	440.4
Adjustments to reconcile profit before taxation to net cash provided by operating activities:			
Depreciation and amortisation	16, 17	127.1	106.9
Change in impairment allowance for bad and doubtful debts	12	(1.2)	(1.5)
Accounts receivable write off		0.1	-
Change in impairment allowance for obsolete inventory	13	-	0.3
Change in impairment of property, plant and equipment		(0.2)	(0.1)
Non-cash operations, related to assets held for sale		-	19.6
Loss on disposal of property, plant and equipment		4.7	1.5
Accounts payable write off		(3.3)	-
Share of results in equity accounted investments		(0.5)	0.2
Loss/(gain) on disposal of investments	9	0.6	(200.4)
Change in tax and legal provisions		0.1	-
Net change in fair value of hedge instruments		0.7	-
Interest expense	9	57.3	66.7
Unrealised net foreign exchange loss/(gain)	9	12.3	(97.4)
VAT write off	10	-	3.2
VAT recovery	10	(0.1)	(52.9)
Share based payment reserve		1.1	3.0
Increase (decrease) in other provisions and other assets impairments		(0.9)	-
Custom duty recovery	10	-	(39.9)
Other non-cash income		(2.1)	(0.3)
Operating profit before working capital changes		**229.2**	**249.3**
Change in accounts receivable and prepayments and other non-current assets		(55.2)	(134.8)
Change in expendable spare parts and inventories		(5.3)	(8.7)
Change in accounts payable and accrued liabilities		437.3	505.3
		606.0	**611.1**
Income tax paid		(36.9)	(12.6)
Income tax received		12.4	-
Net cash flows from operating activities		**581.5**	**598.5**
Cash flows from investing activities:			
Proceeds from sale of investments		17.2	2.2
Purchases of investments		(10.0)	(3.2)
Proceeds from sale of equity accounted investments		1.8	81.0
Proceeds from sale of subsidiary company, net		-	10.5
Proceeds from sale of property, plant and equipment		10.0	1.0
Purchases of property, plant and equipment and intangible assets		(83.4)	(42.2)
Dividends received		0.9	-
Predelivery lease prepayments, net		(32.0)	(333.8)
Net cash flows used in investing activities		**(95.5)**	**(284.5)**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 38.

(All amounts in millions of US dollars)

	Note	6m 2012	6m 2011
Cash flows from financing activities:			
Proceeds from borrowings		407.1	142.6
Repayment of borrowing		(604.3)	(104.2)
Sale of treasury stock		4.8	16.2
Purchases of treasury stock		-	(95.5)
Repayment of the principal element of finance lease liabilities		(87.6)	(56.3)
Interest paid		(38.1)	(64.6)
Proceeds from hedging instrument		7.4	7.7
Net cash flows used in financing activities		**(310.7)**	**(154.1)**
Effect of exchange rate fluctuations		(18.8)	55.8
Net increase in cash and cash equivalents		**156.5**	**215.7**
Cash and cash equivalents at the beginning of the period		393.1	660.4
Cash and cash equivalents at the end of the period		**549.6**	**876.1**
Supplemental cash flow information:			
Interest received	9	5.8	4.8
Non-cash investing and financing activities:			
Property, plant and equipment acquired under finance leases		118.7	94.5

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 38.

(All amounts in millions of US dollars)

	Share capital	Treasury stock	Investment revaluation reserve	Cumulative translation reserve	Hedge reserve	Share based payment reserve	Retained earnings	Attributable to shareholders of the Company	Non-controlling interest	Total
1 January 2011	**51.6**	**(79.1)**	**-**	**(155.8)**	**(4.3)**	**12.7**	**1,302.5**	**1,127.6**	**27.3**	**1,154.9**
Profit/(loss) for the period	-	-	-	-	-	-	357.6	357.6	19.2	376.8
Foreign currency translation for the period	-	-	-	105.4	-	-	-	105.4	3.4	108.8
Gain on hedging instrument	-	-	-	-	15.0	-	-	15.0	-	15.0
Total comprehensive income								**478.0**	**22.6**	**500.6**
Share based compensation	-	-	-	-	-	(2.8)	-	(2.8)	-	(2.8)
Gain on disposal of treasury stock	-	7.4	-	-	-	-	-	7.4	-	7.4
Purchases of treasury stock	-	(80.8)	-	-	-	-	-	(80.8)	-	(80.8)
Foreign currency translation for the period	-	(10.6)	-	-	-	1.0	-	(9.6)	-	(9.6)
Dividends	-	-	-	-	-	-	(39.9)	(39.9)	-	(39.9)
30 June 2011	**51.6**	**(163.1)**	**-**	**(50.4)**	**10.7**	**10.9**	**1,620.2**	**1,479.9**	**49.9**	**1,529.8**
1 January 2012	**51.6**	**(83.4)**	**(0.3)**	**(274.1)**	**(6.8)**	**10.7**	**1,790.7**	**1,488.4**	**(84.2)**	**1,404.2**
Profit/(loss) for the period	-	-	-	-	-	-	35.1	35.1	(28.0)	7.1
Foreign currency translation for the period	-	-	-	(27.1)	-	-	-	(27.1)	3.8	(23.3)
Gain on hedging instrument	-	-	-	-	6.3	-	-	6.3	-	6.3
Total comprehensive income								**14.3**	**(24.2)**	**(9.9)**
Share based compensation	-	-	-	-	-	(1.2)	-	(1.2)	-	(1.2)
Gain on disposal of treasury stock	-	1.7	-	-	-	-	-	1.7	-	1.7
Other movements in treasury stock	-	4.9	-	-	-	-	-	4.9	-	4.9
Foreign currency translation for the period	-	2.1	-	-	-	-	-	2.1	-	2.1
Dividends	-	-	-	-	-	-	(65.8)	(65.8)	(2.7)	(68.5)
30 June 2012	**51.6**	**(74.7)**	**(0.3)**	**(301.2)**	**(0.5)**	**9.5**	**1,760.0**	**1,444.4**	**(111.1)**	**1,333.3**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 38.

(All amounts in millions of US dollars)

1. NATURE OF THE BUSINESS

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

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

As at 30 June 2012 and 2011 the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, Russian Federation.

The principal subsidiary companies are:

Company name	**Place of incorporation and operation**	**Activity**	**30 June 2012**	**31 December 2011**
OJSC Donavia (Donavia)	Rostov-on-Don	Airline	100.00%	100.00%
OJSC AK Rossiya (Rossiya)	St. Petersburg	Airline	75% minus one share	75% minus one share
OJSC Vladivostok Avia (Vladavia)	Vladivostok region	Airline	52.156%	52.156%
OJSC AK Sahalinskiye aviatrassi (SAT)	Yuzhno Sakhalinsk	Airline	100.00%	100.00%
OJSC Orenburgskie avialinii (Orenavia)	Orenburg	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo (Aeroflot-Cargo)	Moscow	Cargo transportation services	100.00%	100.00%
LLC Aeroflot-Finance (Aeroflot-Finance)	Moscow	Finance services	100.00%	100.00%
CJSC Aeromar (Aeromar)	Moscow region	Catering	51.00%	51.00%
CJSC Aerofirst (Aerofirst)	Moscow region	Trading	66.67%	66.67%
CJSC Sherotel (Sherotel)	Moscow region	Hotel	100.00%	100.00%

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

Company name	**Place of incorporation and operation**	**Activity**	**30 June 2012**	**31 December 2011**
LLC Airport Moscow	Moscow region	Cargo handling	-	50.00%
CJSC AeroMASH – AB	Moscow region	Aviation security	45.00%	45.00%
CJSC Jetalliance East	Moscow	Airline	49.00%	49.00%

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

(All amounts in millions of US dollars)

The table below provides information on the Group's aircraft fleet as at 30 June 2012:

Type of aircraft	Ownership	Aeroflot (number)	Donavia (number)	Rossiya (number)	Orenavia (number)	Vladavia (number)	SAT (number)	Group total (number)
Il-96-300	Owned	6	-	-	-	-	-	6
Tu-154	Owned	-	-	5*	4*	1*	-	10
An-24	Owned	-	-	-	2*	-	6#	8
An-26	Owned	-	-	-	-	-	1*	1
Tu-134	Owned	-	-	-	8*	-	-	8
Mi-8	Owned	-	-	-	-	3	1	4
Yak 40	Owned	-	-	-	-	2	-	2
Total owned		**6**	**-**	**5**	**14**	**6**	**8**	**39**
Airbus A-319	Finance lease	4	-	9	-	-	-	13
Airbus A-320	Finance lease	1	-	-	-	-	-	1
Airbus A-321	Finance lease	20	-	-	-	-	-	20
Airbus A-330	Finance lease	3	-	-	-	-	-	3
Boeing 737	Finance lease	-	5	-	-	-	2	7
An-148	Finance lease	-	-	6	-	-	-	6
Tu-204	Finance lease	-	-	-	-	6	-	6
Total finance lease		**28**	**5**	**15**	**-**	**6**	**2**	**56**
SSJ 100	Operating lease	8	-	-	-	-	-	8
Airbus A-319	Operating lease	11	2	2	-	-	-	15
Airbus A-320	Operating lease	42	-	6	-	6	-	54
Airbus A-330	Operating lease	14	-	-	-	3	-	17
Boeing B-737	Operating lease	-	5v	5	22	-	1	33
Boeing B-767	Operating lease	8	-	3	-	-	-	11
Boeing B-777	Operating lease	-	-	-	1	-	-	1
MD-11	Operating lease	3	-	-	-	-	-	3
DHC 8 S-300	Operating lease	-	-	-	-	-	3	3
DHC 8 S-200	Operating lease	-	-	-	-	-	2	2
Tu-154	Operating lease	-	-	-	1	-	-	1
An 12	Operating lease	-	-	-	-	-	2	2
Total operating lease		**86**	**7**	**16**	**24**	**9**	**8**	**150**
Total fleet		**120**	**12**	**36**	**38**	**21**	**18**	**245**

* - All of these aircrafts are not operated as at 30 June 2012.
v - 2 of these aircrafts are not operated as at 30 June 2012.
\# - 3 of these aircrafts are not operated as at 30 June 2012.

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Functional and presentation currency – Since 1 January 2007 the functional currency of the Company is the Russian rouble. These condensed consolidated interim financial statements are presented in US dollar for the convenience of foreign users, including the major lessors.

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

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

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

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

	Exchange rate
As at 30 June 2012	32.82
Average: six months to 30 June 2012	30.64
As at 31 December 2011	32.20
Average rate in 2011	29.39
As at 30 June 2011	28.08
Average: six months to 30 June 2011	28.62

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

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

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

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

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Fleet

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

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

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

(iv) as incurred.

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

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

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

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

(b) Land and buildings, plant and equipment

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

(c) Capital expenditure

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

(d) Gain or loss on disposal

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

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

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

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

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

Lease deposits – Lease deposits represent amounts paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to operating lease agreements are presented as assets in the consolidated statement of financial position. A portion of these deposits is interest-free. Interest-free deposits are recorded at amortised cost using an average market yield between 5.1% and 13.5%. Lease deposits that are part of finance lease arrangements are presented net as part of the finance lease liability.

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

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

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

(a) Credit risks

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

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

(b) Fair value

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

(c) Foreign exchange risk

In 2012 the Group mostly managed its foreign exchange risk by matching its assets and liabilities in the different currencies to limit exposure. However, a portion of its foreign exchange risk was managed through the use of hedging instruments (Note 18).

(d) Interest rate risk

The Group’s main exposure to interest rate risk is from its finance lease liabilities and short-term borrowings. In 2012 the Group engaged in interest rate hedging activities to hedge its exposure to the changes in interest rates. The Group constantly monitors changes in interest rates to minimise the level of its exposure (Note 18).

(e) Non-financial risks – fuel hedging activities

The results of Group's operations can be significantly impacted by changes in the price of aircraft fuel. Since 2010 the Group engaged in fuel hedging activities to hedge a portion of its non-financial risk related to fuel (Note 18). The Group does not use derivative instruments for speculative purposes.

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

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

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

Held-to-maturity investments are financial assets excluding derivative contracts which mature on a specified date and which a company has the firm intent and ability to hold to maturity. They are valued at allocated acquisition cost and they are included in long-term assets, if they mature in more than 12 months

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

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

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

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

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

Short-term borrowings – Short-term borrowings comprise:

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

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

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

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

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

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

In accordance with IFRIC 13 *Customer Loyalty Programmes* accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights of Aeroflot Group. The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue (Note 20) and the miles collected from third parties as well as promotional miles are recognised as other liabilities (Note 19 and Note 24).

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is to be realised or the liability settled, based on tax rates that have been enacted or substantively enacted as at the reporting date. As at 30 June 2012 deferred tax assets and liabilities have been measured at 20%. Deferred tax is charged or credited to the consolidated statement of income, except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is dealt with in equity.

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

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

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

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

(All amounts in millions of US dollars)

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

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

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

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

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

4. SIGNIFICANT ESTIMATES

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

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

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

Frequent flyer programme – The Group has estimated the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 3) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value.

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

5. TRAFFIC REVENUE

	6m 2012	6m 2011
Scheduled passenger flights	2,801.0	1,790.3
Charter passenger flights	194.8	22.2
Cargo	166.8	115.8
	3,162.6	**1,928.3**

(All amounts in millions of US dollars)

6. OTHER REVENUE

	6m 2012	6m 2011
Airline revenue agreements	211.9	208.6
Sales of duty free goods	78.0	59.4
Refuelling services	43.7	24.8
Catering services	14.0	9.9
Ground handling and maintenance	14.0	7.4
Hotel revenue	8.8	6.5
Airport services	-	28.3
Other revenue	81.4	70.7
	451.8	**415.6**

7. OPERATING COSTS

	6m 2012	6m 2011
Aircraft and traffic servicing	588.3	330.0
Operating lease expenses	268.9	169.9
Maintenance	261.5	147.1
Sales and marketing	145.8	95.1
Administration and general expenses	113.2	88.1
Communication expenses	71.7	47.6
Food and beverages	54.2	42.5
Passenger services	48.3	35.3
Cost of duty free goods sold	35.5	31.2
Customs duties	22.3	19.3
Insurance expenses	18.8	14.3
Other operating costs	120.7	84.4
Operating cost excluding aircraft fuel	**1,749.2**	**1,104.8**
Aircraft fuel	1,065.2	616.5
	2,814.4	**1,721.3**

8. STAFF COSTS

	6m 2012	6m 2011
Wages and salaries	449.6	330.5
Pension costs	91.3	68.5
Social security costs	27.7	21.8
	568.6	**420.8**

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

	6m 2012	6m 2011
Payments to the RFPF	89.1	67.8
Defined contribution pension plan	2.1	0.5
Defined benefit pension plan	0.1	0.2
	91.3	**68.5**

(All amounts in millions of US dollars)

9. FINANCE INCOME AND COSTS

	6m 2012	6m 2011
Finance income:		
Interest income on bank deposits	5.8	4.8
Gain on disposal of investments	-	200.4
Net foreign exchange gain	-	97.4
Finance income	**5.8**	**302.6**
Finance costs:		
Loss on disposal of investments	(0.6)	-
Interest expense on customs duty discounting	(0.7)	(2.1)
Loss on hedging instruments	(0.7)	-
Net foreign exchange loss	(12.3)	-
Interest expense on finance lease liabilities	(26.7)	(6.7)
Interest expense on short and long-term borrowings	(29.9)	(57.9)
Finance costs	**(70.9)**	**(66.7)**

10. OTHER (EXPENSES)/INCOME, NET

	6m 2012	6m 2011
Fines and penalties received from suppliers	5.1	19.7
Accounts payable write-off	3.3	-
Insurance compensation received	0.6	0.6
Reversal of non-recoverable VAT write-off	0.1	52.9
Accounts receivable write-off	(0.1)	-
Other expense	(15.2)	(0.1)
Custom duty recovery (Note 24)	-	39.9
Non-recoverable VAT write-off	-	(3.2)
	(6.2)	**109.8**

11. INCOME TAX

	6m2012	6m2011
Current income tax charge	64.2	68.8
Deferred income tax benefit	(37.8)	(5.2)
	26.4	**63.6**

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2012 was 78.8 % (6m 2011: 14.5 %). The change in effective tax rate was caused mainly due to recognized non-deductible expenses in amount of USD 78.6 million.

(All amounts in millions of US dollars)

	30 June 2012	Movement for the period	31 December 2011
Tax effects of temporary differences:			
Tax loss carry-forwards (i)	93.0	13.0	80.0
Long-term investments	(0.9)	(0.2)	(0.7)
Accounts receivable	11.7	(2.0)	13.7
Property, plant and equipment	61.5	19.1	42.4
Accounts payable	17.0	(1.1)	18.1
Financial instrument	6.0	0.1	5.9
Deferred tax assets before tax set off	**188.3**	**28.9**	**159.4**
Tax set off	(23.0)	(3.7)	(19.3)
Deferred tax assets after tax set off	**165.3**	**25.2**	**140.1**
Property, plant and equipment	(22.9)	9.5	(32.4)
Customs duties related to aircraft operation leases	(26.0)	2.8	(28.8)
Long-term investments	(0.9)	0.1	(1.0)
Accounts receivable	(6.2)	(4.1)	(2.1)
Accounts payable	0.4	(2.8)	3.2
Tax loss carry-forwards	-	(0.6)	0.6
Deferred tax liabilities before tax set off	**(55.6)**	**4.9**	**(60.5)**
Tax set off	23.0	3.7	19.3
Deferred tax liabilities after tax set off	**(32.6)**	**8.6**	**(41.2)**
Movement for the six months, net		33.8	
Deferred tax recognised directly in other comprehensive income (ii)		0.2	
Effect of translation to presentation currency		3.8	
Deferred tax benefit for six months		**37.8**	

(i) Tax losses carried forward expire between 2017 to 2020;

(ii) Deferred tax asset in respect of the change in the fair value of the hedge of USD 0.2 million has been recognised in other comprehensive income (Note 18).

12. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2012	31 December 2011
Trade accounts receivable	638.2	524.7
Prepayments for aircrafts	466.3	269.7
Prepayments to suppliers	302.4	330.1
VAT and other taxes recoverable	232.4	231.4
Deferred customs duties related to aircraft operating leases	33.8	33.6
Income tax prepaid	9.0	46.5
Other receivables	138.7	121.2
Accounts receivable and prepayments, gross	**1,820.8**	**1,557.2**
Impairment allowance for bad and doubtful accounts	(87.1)	(89.8)
	1,733.7	**1,467.4**

(All amounts in millions of US dollars)

Deferred customs duties of USD 33.8 million (31 December 2011: USD 33.6 million) relate to the current portion of customs duties incurred on importation of aircraft under operating leases. These customs duties are expensed in the condensed consolidated interim statement of income over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 14.

As at 30 June 2012 sufficient impairment allowance has been made against accounts receivable and prepayments.

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

	Impairment allowance
As at 1 January 2011	**36.3**
Increase in impairment allowance for bad and doubtful accounts	23.1
Additions of subsidiaries	30.3
Disposed subsidiaries	7.3
Foreign currency translation	(7.2)
As at 31 December 2011	**89.8**
Decrease in impairment allowance for bad and doubtful accounts	(1.2)
Foreign currency translation	(1.5)
As at 31 June 2012	**87.1**

13. EXPENDABLE SPARE PARTS AND INVENTORIES

	30 June 2012	**31 December 2011**
Expendable spare parts	70.0	64.8
Fuel	5.1	8.2
Other inventories	48.1	47.4
Expendable spare parts and inventories, gross	**123.2**	**120.4**
Impairment allowance for obsolete inventory	(2.2)	(2.1)
	121.0	**118.3**

14. OTHER NON-CURRENT ASSETS

	30 June 2012	**31 December 2011**
Deferred customs duties related to aircraft operating leases	123.2	135.1
VAT recoverable	62.5	49.0
Other	16.0	21.8
	201.7	**205.9**

VAT recoverable amounted to USD 62.5 million (31 December 2011: USD 49.0 million) relates to the acquisition of aircraft.

15. PREPAYMENTS FOR AIRCRAFT

Prepayments for aircraft relate to cash advances made in relation to twenty-two Boeing B-787 (delivery: 2014 – 2016), twenty-two Airbus A-350 (delivery: 2018-2019), ten Sukhoi Superjet-100 (SSJ) (delivery: 2014) aircraft which are expected to be used under operating lease agreements and five Airbus A-321 (delivery: 2013), twelve Boeing B-777 (delivery: 2014-2016) aircraft which are expected to be used under finance lease agreements.

(All amounts in millions of US dollars)

16. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Construction in progress	Total
Cost						
1 January 2011	**209.1**	**1,188.6**	**970.4**	**531.8**	**56.5**	**2,956.4**
Additions	25.6	292.8	2.5	15.3	54.7	390.9
Additions of subsidiaries	-	342.2	98.3	23.8	158.2	622.5
Capitalised overhaul costs	1.1	-	-	-	-	1.1
Disposals	(34.0)	-	(2.5)	(16.2)	(17.0)	(69.7)
Disposal of subsidiary	-	-	(708.2)	(240.7)	(25.1)	(974.0)
Transfers	-	-	3.8	28.3	(32.1)	-
Foreign currency translation	(10.5)	(122.8)	(2.8)	(7.7)	(15.6)	(159.4)
31 December 2011	**191.3**	**1,700.8**	**361.5**	**334.6**	**179.6**	**2,767.8**
Additions (i)	6.7	103.5	0.3	33.4	51.6	195.5
Capitalised overhaul costs	0.1	-	-	-	-	0.1
Disposals (ii)	(2.4)	-	(7.6)	(12.8)	(122.9)	(145.7)
Transfers	-	-	1.7	(0.7)	(1.0)	-
Foreign currency translation	(4.0)	(39.0)	(6.2)	(5.9)	0.7	(54.4)
30 June 2012	**191.7**	**1,765.3**	**349.7**	**348.6**	**108.0**	**2,763.3**
Accumulated depreciation						
1 January 2011	**(137.6)**	**(319.1)**	**(120.1)**	**(187.6)**	**(4.0)**	**(768.4)**
Charge for the period	(21.1)	(105.1)	(28.1)	(54.5)	-	(208.8)
Change in impairment reserve	0.1	-	-	(0.4)	3.1	2.8
Disposals	32.3	-	1.9	10.0	-	44.2
Disposal of subsidiary	-	-	33.8	45.9	-	79.7
Foreign currency translation	6.4	30.2	(3.3)	19.2	0.4	52.9
31 December 2011	**(119.9)**	**(394.0)**	**(115.8)**	**(167.4)**	**(0.5)**	**(797.6)**
Charge for the period	(11.4)	(79.2)	(6.3)	(19.6)	-	(116.5)
Change in impairment reserve	(0.1)	-	-	0.3	-	0.2
Disposals	1.8	-	6.4	9.8	-	18.0
Foreign currency translation	2.9	12.8	1.9	3.5	-	21.1
30 June 2012	**(126.7)**	**(460.4)**	**(113.8)**	**(173.4)**	**(0.5)**	**(874.8)**
Net book value						
31 December 2011	**71.4**	**1,306.8**	**245.7**	**167.2**	**179.1**	**1,970.2**
30 June 2012	**65.0**	**1,304.9**	**235.9**	**175.2**	**107.5**	**1,888.5**

(All amounts in millions of US dollars)

(i) The 2012 additions mainly relate to addition of two Airbus A-321 aircrafts with a carrying value of USD 103.5 million received under finance lease agreements;

(ii) The 2012 disposals mainly relate to disposal of JSC Rossiya's construction in progress.

17. INTANGIBLE ASSETS

	Software	**Licences**	**Development in progress**	**Trademarks and client base**	**Other**	**Total**
Cost						
1 January 2011	**17.6**	**4.5**	**29.3**	**-**	**-**	**51.4**
Additions	20.3	-	2.2	-	-	22.5
Additions of subsidiaries	0.5	-	-	57.4	0.1	58.0
Disposal	(4.4)	(0.1)	-	-	-	(4.5)
Transfers	19.4	-	(19.4)	-	-	-
Foreign currency translation	(4.1)	(0.3)	-	(5.1)	(0.1)	(9.6)
31 December 2011	**49.3**	**4.1**	**12.1**	**52.3**	**-**	**117.8**
Additions (i)	10.0	-	5.3	-	-	15.3
Disposal	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Foreign currency translation	(1.6)	-	(0.6)	(1.0)	-	(3.2)
30 June 2012	**57.7**	**4.1**	**16.8**	**51.3**	**-**	**129.9**
Accumulated amortisation						
1 January 2011	**(9.6)**	**(1.2)**	**-**	**-**	**-**	**(10.8)**
Charge for the period	(10.4)	(0.7)	-	(1.2)	-	(12.3)
Disposal	4.2	0.1	-	-	-	4.3
Foreign currency translation	1.0	0.2	-	0.1	-	1.3
31 December 2011	**(14.8)**	**(1.6)**	**-**	**(1.1)**	**-**	**(17.5)**
Charge for the period	(5.7)	(0.3)	-	(4.6)	-	(10.6)
Disposal	-	-	-	-	-	-
Foreign currency translation	0.7	-	-	0.3	-	1.0
30 June 2012	**(19.8)**	**(1.9)**	**-**	**(5.4)**	**-**	**(27.1)**
Net book value						
31 December 2011	**34.5**	**2.5**	**12.1**	**51.2**	**-**	**100.3**
30 June2012	**37.9**	**2.2**	**16.8**	**45.9**	**-**	**102.8**

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

18. DERIVATIVE INSTRUMENTS

The Group has entered into cross-currency interest rate swap agreements with two major banks operating in Russia to hedge some of its euro denominated revenues from potential future RUB/EUR exchange rate fluctuations. The financial instrument has been assessed as being effective for IAS 39 purposes. The change in the fair value of the hedge amounted to a gain USD 7.9 million and has been reported in other comprehensive income for the period ended 30 June 2012. The change in fair value due to fluctuation of exchange rate amounted to a gain USD 1.1 million reported in this statement of income. A corresponding deferred tax expense of USD 0.5 million has been recognized in these financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2).

In December 2010 the Group entered into an agreement with a Russian bank to hedge a portion of its fuel costs (less than 15%) from potential future price increases. In accordance with the terms of the agreement the Group will be compensated by the bank for the excess between the actual price and the ceiling price specified in the agreement, whilst the Group has agreed to compensate the bank the shortfall between the actual prices and the floor price specified in the agreement. The financial instrument has been assessed as being effective for IAS 39 purposes. The contract is accounted as hedge accounting only when it breaches the maximum or minimum strike prices. Otherwise, the value of the derivative is accounted through profit and loss. The change in fair value of the derivate instrument amounted to a loss of USD 1.8 million in the six month period ended 30 June 2012 and has been reported in this statement of income. The fair value has been determined using a valuation model with market observable parameters (level 2).

In June 2011 the Group entered into an agreement with a Russian bank to hedge a risk related to increase of Libor which is mainly used for finance lease agreements. In accordance with the terms of the agreement the Group fixes interest payment related to 21 ongoing financial lease contracts. The financial instrument has been assessed as being effective for IAS 39 purposes. The change in fair value of the hedge amounted to a loss USD 1.4 million and has been reported in other comprehensive income. A corresponding deferred tax benefit of USD 0.3 million has been recognized in these financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2).

(All amounts in millions of US dollars)

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2012	31 December 2011
Trade accounts payable	550.5	454.5
Staff related liabilities	177.7	156.4
Advances received (other than unearned transportation revenue)	103.8	236.6
Dividends payable	64.9	2.0
VAT payable on leased aircraft	61.9	67.6
Other taxes payable	28.6	44.4
Other liabilities related to frequent flyer programme (Note 20)	23.9	19.2
Income tax payable	17.8	17.9
Customs duties payable on leased aircraft	9.0	12.2
Merchandise credits	1.4	1.9
Other payables	122.5	40.0
	1,162.0	**1,052.7**

As at 30 June 2012 accounts payable and accrued liabilities include the short-term portion of VAT of USD 61.9 million (31 December 2011: USD 67.6 million) and customs duties of USD 9.0 million (31 December 2011: USD 12.2 million) relating to imported aircraft under finance and operating leases, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs. The long-term portion of VAT payable and customs duties of USD 61.4 million (31 December 2011: USD 47.9 million) and USD 6.8 million (31 December 2011: USD 5.5 million), respectively, relating to the aircraft under finance and operating leases are disclosed in Note 24.

Staff related payables include salaries and social contribution liabilities of USD 93.6 million (31 December 2011: USD 75.3 million) and the unused vacation accrual of USD 83.1 million (31 December 2011: USD 81.1 million).

20. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue related to Aeroflot Bonus as at 30 June 2012 has been assessed in accordance with IFRIC 13 *Customer Loyalty Programmes*. The amount represents the number of points earned but unused by the Aeroflot Bonus programme members estimated at fair value (Note 3).

	30 June 2012	31 December 2011
Deferred revenue related to frequent flyer programme, current	9.2	8.1
Deferred revenue related to frequent flyer programme, non-current	37.6	32.5
Other current liabilities related to frequent flyer programme (Note 19)	23.9	19.2
Other non-current liabilities related to frequent flyer programme (Note 24)	68.4	55.3
	139.1	**115.1**

(All amounts in millions of US dollars)

21. SHORT-TERM BORROWINGS

	30 June 2012	31 December 2011
Loans denominated in US dollars:		
Gazprombank	-	25.0
Bank BFA	-	15.1
Sberbank of the Russian Federation	-	0.8
	-	**40.9**
Bonds denominated in Russian roubles, short term portion (i)	372.0	6.5

	30 June 2012	31 December 2011
Loans denominated in Russian roubles:		
Sberbank of the Russian Federation (ii)	33.8	116.4
Alfa-bank (iii)	24.4	-
Bank BFA (iv)	22.3	81.5
Bank FORSHTADT (v)	9.2	-
Iturup Bank (vi)	3.7	2.5
Gazprombank (vii)	3.1	82.3
Sberbank of the Russian Federation, short term portion (Note 22)	3.0	3.3
Far Eastern Bank (viii)	2.6	4.7
Bank Petrocommerce	-	34.2
Trascreditbank	-	4.1
Other short term bank loans	-	0.3
	102.1	**329.3**
Loans denominated in other currency:		
Sberbank of the Russian Federation, short term portion (ix)	0.8	0.6
Eurasia Investment Promotion Co., short term portion (Note 22)	0.9	0.9
	1.7	**1.5**
	475.8	**378.2**

(i) The balance as at 30 June 2012 relates to bonds of USD 372.0 million borrowed at an interest rate of 7.75% per annum. Yield to maturity as at the end of reporting period is 7.4%. The bonds are unsecured;

(ii) The balance as at 30 June 2012 represents loans of USD 33.8 million issued at an interest rate from 9.1% to 13.5% per annum. The loans are secured by a property, land and fuel with a carring value of USD 6.3 million;

(iii) The balance as at at 30 June 2012 represents loans of USD 24.4 million issued at an interest rate 11.0% per annum. The loans are unsecured;

(iv) The balance as at 30 June 2012 represents loans of USD 22.3 million issued at an interest rate from 11.0% to 13.0% per annum. The loans are secured by property and land with a carring value of USD 5.2 million;

(v) The balance as at 30 June 2012 represents loan of USD 9.2 million issued at an interest rate 13.0% per annum. The loan is unsecured;

(vi) The balance as at 30 June 2012 represents loans of USD 3.7 million issued at an interest rate 9.9% per annum. The loans are secured by property and fuel with a carring value of USD 3.3 million;

(vii) The balance as at 30 June 2012 represents loans of USD 3.1 million issued at an interest rate 8.6% per annum. The loan is unsecured;

(All amounts in millions of US dollars)

(viii) The balance as at 30 June 2012 represents loan of USD 2.6 million issued at an interest rate 12.0% per annum. The loan is secured by property and land with a carring value of USD 1.5 million;

(ix) The balance as at 30 June 2012 represents loan of USD 0.8 million issued at an interest rate 9.6% per annum. The loan is secured secured by property and land with a carring value of USD 5.0 million.

22. LONG-TERM BORROWINGS

	30 June 2012	31 December 2011
Loans denominated in US dollars:		
Accor	2.9	2.9
Other long-term loans	3.4	3.4
	6.3	**6.3**
Bonds denominated in Russian roubles, long-term portion (Note 21)	-	372.7
Loans denominated in Russian roubles:		
Bank BFA (i)	76.2	-
Sberbank of the Russian Federation, long-term portion (ii)	5.5	7.1
	81.7	**7.1**
Loans denominated in other currency:		
Eurasia Investment Promotion Co., long-term portion (iii)	1.3	1.7
Sberbank of the Russian Federation, long-term portion (Note 21)	-	0.5
	1.3	**2.2**
	89.3	**388.3**

(i) The balance as at 30 June 2012 represents loan of USD 76.2 million issued at an interest rate 11.9% per annum. The loan is secured by property and land with a carring value of USD 18.8 million;

(ii) The balance as at 30 June 2012 represents loans of USD 5.5 million issued at an interest rate of 10.0% and 13.75% per annum. The loans are secured by a property, plant and land with a carring value of USD 8.4 million;

(iii) The balance as at 30 June 2012 represents loan of USD 1.3 million issued at an interest rate 7.4% per annum. The loan is secured by a property with a carring value of USD 0.4 million.

The long-term borrowings are repayable as follows:

	30 June 2012	31 December 2011
On demand or within one year (Note 21)	376.7	11.3
In two to five years	83.0	382.0
After five years	6.3	6.3
	466.0	**399.6**
Less: amounts due for settlement within 12 months (Note 21)	(376.7)	(11.3)
Amounts due for settlement after 12 months	**89.3**	**388.3**

(All amounts in millions of US dollars)

23. FINANCE LEASE LIABILITIES

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

	30 June 2012	31 December 2011
Total outstanding payments	1,873.5	1,796.3
Finance charges	(322.1)	(296.8)
Principal outstanding	**1,551.4**	**1,499.5**
Representing:		
Current lease liabilities	230.5	202.8
Non-current lease liabilities	1,320.9	1,296.7
	1,551.4	**1,499.5**

	30 June 2012			31 December 2011		
Due for repayment:	**Principal**	**Finance charges**	**Total payments**	**Principal**	**Finance charges**	**Total payments**
On demand or within one year	230.5	60.8	291.3	202.8	49.6	252.4
In two to five years	635.3	173.8	809.1	595.2	150.6	745.8
After five years	685.6	87.5	773.1	701.5	96.6	798.1
	1,551.4	**322.1**	**1,873.5**	**1,499.5**	**296.8**	**1,796.3**

Interest unpaid as at 30 June 2012 amounted to approximately USD 3.0 million (31 December 2011: USD 2.9 million) and is included in accrued expenses. During six months 2012 the effective interest rate on these leases was approximately 4.0% per annum (31 December 2011: 3.6% per annum).

24. OTHER NON-CURRENT LIABILITIES

	30 June 2012	31 December 2011
VAT payable on leased aircraft	61.4	47.9
Custom duties payable on leased aircraft	6.8	5.5
Other liabilities related to frequent flyer programme (Note 20)	68.4	55.3
Defined benefit pension obligation – non-current portion	12.7	11.7
	149.3	**120.4**

As at 30 June 2012 other non-current liabilities include the long-term portion of VAT of USD 61.4 million (31 December 2011: USD 47.9 million) and customs duties of USD 6.8 million (31 December 2011: USD 5.5 million) relating to imported aircraft under finance and operating leases, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets are cleared through customs.

The short-term portion of the VAT payable and the customs duties are disclosed in Note 19.

Customs duties payable on leased aircraft have been discounted using a discount rate between 9.8% and 10.8%.

(All amounts in millions of US dollars)

25. SHARE CAPITAL

	Number of shares authorised and issued	Number of treasury shares	Number of shares outstanding
Ordinary shares of one Russian rouble each:			
As at 31 December 2011	1,110,616,299	(70,395,087)	1,040,221,212
As at 30 June 2012	1,110,616,299	(66,701,225)	1,043,915,074

Ordinary shareholders are entitled to one vote per share.

During six month 2012 the number of treasury shares held by the Group decreased by 3,693,862.

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX") and on 30 June 2012 were traded at USD 1.32 per share. On 29 August 2012 shares were traded at USD 1.36 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR's) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group, allowing the Company's shareholders to swap their shares for GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR. In accordance with the depositary agreement the total volume of the GDR's of the Company cannot exceed 20% of the Company's share capital. In 2001 the Company's GDR's were listed on the New Europe Exchange ("NEWEX") in Vienna and after closing of this stock exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. On 30 June 2012 and 29 August 2012 the GDR's were trading at USD 127.36 and USD 132.35 each, respectively.

26. DIVIDENDS

At the annual shareholders' meeting held on 25 June 2012 the shareholders approved dividends in respect of 2011, which would be paid to the shareholders in the amount of 1.8081 Russian roubles per share (6.2 US cents at the average exchange rate of the year 2011) totalling to 2,000.0 million Russian roubles (USD 68.1 million at the average exchange rate of the year 2011). The outstanding balance of the dividends payable will be transferred as soon as the relevant shareholders' bank details are collected.

27. OPERATING SEGMENTS

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

- Airline – domestic and international passenger and cargo air transport and other airline services;
- Catering – includes preparation of food and beverages for air travel;
- Hotels – includes operating a hotel;
- Airport terminal – includes operating the Sheremetyevo-3 terminal. In December 2011 the Sheremetyevo-3 terminal disposed from the Group.

(All amounts in millions of US dollars)

There are also other operating segments. However, none of these segments meet any of the quantitative thresholds for determining reportable segments during the first six months of 2012 and 2011.

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

	Airline	**Catering**	**Hotels**	**Terminal**	**Other**	**Elimi-nations**	**Total Group**
6m2012							
External sales	3,511.7	14.2	10.2	-	78.3	-	3,614.4
Inter-segment sales	1.5	93.4	6.7	-	-	(101.6)	-
Total revenue	**3,513.2**	**107.6**	**16.9**	**-**	**78.3**	**(101.6)**	**3,614.4**
Operating profit/(loss)	84.9	13.7	3.1	-	0.3	(3.9)	98.1
Finance income							5.8
Finance costs							(70.9)
Share of income in associates							0.5
Profit before income tax							**33.5**
Income tax							(26.4)
Profit for the period							**7.1**

6m2011	**Airline**	**Catering**	**Hotels**	**Terminal**	**Other**	**Elimi-nations**	**Total Group**
External sales	2,237.5	10.8	11.5	24.7	59.4	-	2,343.9
Inter-segment sales	-	71.9	6.0	61.4	0.6	(139.9)	-
Total revenue	**2,237.5**	**82.7**	**17.5**	**86.1**	**60.0**	**(139.9)**	**2,343.9**
Operating profit/(loss)	197.8	8.0	3.7	21.2	7.2	(33.2)	204.7
Finance income							302.6
Finance costs							(66.7)
Share of loss in associates							(0.2)
Profit before income tax							**440.4**
Income tax							(63.6)
Profit for the period							**376.8**

(All amounts in millions of US dollars)

	6m2012	6m2011
Scheduled passenger revenue:		
International flights from Russian Federation to:		
Europe	476.5	342.6
Asia	255.9	171.5
North America	41.3	33.3
Other	39.2	23.7
	812.9	**571.1**
International flights to Russian Federation from:		
Europe	466.5	340.3
Asia	326.6	198.3
North America	48.5	39.6
Other	40.4	25.8
	882.0	**604.0**
Domestic flights	1,103.1	614.2
Other international flights	3.0	1.0
	2,801.0	**1,790.3**
Cargo revenue:		
International flights from Russian Federation to:		
Europe	4.3	3.4
Asia	9.1	7.0
North America	0.8	0.8
Other	0.3	0.3
	14.5	**11.5**
International flights to Russian Federation from:		
Europe	12.2	11.5
Asia	42.9	29.6
North America	2.4	1.7
Other	0.2	0.1
	57.7	**42.9**
Other international flights	34.9	26.5
Domestic flights	59.7	34.9
	166.8	**115.8**

28. RELATED PARTY TRANSACTIONS

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

The condensed consolidated interim financial statements of the Group include the following balances and transaction with related parties:

(All amounts in millions of US dollars)

	30 June 2012	31 December 2011
Assets		
Cash and cash equivalents	1.6	0.1
Trade and accounts receivable	0.7	6.2
	2.3	**6.3**
Liabilities		
Trade and other accounts payable	3.7	3.1
	3.7	**3.1**

	6m 2012	6m 2011
Sales to associates	1.4	7.6
Purchases from associates	16.6	22.3

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

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

In six month 2012 total amounts of guarantees given to associates are USD 4.0 million and guarantees received from associates are nil.

Government-related entities

Significant loans obtained from the banks controlled by Russian government are disclosed in Note 21, 22.

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

These transactions are conducted in ordinary course of Group's business on terms comparable to those with other entities that are non-government related.

For the six month period ended 30 June 2012, management estimates that the aggregate amount of Group's significant transactions with other government-related entities are on the same level as at previous period.

Compensation of key management personnel

The remuneration of directors and other members of key management (the members of the Board of Directors and Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) consist of short-term benefits including salary and bonuses as well as short-term compensation for serving on the management bodies of Group companies for the six months 2012 amounted to approximately USD 14.1 million (6m 2011: USD 10.3 million).

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

(All amounts in millions of US dollars)

During 2010, the Group initiated a share option programme for its key executives and employees. The program will run for three years and will be exercised in three tranches granted over the three-year period from 1 January 2011 through to 31 December 2013. The vesting requirement of the share option programme is the continuous employment of participants during the vesting period. The fair value of services received in return for the share option granted is measured by reference to the fair value of the share option granted. The estimate of the fair value of the services received is determined using the Black-Scholes model. The following variables have been used in the model: the market share price at the grant date of USD 1.9, the expected volatility of 40% and a risk free interest rate of 5%. During the six months ended 30 June 2012 expenses related to the programme amounted to USD 1.1 million. These have been recognised as wages and salaries in the condensed consolidated interim statement of income (Note 8). The outstanding amount at the end of the reporting period is USD 9.5 million (31 December 2011: USD 10.7 million).

29. COMMITMENTS UNDER OPERATING LEASES

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

	30 June 2012	31 December 2011
On demand or within one year	544.0	538.7
In two to five years	1,765.6	1,819.8
After five years	1,143.8	1,319.6
Total minimum payments	**3,453.4**	**3,678.1**

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the figures. For details of the fleet subject to operating leases refer to Note 1.

30. CAPITAL COMMITMENTS

The Group's capital commitments in relation to the acquisition of property, plant and equipment and other services as at 30 June 2012 amounted to approximately USD 2,332.3 million (31 December 2011: USD 2,566.4 million). These commitments mainly relate to six Airbus A-321-200, five Airbus A-330 aircraft, sixteen Boeing B-777 which are expected to be used under finance lease agreements.

31. RISK CONNECTED WITH FINANCIAL INSTRUMENTS

Since IAS 34 *Interim Financial Reporting* does not require explicitly the inclusion of information that would be presented in annual financial statements under IFRS 7 *Financial Instruments: Disclosures*, and the Group's financial risk management objectives and policies have not been significantly changed, and any material losses connected with the nature and extent of risks arising from financial instruments for the previous comparative period were presented in annual consolidated financial statements ending 31 December 2011, the Group decided to disclose selective items that are exposed to different types of risks in the condensed interim financial statements.

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

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

(All amounts in millions of US dollars)

As at 30 June 2012 the Group had available USD 559.2 million (31 December 2011: USD 632.4 million) in relation to lines of credit granted to the Group by various lending institutions.

Capital risk management – Management's policy is to have a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital and the level of dividends to ordinary shareholders.

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

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

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

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

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

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

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

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

	30 June 2012	**31 December 2011**
Cash and cash equivalents	549.6	393.1
Short-term investments	13.6	21.0
Trade accounts receivable	577.9	475.1
	1,141.1	**889.2**

Most of the amounts in the total credit risk exposure are current.

32. SUBSEQUENT EVENTS

Two Airbus A330, one Airbus A321 and two SSJ 100 aircrafts were delivered to Aeroflot during the period from July 2012 to August 2012. All SSJ 100 will be operated under operating lease agreements and all Airbus aircrafts will be operated under finance lease agreements. One Boeing 767 aircraft disposed from Aeroflot during the period from July 2012 to August 2012.

One Airbus A319 was delivered to Rossiya during the period from July 2012 to August 2012. It will be operated under operating lease agreement.

Two Boeing 737 aircrafts disposed from Donavia during the period from July 2012 to August 2012.

One Boeing 737 and one Boeing 777 were delivered to Orenavia during the period from July 2012 to

August 2012. Both aircrafts will be operated under operating lease agreements. Four Tu-134, one Tu-154 and one An-24 aircrafts disposed from Orenavia during the period from July 2012 to August 2012.

Three Airbus A330 aircrafts disposed from Vladavia during the period from July 2012 to August 2012.

One DHC-8 was delivered to SAT during the period from July 2012 to August 2012. It will be operated under operating lease agreement.