UTair Aviation Joint-Stock Company
Consolidated Financial Statements

for the year ended 31 December 2012

Contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2012

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

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2012 were approved by management on 30 April 2013 and were signed on their behalf by:

I.V. Petrov
Senior Vice President - Chief Financial Officer

O.Y. Grabarovskaya
Chief Accountant

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Independent auditor's report

To the Shareholders and Board of Directors of UTair Aviation Joint-Stock Company

We have audited the accompanying consolidated financial statements of UTair Aviation Joint-Stock Company (the Company) and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2012, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Basis for qualified opinion

As described in Note 28, the Company recognized revenue from consulting services in "other revenue" in its consolidated statement of comprehensive income for the year ended 31 December 2012. We were unable to obtain sufficient appropriate audit evidence about the amount of this revenue to be recognized in the consolidated statement of comprehensive income for the year ended 31 December 2012. Consequently, we were unable to determine whether any adjustment to "other revenue" was necessary.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of UTair Aviation Joint-Stock Company and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLC

2 August 2013

	Note	31 December 2012 '000 RUB	31 December 2011 '000 RUB	31 December 2012 '000 USD	31 December 2011 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	7	49,591,049	47,380,859	1,632,751	1,471,633
Advances for property, plant and equipment		831,652	591,369	27,382	18,369
Goodwill	8	576,381	583,524	18,977	18,124
Other intangible assets	8	329,775	355,446	10,858	11,040
Investments in equity accounted investees	9	31,007	55,201	1,021	1,715
Other investments	10	221,296	73,211	7,286	2,274
Loans issued	11	3,326,638	92,734	109,527	2,880
Net investment in finance leases	12	506,680	327,829	16,682	10,182
Other advances issued	13	1,560,618	1,371,563	51,382	42,600
Deferred tax assets	15	88,386	48,503	2,910	1,506
Total non-current assets		**57,063,482**	**50,880,239**	**1,878,776**	**1,580,323**
Current assets					
Inventories	16	3,270,363	2,555,689	107,674	79,379
Trade and other receivables	14	20,888,721	16,549,664	687,747	514,027
Other advances issued	13	3,508,348	1,548,587	115,510	48,099
Income tax receivable		241,892	90,691	7,964	2,816
Net investment in finance leases	12	404,953	131,933	13,333	4,098
Loans issued	11	1,269,815	735,591	41,808	22,847
Other investments	10	87,370	2,769	2,877	86
Security deposits	17	8,685,531	1,202,702	285,965	37,356
Cash and cash equivalents	18	1,189,105	718,227	39,150	22,308
Derivatives	22	91,271	-	3,005	-
Total current assets		**39,637,369**	**23,535,853**	**1,305,033**	**731,016**
Assets classified as held for sale	19	136,812	156,256	4,504	4,853
Total assets		**96,837,663**	**74,572,348**	**3,188,313**	**2,316,192**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

	Note	31 December 2012 ’000 RUB	31 December 2011 ’000 RUB	31 December 2012 ’000 USD	31 December 2011 ’000 USD
EQUITY AND LIABILITIES					
Equity					
Share capital	20	577,208	577,208	20,871	20,871
Treasury shares	20	(576,468)	(80,933)	(19,609)	(3,672)
Foreign currency translation reserve		93,129	132,133	1,829	2,272
Revaluation reserve		20,689,432	22,043,306	681,185	684,658
Investment revaluation reserve	10	68,772	-	2,264	-
Retained earnings		(954,554)	(2,278,791)	(31,428)	(70,732)
Total equity attributable to equity holders of the Company		**19,897,519**	**20,392,923**	**655,112**	**633,397**
Non-controlling interest		2,083,944	587,045	68,612	18,234
Total equity		**21,981,463**	**20,979,968**	**723,724**	**651,631**
Non-current liabilities					
Loans and borrowings	21	18,105,831	25,362,200	596,122	787,741
Derivatives	22	1,373	16,583	45	515
Trade and other payables	23	616,253	710,486	20,290	22,067
Deferred income	24	403,430	496,644	13,283	15,426
Employee benefits	25	246,810	165,859	8,126	5,152
Deferred tax liabilities	15	5,851,436	5,649,645	192,654	175,476
Total non-current liabilities		**25,225,133**	**32,401,417**	**830,520**	**1,006,377**
Current liabilities					
Loans and borrowings	21	31,220,828	8,222,527	1,027,924	255,389
Derivatives	22	35,450	44,485	1,167	1,382
Put option liability	6	-	285,355	-	8,863
Trade and other payables	23	12,918,617	9,183,271	425,338	285,229
Deferred income	24	252,767	281,152	8,322	8,732
Income tax payable		11,179	63,138	368	1,961
Other taxes payable	26	699,521	1,397,468	23,031	43,405
Advances received	27	4,472,811	1,700,197	147,264	52,808
Employee benefits	25	19,894	13,370	655	415
Total current liabilities		**49,631,067**	**21,190,963**	**1,634,069**	**658,184**
Total liabilities		**74,856,200**	**53,592,380**	**2,464,589**	**1,664,561**
Total equity and liabilities		**96,837,663**	**74,572,348**	**3,188,313**	**2,316,192**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

	Note	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Passenger traffic and helicopter services revenue	28	67,977,253	52,447,982	2,186,256	1,784,710
Other revenue	28	11,308,988	2,889,731	363,715	98,332
		79,286,241	**55,337,713**	**2,549,971**	**1,883,042**
Operating expenses					
Direct operating expenses	29	(47,826,821)	(36,216,011)	(1,538,186)	(1,232,365)
Personnel expenses	30	(14,057,921)	(11,153,708)	(452,125)	(379,540)
Depreciation and amortisation		(5,417,925)	(3,340,016)	(174,249)	(113,655)
Repair expenses		(3,936,737)	(2,882,793)	(126,611)	(98,098)
Commissions		(2,482,606)	(1,845,069)	(79,845)	(62,784)
Gain on sale of assets classified as held for sale		214,881	220,664	6,911	7,509
Sales-leaseback transaction		474,231	6,953,793	15,252	236,625
Other income	32	670,348	800,918	21,559	27,254
Other expenses	32	(3,727,989)	(3,586,236)	(119,898)	(122,033)
		(76,090,539)	**(51,048,458)**	**(2,447,192)**	**(1,737,087)**
Results from operating activities		**3,195,702**	**4,289,255**	**102,779**	**145,955**
Net foreign exchange gain		390,775	(396,867)	12,568	(13,504)
Impairment of doubtful debts	13, 14	(27,509)	17,227	(885)	586
Share of loss of equity accounted investees (net of income tax)	9	(154,505)	(137,243)	(4,969)	(4,670)
Gain from acquisition of a subsidiary	6	1,262,566	-	40,606	-
Other finance income	33	562,822	721,294	18,101	24,544
Other finance costs	33	(5,118,025)	(4,043,672)	(164,604)	(137,599)
Profit before income tax		**111,826**	**449,994**	**3,596**	**15,312**
Income tax expense	34	66,996	(336,007)	2,155	(11,433)
Profit for the year		**178,822**	**113,987**	**5,751**	**3,879**
Other comprehensive income					
Foreign currency translation differences		(41,852)	72,676	38,537	(51,633)
Revaluation of property, plant and equipment		627,345	18,104,884	20,176	616,076
Investment revaluation reserve		85,965	-	2,765	-
Income tax on realisation of property, plant and equipment revaluation reserve		(142,662)	(3,620,968)	(4,588)	(123,215)
Other comprehensive income for the year, net of income tax		**528,796**	**14,556,592**	**56,890**	**441,228**
Total comprehensive income for the year		**707,618**	**14,670,579**	**62,641**	**445,107**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

	Note	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Profit attributable to:					
Owners of the Company		69,566	178,941	2,237	6,089
Non-controlling interest		109,256	(64,954)	3,514	(2,210)
Profit for the year		**178,822**	**113,987**	**5,751**	**3,879**
Total comprehensive income attributable to:					
Owners of the Company		597,914	13,701,713	56,877	413,214
Non-controlling interest		109,704	968,866	5,764	31,893
Total comprehensive income for the year		**707,618**	**14,670,579**	**62,641**	**445,107**
Earnings per share					
Basic and diluted earnings per share	35	RUB 0.13	RUB 0.32	USD 0.004	USD 0.011

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

’000 RUB

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

’000 RUB

	Share capital	Treasury shares	Investment revaluation reserve	Translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	577,208	(80,933)	-	132,133	22,043,306	(2,278,791)	**20,392,923**	587,045	**20,979,968**
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	69,566	**69,566**	109,256	**178,822**
Other comprehensive income									
Foreign currency translation differences	-	-	-	(39,004)	-	(3,296)	**(42,300)**	448	**(41,852)**
Revaluation of investments (note 10)	-	-	85,965	-	-	-	**85,965**	-	**85,965**
Revaluation of property, plant and equipment	-	-	-	-	627,345	-	**627,345**	-	**627,345**
Realisation of property, plant and equipment revaluation reserve	-	-	-	-	(1,117,089)	1,117,089	**-**	-	**-**
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	(17,193)	-	106,354	(231,823)	**(142,662)**	-	**(142,662)**
Total other comprehensive income			**68,772**	**(39,004)**	**(383,390)**	**881,970**	**528,348**	**448**	**528,796**
Total comprehensive income for the year			**68,772**	**(39,004)**	**(383,390)**	**951,536**	**597,914**	**109,704**	**707,618**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Own shares acquired	-	(495,535)	-	-		-	**(495,535)**	-	**(495,535)**
Dividends to equity holders	-	-	-	-	-	(75,627)	**(75,627)**	-	**(75,627)**
Total contributions by and distributions to owners	**-**	**(495,535)**	**-**	**-**	**-**	**(75,627)**	**(571,162)**	**-**	**(571,162)**
Charges in ownership interest in subsidiaries									
Acquisition of a subsidiary (Note 6)	-	-	-	-	-	-	**-**	194,990	**194,990**
Derecognition of unused put option on non-controlling interest in a subsidiary	-	-	-	-	(970,484)	52,023	**(918,461)**	1,192,205	**273,744**
Derecognition of liability on REPO transactions	-	-	-	-	-	396,304	**396,304**	-	**396,304**
Total charges in ownership interest in subsidiaries	**-**	**-**	**-**	**-**	**(970,484)**	**448,327**	**(522,157)**	**1,387,195**	**865,038**
Total transactions with owners	**-**	**(495,535)**	**-**	**-**	**(970,484)**	**372,700**	**(1,093,319)**	**1,387,195**	**293,876**
Balance at 31 December 2012	**577,208**	**(576,468)**	**68,772**	**93,129**	**20,689,432**	**(954,554)**	**19,897,519**	**2,083,944**	**21,981,463**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

’000 USD

	Share capital	Treasury shares	Translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	20,871	(6,868)	(6,211)	259,654	(64,921)	**202,525**	18,021	**220,546**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	6,089	**6,089**	(2,210)	**3,879**
Other comprehensive income								
Foreign currency translation differences	-	-	8,483	(55,808)	(3,612)	**(50,937)**	(694)	**(51,631)**
Revaluation of property, plant and equipment	-	-	-	572,579	-	**572,579**	43,497	**616,076**
Realisation of property, plant and equipment revaluation reserve	-	-	-	(14,600)	14,600	**-**	-	**-**
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	-	(111,596)	(2,920)	**(114,516)**	(8,699)	**(123,215)**
Total other comprehensive income	**-**	**-**	**8,483**	**390,575**	**8,068**	**407,165**	**34,104**	**441,230**
Total comprehensive income for the year	**-**	**-**	**8,483**	**390,575**	**14,157**	**413,215**	**31,894**	**445,109**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Own shares acquired	-	3,196	-	-	-	**3,196**	-	**3,196**
Dividends to equity holders	-	-	-	-	(2,356)	**(2,356)**	-	**(2,356)**
Total contributions by and distributions to owners	**-**	**3,196**	**-**	**-**	**(2,356)**	**840**	**-**	**840**
Charges in ownership interest in subsidiaries								
Acquisition of a subsidiary (Note 6)	-	-	-	-	-	**-**	8,331	**8,331**
Recognition of put option liability on non-controlling interest in a subsidiary (Note 6)	-	-	-	34,429	(1,844)	**32,585**	(42,295)	**(9,710)**
Recognition of sales-back liability on REPO transaction	-	-	-	-	(13,485)	**(13,485)**	-	**(13,485)**
Change in non-controlling interest due to merger of subsidiaries (Note 6)	-	-	-	-	(2,283)	**(2,283)**	2,283	**-**
Total charges in ownership interest in subsidiaries	**-**	**-**	**-**	**34,429**	**(17,612)**	**16,817**	**(31,681)**	**(14,864)**
Total transactions with owners	**-**	**3,196**	**-**	**34,429**	**(19,968)**	**17,657**	**(31,681)**	**(14,024)**
Balance at 31 December 2011	**20,871**	**(3,672)**	**2,272**	**684,658**	**(70,732)**	**633,397**	**18,234**	**651,631**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

’000 USD

	Share capital	Treasury shares	Investment revaluation reserve	Translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	20,871	(3,672)	-	2,272	684,658	(70,732)	**633,397**	18,234	**651,631**
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	2,237	**2,237**	3,514	**5,751**
Other comprehensive income									
Foreign currency translation differences	-	-	52	(443)	40,069	(3,391)	**36,287**	2,250	**38,537**
Revaluation of investments	-	-	2,765	-	-	-	**2,765**	-	**2,765**
Revaluation of property, plant and equipment	-	-	-	-	20,176	-	**20,176**	-	**20,176**
Realisation of property, plant and equipment revaluation reserve	-	-	-	-	(35,927)	35,927	**-**	-	**-**
Income tax on realisation of property, plant and equipment revaluation reserve	-	-	(553)	-	3,421	(7,456)	**(4,588)**	-	**(4,588)**
Total other comprehensive income	**-**	**-**	**2,264**	**(443)**	**27,739**	**25,080**	**54,640**	**2,250**	**56,890**
Total comprehensive income for the year	**-**	**-**	**2,264**	**(443)**	**27,739**	**27,317**	**56,877**	**5,764**	**62,641**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Own shares acquired	-	(15,937)	-	-	-	-	**(15,937)**	-	**(15,937)**
Dividends to equity holders	-	-	-	-	-	(2,432)	**(2,432)**	-	**(2,432)**
Total contributions by and distributions to owners	**-**	**(15,937)**	**-**	**-**	**-**	**(2,432)**	**(18,369)**	**-**	**(18,369)**
Charges in ownership interest in subsidiaries									
Acquisition of a subsidiary (Note 6)	-	-	-	-	-	-	-	6,271	**6,271**
Derecognition of unused put option on non-controlling interest in a subsidiary	-	-	-	-	(31,212)	1,673	**(29,539)**	38,343	**8,804**
Derecognition of liability on REPO transactions	-	-	-	-	-	12,746	**12,746**	-	**12,746**
Total charges in ownership interest in subsidiaries	-	-	-	-	**(31,212)**	**14,419**	**16,793**	**44,614**	**27,821**
Total transactions with owners	-	**(15,937)**	-	-	**(31,212)**	**11,987**	**(35,162)**	**44,614**	**9,452**
Balance at 31 December 2012	**20,871**	**(19,609)**	**2,264**	**1,829**	**681,185**	**(31,428)**	**655,112**	**68,612**	**723,724**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Cash flows from operating activities				
Profit before income tax	111,826	449,994	3,596	15,312
Adjustments for:				
Depreciation and amortisation	5,417,925	3,340,016	174,249	113,655
Loss on revaluation of property, plant and equipment	-	301,980	-	10,276
Loss/(gain) on disposal of property, plant and equipment	(121,386)	(6,534,985)	(3,904)	(222,374)
Finance costs, net	4,916,976	3,322,378	158,138	113,055
Impairment of doubtful debts	27,509	(17,227)	885	(586)
Share of loss of equity accounted investees (net of income tax)	154,505	137,243	4,969	4,670
Gain from acquisition of a subsidiary	(1,262,566)	-	(40,606)	
Unrealised foreign exchange differences	(163,318)	(587,204)	(5,253)	(21,530)
Cash from operating activities before changes in working capital and provisions	**9,081,471**	**412,195**	**292,075**	**12,478**
(Increase)/decrease in inventories	(678,416)	(608,626)	(21,819)	(20,710)
Increase in trade and other receivables and net investment in finance leases	(4,362,477)	(430,400)	(140,304)	(14,646)
Decrease/(increase) in other advances	(2,146,968)	(2,070)	(69,050)	(70)
(Decrease)/increase in trade and other payables	2,539,417	3,846,130	81,672	130,877
(Decrease)/increase in employee benefits	87,475	(34,768)	2,813	(1,183)
(Decrease)/increase in advances received and deferred income	2,651,015	442,124	85,261	15,045
Increase/(decrease) in other taxes payable	(697,947)	851,213	(22,447)	28,965
Decrease/(increase) of assets classified as held for resale	(787,145)	123,640	(25,316)	4,207
Cash flows from operations before income taxes and interest paid	**5,686,425**	**4,599,438**	**182,885**	**154,963**
Income tax paid	(340,175)	(124,075)	(10,941)	(4,222)
Interest paid	(4,954,033)	(3,954,383)	(159,330)	(134,561)
Net cash from operating activities	**392,217**	**520,980**	**12,614**	**16,180**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Cash flows from investing activities				
Acquisition of property, plant and equipment	(5,931,334)	(5,206,776)	(190,761)	(177,177)
Proceeds from sale of property, plant and equipment	1,975,125	115,569	63,523	3,933
Acquisition of intangible assets	(92,112)	(95,895)	(2,962)	(3,263)
Interest received from deposits	226,434	26,164	7,282	890
Interest received from other investments held for sale	332,610	397,153	10,697	13,514
Acquisition of other investments	(4,886,303)	(4,858,358)	(157,151)	(165,321)
Proceeds from sale of other investments	4,533,268	5,252,885	145,797	178,746
Loans provided to third parties	(7,537,678)	(745,003)	(242,424)	(25,351)
Loans repaid by third parties	3,676,689	574,691	118,248	19,556
Security deposits	(7,581,089)	364,786	(243,820)	12,413
Acquisition of subsidiaries	(53,817)	(1,014,111)	(1,731)	(32,959)
Net cash from/(used in) investing activities	**(15,338,207)**	**(5,188,895)**	**(493,301)**	**(175,019)**
Cash flows from financing activities				
Proceeds from borrowings	76,520,604	63,650,202	2,461,023	2,165,901
Repayment of borrowings	(59,910,679)	(57,536,086)	(1,926,822)	(1,957,849)
Dividends paid to equity holders of the Company	(74,756)	(70,905)	(2,404)	(2,413)
Dividends paid to non-controlling holders	-	(36,374)	-	(1,238)
Repayment of liability under finance lease agreements	(1,019,070)	(1,158,619)	(32,775)	(39,426)
(Acquisition) / Reissuance of treasury shares	(99,231)	93,926	(3,191)	3,196
Net cash (used in)/from financing activities	**15,416,868**	**4,942,144**	**495,831**	**168,171**
Net (decrease)/increase in cash and cash equivalents	**470,878**	**274,229**	**15,144**	**9,332**
Effect of movements in exchange rates	-	-	1,698	(1,592)
Cash and cash equivalents at 1 January	718,227	443,998	22,308	14,568
Cash and cash equivalents at 31 December	**1,189,105**	**718,227**	**39,150**	**22,308**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 96.

1 Background

(a) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy, but they are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

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

(b) Organisation and operations

The core businesses of UTair Aviation Joint Stock Company (the "Company" or "UTair") and its subsidiaries (collectively referred to as the "Group") are passenger and cargo transportation using airplanes and helicopters, helicopter services. The Group operates more than 500 aircraft. Cargo and passenger aircraft transportation is performed in Russia, CIS and non-CIS countries. The main customers of helicopter services of the Group are Russian oil and gas companies, and the United Nations Organisation (UN) outside Russia. The main aviation services are: provision of passenger and cargo air transportation, catering, airport services, aircraft repairs and maintenance services and aeronautical personnel training.

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

As at 31 December Non-State Pension Fund Surgutneftegaz (Russia) owned 60.67% of the Company (2011: 60.67%).

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

Entity	Activity	2012 % share	2011 % share
Tsentr realizatsii perevozok i uslug LLC	Ticket sales agency	100.00	100.00
UTair-Leasing LLC	Leasing company	100.00	100.00
NP Tsentr podgotovki personala	Staff training and assessment	100.00	100.00
UTair-Cargo CJSC	Aviation services	100.00	100.00

Entity	Activity	2012 % share	2011 % share
Tyumenaviatekhsnab LLC	Delivery of property, plant, equipment and materials	100.00	100.00
UTair-Finance LLC	Finance services	100.00	100.00
UTair-Technique LLC	Repair and maintenance of aircraft fleet	100.00	100.00
UTair-Ufa LLC	Regional office of UTair	100.00	100.00
UTair-Samara LLC	Regional office of UTair	100.00	100.00
UTair-Express LLC	Aviation services	100.00	100.00
UTair-Development LLC	Finance agency, sale/purchase of real estate	100.00	100.00
UTair South Africa (Pty) Ltd.	Aviation services and maintenance of aircraft fleet	100.00	100.00
UT Project Services Ltd. (India)	Regional office of UTair, agency services	100.00	100.00
WestSib-Capital Limited (Cyprus)	Investing activities	100.00	100.00
UTair-Irkutsk LLC	Regional office of UTair	100.00	100.00
UTair-Murmansk LLC	Regional office of UTair	100.00	100.00
Ukraine UTair Aviation Company LLC	Aviation services	100.00	100.00
Tyumensky nauchno-proizvodstvenniy tsentr aviatsii obschego naznachenia LLC	Research and development	100.00	100.00
UTair India Private Limited (India)	Aviation services	100.00	100.00
NP Tyumenskoe letno-tekhnicheskoe uchilische grazhdanskoy aviatsii LLC	Training center	100.00	100.00
UTair Africa (Pty) Ltd.	Aviation services	100.00	100.00
UTair Armenia LLC (Armenia)	Regional office of UTair	100.00	100.00
UTair Jug LLC (Russia)	Regional office of UTair	100.00	100.00
Turukhan Aviation Company LLC	Aviation services	100.00	100.00
Ukrainskaya handlingovaya kompania LLC (Ukraine)	Trade in fuel, organisation of cargo transportation	100.00	50.00
Forumavia LLC (Ukraine)	Freight forwarding	100.00	-
Utair Engineering AL SAC (Peru)	Repair and maintenance of aircraft fleet	100.00	-
UTair Leasing Ireland Ltd (Ireland)	Leasing company	100.00	-
UTair Investments Ltd (BVI)	Investing activity	100.00	-
TS Technik LLC	Repair and maintenance of aircraft fleet	100.00	-
UTair Sierra Leone Limited	Aviation services and maintenance of aircraft fleet	99.00	99.00
Utstar LLC	Advertising services	99.00	99.00
Nefteyugansk United Airline Transportation Company OJSC	Aviation services	89.85	-
Airport Ust-Kut OJSC	Airport services	85.57	85.57
UTair-Engineering OJSC	Repair and maintenance of aircraft fleet	82.22	82.17
Helicopteros del Sur S.A. (Peru)	Aviation services	63.00	63.00

Entity	Activity	2012 % share	2011 % share
Vostok Aviation Company OJSC	Aviation services	53.00	51.00
Zapadno-sibirskoe agentstvo vozdushnykh soobscheniy LLC	Ticket sales	51.00	51.00
Tobolskavia LLC	Airport services	51.00	51.00
Ural Aviation services LLC	Repair and maintenance of aircraft fleet	51.00	-
UTG CJSC	Ground maintenance services	50.00	50.00
HeliExpress LLC	Aviation services, agent services	50.00	50.00
UTair Europe s.r.o. (Slovakia)	Aviation services	20.00	20.00

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) for compliance with the requirements of Federal Law on the consolidated financial statements №208-FZ dated 27 July 2010.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

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

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

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

	Exchange rate:
As at 31 December 2012	30.3727
Average rate in 2012	31.0930
As at 31 December 2011	32.1961
Average rate in 2011	29.3874
As at 1 January 2011	30.4769

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

(d) Use of estimates and judgments

(i) Judgments

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

Consolidation of special purpose entities

The Group determined that the substance of the relationship between the Group and UTG CJSC, with a 50% share belonging to the Group, indicates that UTG CJSC is controlled by the Group. As a result, this entity has been included in the Group's consolidated financial statements as at 31 December 2012 and 2011, because this is a special purpose entity.

The Group determined that the substance of the relationship between the Group and UTair Europe s.r.o. (Slovakia), with a 20% share belonging to the Group, indicates that UTair Europe s.r.o. (Slovakia) is controlled by the Group. As a result, this entity has been included in the Group's consolidated financial statements as at 31 December 2012 and 2011, because this is a special purpose entity.

Leases – Group as lessee

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

(ii) Estimation uncertainty

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

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

Revaluation of property, plant and equipment

The Group measures its property, plant and equipment at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2011. Besides the comparable market data, the appraiser used a valuation technique based on a discounted cash flow model. Therefore the estimated values are most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The Group believes that the carrying amount of its property, plant and equipment recordered in the consolidated statement of financial position as of 31 December 2012 approximates its fair value as of that date.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives, residual values and methods of depreciation of items of property, plant and equipment at least at each financial year end. If current expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss. The Group reassessed remaining useful lives of its property, plant and equipment at the date of their recent revaluation, 31 December 2011. The actual depreciation recordered in the consolidated statement of comprehensive income for the year ended 31 December 2012 was based on these revised useful lives. If it was based on the useful lives before revision, the amount of depreciation would be by RUB 3,657,477 thousand / USD 117,630 thousand higher.

Fair value of financial instruments

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

Impairment of non-financial assets

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

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Revenue recognition – bonus miles for frequent flyer programme

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

Provisions and allowances

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. In 2011 management reassessed its estimation in respect of creditworthiness of clients and potential losses resulting from inability of customers to make required payments based on the historical data on accounts receivable ageing, allowance accrued and actual losses incurred. This resulted in change in estimate amounting to RUB 94,360 thousand/USD 2,931 thousand as at 31 December 2011 decrease in provision compared to prior year estimate. No such reassessment was required in 2012.

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

Post-employment benefits

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

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, post-employment benefit obligations are highly sensitive to changes in these assumptions. In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially. All assumptions are reviewed at each reporting date.

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

Legal claims

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

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company’s domicile. As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained, no contingent liability has been recognized. More details are provided in note 39 (c).

Deferred tax assets and liabilities

The management judgment is also required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized , based upon the likely timing and the level of future taxable profits together with the future tax planning strategies.

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

3 Significant accounting policies

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

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

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2012.

(i) Subsidiaries

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

(ii) Business combination and goodwill

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

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree’s identifiable assets, liabilities and contingent liabilities and the cost of acquisition. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in other expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of comprehensive income.

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

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

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

(iii) Put option on non-controlling interest

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

(iv) Special purpose entities

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

(v) Investments in associates (equity accounted investees)

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

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

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

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

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(ii) Foreign operations

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

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

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

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 14 and cash and cash equivalents as presented in note 18.

Cash and cash equivalents

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

Available-for-sale financial assets

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

(ii) Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

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

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

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

(iii) Derivative financial instruments

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

The following classification is used for hedge accounting purposes:

- hedging of fair value when hedging the exposure to changes in the fair value of an asset or liability recognized in the statement of financial position or an unrecognized contractual commitment;
- hedging of cash flows when hedging the exposure to changes in cash flows which are connected either with some specific risk related to an asset or liability recognized in the statement of financial position or with a possible expected transaction or with a currency risk under an unrecognized contractual commitment;
- hedge of net investment into foreign departments.

In addition, the Group has derivative instruments which are not designated as effective hedge instruments and which are evaluated at fair value and are classified as either long-term or short-term or divided into current and non-current parts based on the assessment of existing facts and circumstances (i.e. contractual cash flows under basic instruments). If the Group expects to hold a derivative as an economical hedge instrument (and does not apply hedge accounting) for a period exceeding 12 months following the reporting date, this derivative is classified as long-term (or divided into short-term and long-term components) in accordance with the classification of the basic instrument.

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

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

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

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

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

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

More information about derivative instruments is disclosed in Note 22.

(iv) *Share capital*

Ordinary shares

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

Treasury shares

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

Non-controlling interest

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

(d) Property, plant and equipment

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

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

Following initial recognition, they are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group involved independent appraisers to determine the fair value of aircraft, helicopters, engines, land and buildings. The most recent valuation was performed as of 31 December 2011.

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

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

(ii) Rotables

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

(iii) Construction in progress

Construction in progress is recorded at purchase or construction cost.

(iv) Impairment

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

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

(v) Depreciation

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

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

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

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

Land is not depreciated.

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

(vi) Accounting for major overhauls

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

(vii) Repair and maintenance

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

(viii) Borrowing costs

Interest costs on borrowings to finance the construction of property, plant and equipment incurred in relation to the acquisition, construction or production of an asset that requires substantial time to prepare for use or sale according to the Group's intentions, are capitalised as part of the initial cost of related asset. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(e) Intangible assets

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

(i) Subsequent expenditure

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

(ii) Amortisation

An intangible asset could have either indefinite or finite useful live. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible asset from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the assets. The amortisation expense on intangible assets with finite lives is recognised in the income statement as the expense category that is consistent with the function of the intangible assets.

The estimated useful lives for the current and comparative periods are as follows:

- patents and trademarks 10-20 years
- customer relationship identified in acquisition of a foreign subsidiary 25 years

- software 3-10 years

Amortisation methods, useful lifes and residual values of intangible assets with finite useful lifes are reviewed at least annually at the financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

(f) Leases

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

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

(i) Group as a lessor - finance leases

Leases in which the Group transfers substantially all the risks and benefits of ownership of an asset to lessee are classified as finance leases.

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

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

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

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

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

(ii) Group as a lessor - operating lease

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

(iii) Group as a lessee - finance leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The asset received under the finance lease agreement is depreciated over its useful life. However if there is not reasonably certain that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term or its useful life.

(iv) Group as a lessee - operating lease

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

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

(g) Inventories

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

(h) Non-current assets held for sale

The Group classifies non-current assets or disposal groups as assets held for sale if their carrying amount is expected to be recovered primarily through sale rather than through continuing use. The assets, or components of a disposal group, classified as held-for-sale are remeasured at the lower of their carrying amount and fair value less cost to sell. The criteria for held for sale classification is regarded as 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.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

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

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

The liability recognised in the consolidated statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligations at the reporting date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by a qualified actuary using the projected unit credit method. The discount rate used in calculation is the yield at the reporting date on investment grade government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Actuarial gains and losses are recognised in profit or loss in the period in which they occur. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(iii) Short-term benefits

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

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

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

(j) Provisions

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

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is realised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

(k) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(i) Tickets sold

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

(ii) Other services

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

(iii) Commissions

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) Government grants

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

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments.

When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

(v) Customer loyalty programme

Customer loyalty award credits (bonus miles) earned but unused under frequent flyer programme “Status” (see note 24) are accounted for as a separate component of the sales transaction in which they are granted, and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period in which the award credits are fulfilled.

Bonus miles earned but unused under the frequent flyer programme “Status” are deferred using the deferred income method to the extent that they are likely to be used on flights of the Group. The fair value of miles accumulated on the Group’s own flights is recognised under deferred income (see note 24) and the miles collected from third parties as well as promotional miles are recognised under other liabilities (see notes 23, 24).

(l) Other expenses

(i) Social expenditure

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

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and foreign currency gains. For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

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

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

(n) Income tax

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

(i) Current income tax

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

(ii) Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

(o) Earnings per share

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

(p) New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

- *IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets.* The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.
- *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.* The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.
- *IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for

annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

(q) New and Amended Standards and Interpretations

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

- *IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1.* The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.
- *IAS 19 Employee Benefits (Revised).* The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group made a voluntary change in accounting policy to recognise actuarial gains and losses in other comprehensive income in the current period. However, the amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group has not finalised the effect of these amendments on its financial position and performance.
- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011).* As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The Group concluded that proposed changes will not affect its financial position and performance, because it has no joint ventures.
- *IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32.* These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

- *IFRS 1 Government Loans – Amendments to IFRS 1.* These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

- *IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7.* These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

- *IFRS 9 Financial Instruments: Classification and Measurement.* IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements.* IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- *IFRS 11 Joint Arrangements.* IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Application of the new standard will not affect the financial position and performance of the Group.

- *IFRS 12 Disclosure of Interests in Other Entities.* IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- *IFRS 13 Fair Value Measurement.* IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards.* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements.* This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment.* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation.* This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- *IAS 34 Interim Financial Reporting.* The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

4 Determination of fair values

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

(a) Property, plant and equipment

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

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

(b) Intangible assets

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

(c) Inventories

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

(d) Investments in equity and debt securities

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

(e) Trade and other receivables

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

(f) Derivatives

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

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

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

(g) Non-derivative financial liabilities

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

5 Strategic business units

During the year ended 31 December 2012, the chief operating decision maker received financial information for the Group's two strategic business units: passenger traffic and helicopter services, on a quarterly basis.

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

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

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

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

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

(i) Information about strategic business units

	Passenger traffic		Helicopter services		Total	
’000 RUB	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
External revenues	49,989,615	36,702,909	19,847,126	18,027,935	**69,836,741**	**54,730,844**
Inter-unit revenues	58,900	26,421	301,099	97,729	**359,999**	**124,150**
Interest income	74,750	206,008	1,692	948	**76,442**	**206,956**
Interest expense	(214,883)	(415,207)	(1,247,626)	(1,208,691)	**(1,462,509)**	**(1,623,898)**
Depreciation and amortisation	(1,091,682)	(779,115)	(4,326,194)	(2,547,288)	**(5,417,876)**	**(3,326,403)**
Share of loss of equity accounted investees	-	-	(154,505)	(137,243)	**(154,505)**	**(137,243)**
Profit before tax	(8,179,303)	(5,953,788)	2,175,593	2,038,378	**(6,003,710)**	**(3,915,410)**
Assets	14,875,349	13,189,389	49,835,154	46,513,781	**64,710,503**	**59,703,170**
Capital expenditure	1,057,708	2,112,469	892,486	3,274,663	**1,950,194**	**5,387,132**
Liabilities	(9,245,217)	(11,592,222)	(16,808,993)	(12,797,611)	**(26,054,210)**	**(24,389,833)**

	Passenger traffic		Helicopter services		Total	
’000 USD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
External revenues	1,607,745	1,248,934	638,315	613,458	**2,246,060**	**1,862,392**
Inter-unit revenues	1,894	899	9,684	3,326	**11,578**	**4,225**
Interest income	2,404	7,010	54	32	**2,458**	**7,042**
Interest expense	(6,911)	(14,129)	(40,126)	(41,129)	**(47,037)**	**(55,258)**
Depreciation and amortisation	(35,110)	(26,512)	(139,137)	(86,679)	**(174,247)**	**(113,191)**
Share of loss of equity accounted investees	-	-	(4,969)	(4,670)	**(4,969)**	**(4,670)**
Profit before tax	(274,694)	(202,597)	69,970	69,363	**(204,724)**	**(133,234)**
Assets	477,849	409,658	1,640,788	1,444,702	**2,118,637**	**1,854,360**
Capital expenditure	34,018	71,883	28,703	111,431	**62,721**	**183,314**
Liabilities	(304,392)	(360,051)	(553,424)	(397,489)	**(857,816)**	**(757,540)**

(ii) Major customers and geographical areas

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

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

	2012 '000 RUB	**2011 '000 RUB**	**2012 '000 USD**	**2011 '000 USD**
Revenues				
Total revenue for strategic business units	70,169,740	54,854,994	2,257,638	1,866,617
Other revenue	9,449,500	606,869	303,911	20,650
Elimination of inter-unit revenues	(359,999)	(124,150)	(11,578)	(4,225)
	79,286,241	**55,337,713**	**2,549,971**	**1,883,042**
Profit before income tax				
Total profit before tax for strategic business units	(6,003,710)	(3,915,410)	(193,089)	(133,234)
Other profit	9,067,696	6,670,003	291,631	226,968
Elimination of inter-unit profits	(17,143)	(5,912)	(551)	(201)
Unallocated amounts, including:	(2,935,017)	(2,298,687)	(94,395)	(78,221)
Depreciation and amortisation	(49)	(13,613)	(2)	(463)
Interest income	399,709	100,714	12,855	3,427
Interest expense	(3,651,314)	(2,369,649)	(117,432)	(80,635)
Net foreign exchange gain	2,266	(396,867)	73	(13,505)
Other	314,371	380,728	10,111	12,955
	111,826	**449,994**	**3,596**	**15,312**
Assets				
Total assets for strategic business units	64,710,503	59,703,170	2,130,548	1,854,360
Cash placed in trust management	9,777	22,946	322	713
Other investments	308,666	75,980	10,163	2,360
Loans issued	4,596,453	828,325	151,335	25,727
Receivables for operations with securities	1,847	94,887	61	2,947
Other assets	21,548,321	10,773,132	709,463	334,610
Other unallocated amounts	5,662,096	3,073,908	186,421	95,475
	96,837,663	**74,572,348**	**3,188,313**	**2,316,192**
Liabilities				
Total liabilities for strategic business units	(26,054,210)	(24,389,833)	(857,817)	(757,540)
Other unallocated amounts (mainly loans and borrowings)	(48,801,990)	(29,202,547)	(1,606,772)	(907,021)
	(74,856,200)	**(53,592,380)**	**(2,464,589)**	**(1,664,561)**

(iv) Other material items in 2012

	Strategic business units totals '000 RUB	Adjustments '000 RUB	Consolidated totals '000 RUB	Strategic business units totals '000 USD	Adjustments '000 USD	Consolidated totals '000 USD
Interest income	76,442	228,927	**305,369**	2,458	7,363	**9,821**
Interest expense	(1,462,509)	(3,651,377)	**(5,113,886)**	(47,037)	(117,434)	**(164,471)**
Capital expenditure	1,950,194	4,070,936	**6,021,130**	62,721	130,928	**193,649**
Depreciation and amortisation	(5,417,876)	(49)	**(5,417,925)**	(174,247)	(2)	**(174,249)**

(v) Other material items in 2011

	Strategic business units totals '000 RUB	Adjustments '000 RUB	Consolidated totals '000 RUB	Strategic business units totals '000 USD	Adjustments '000 USD	Consolidated totals '000 USD
Interest income	206,956	100,714	**307,670**	7,042	3,427	**10,469**
Interest expense	(1,623,898)	(2,369,649)	**(3,993,547)**	(55,258)	(80,635)	**(135,893)**
Capital expenditure	5,387,132	614,736	**6,001,868**	183,314	20,918	**204,233**
Depreciation and amortisation	(3,326,403)	(13,613)	**(3,340,016)**	(113,191)	(463)	**(113,655)**

6 Acquisition of and change in ownership of subsidiaries

(a) Acquisition of Turukhan Aviation Company LLC

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

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

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

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

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

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

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

(b) Acquisition of Vostok Aviation Company OJSC

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

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

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

	As at the date of acquisition	
	'000 RUB	**'000 USD**
Property, plant and equipment	435,100	15,497
Trade and other receivables; prepaid expenses	228,847	8,151
Inventories	63,373	2,257
Cash and cash equivalents	13,089	466
Other investments	175	6
Intangible assets	5	-
Non-controlling interest	(244,814)	(8,720)
Long-term accounts receivable and prepayments	(108,340)	(3,859)
Deferred tax liability	(69,969)	(2,492)
Trade account payable	(62,660)	(2,232)
Fair value of net assets	**254,806**	**9,074**
Consideration paid	282,515	10,063
Goodwill	**27,709**	**989**
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	(13,089)	(466)
Cash paid	282,515	10,062
Net cash outflow	**269,426**	**9,596**

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

Following the acquisition of controlling interest in Vostok Aviation OJSC the Group was legally required to make an offer to all other shareholders. Therefore as of 31 December 2011 the Group derecognized the non-controlling interest in this subsidiary and recognized the put option liability on the non-controlling interest for the present value of amounts payable to non-controlling shareholders (RUB 285,355 thousand/USD 8,863 thousand). In 2012 an offer was forwarded to minority shareholders which resulted in the repurchase of shares for RUB 11,612 thousand. As of 31 December 2012 the Group derecognised of its obligations under the offer.

(c) Acquisition of Nefteyugansk United Airline Transportation Company OJSC

In April 2008 the Group acquired 24,47% of voting shares of Nefteyugansk United Airline Transportation Company PJSC, after such acquisition this share was accounted for by the Group using the equity method. Nefteyugansk United Airline Transportation Company PJSC is registered in Russia and specializes in helicopter operations both inside and outside Russia.

In August 2012 the Group acquired 65,38% share in the equity of Nefteyugansk United Airline Transportation Company PJSC, and as a result obtained control over this company. Control over NUATC PJSC will enable the Group to enlarge its aircraft fleet and expand access to the UN helicopter transportation market.

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

	As at the date of acquisition	
	'000 RUB	**'000 USD**
Property, plant and equipment	2,949,369	94,856
Intangible assets	3	-
Other investments	10	-
Trade and other receivables	549,953	17,688
Inventories	36,258	1,166
Cash and cash equivalents	6,200	199
Trade account payable	(1,038,731)	(33,407)
Loans and borrowings	(132,287)	(4,255)
Deferred tax liability	(450,642)	(14,493)
Fair value of net assets acquired	**1,920,133**	**61,754**
Non-controlling interest	194,990	6,271
Fair value of the previously held equity interest in associate (24.47 %)	402,560	12,947
Consideration paid in the second stage of acquisition	60,017	1,930
Goodwill	**1,262,566**	**40,606**
Cash outflow on acquisition:	-	-
Net cash acquired with the subsidiary	(6,200)	(199)
Cash paid	60,017	1,930
Net cash outflow	**53,817**	**1,731**

The difference between the consideration paid and the fair value of net assets acquired is accounted for as gain from acquisition of the subsidiary. Since the date of acquisition Nefteyugansk United Airline Transportation Company PJSC contributed net loss of RUB 250,175 thousand / USD 8,046 thousand to the Group's net profit.

Management believes that the Group was able to negotiate a bargain purchase price as a result of its prevailing position in this market segment and the selleir's intent to exit the acquiree's operations.

7 Property, plant and equipment

'000 RUB	Land and buildings	Rotables, aircraft, helicopter and engines	Other	Construction in progress	Total
Cost					
Balance at 1 January 2011	5,619,037	26,997,011	1,923,274	567,101	35,106,423
Acquisition through business combinations (Note 6)	126,234	505,083	38,295	4,727	674,339
Additions	228,814	5,287,068	478,711	(177,289)	5,817,304
Disposals	(40,223)	(2,688,598)	(132,807)	(14,894)	(2,876,522)
Revaluation	1,065,279	20,456,050	-	-	21,521,329
Effect of movements in exchange rates	832	261,974	3,483	65	266,354
Balance at 31 December 2011	**6,999,973**	**50,818,588**	**2,310,956**	**379,710**	**60,509,227**
Depreciation and impairment losses					
Balance at 1 January 2011	(781,808)	(5,218,947)	(1,149,065)	-	(7,149,820)
Depreciation for the year	(215,327)	(2,842,111)	(181,937)	-	(3,239,375)
Disposals	3,209	919,060	105,347	-	1,027,616
Revaluation	80,566	(3,798,972)	-	-	(3,718,406)
Effect of movements in exchange rates	(75)	(47,193)	(1,115)	-	(48,383)
Balance at 31 December 2011	**(913,435)**	**(10,988,163)**	**(1,226,770)**	**-**	**(13,128,368)**
Cost					
Balance at 1 January 2012	6,999,973	50,818,588	2,310,956	379,710	60,509,227
Acquisition through business combinations (Note 6)	376,764	2,533,420	29,715	9,470	2,949,369
Additions	470,419	3,947,613	1,055,395	307,123	5,780,550
Disposals	(75,601)	(1,387,367)	(177,086)	(15,380)	(1,655,434)
Revaluation	-	-	-	-	-
Effect of movements in exchange rates	(2,462)	(211,374)	7,050	(85)	(206,871)
Balance at 31 December 2012	**7,769,093**	**55,700,880**	**3,226,030**	**680,838**	**67,376,841**
Depreciation and impairment losses					
Balance at 1 January 2012	(913,435)	(10,988,163)	(1,226,770)	-	(13,128,368)
Depreciation for the year	(335,436)	(4,650,510)	(315,799)	-	(5,301,745)
Disposals	18,234	460,883	129,169	-	608,286
Revaluation	-	-	-	-	-
Effect of movements in exchange rates	(2,464)	49,540	(11,041)	-	36,035
Balance at 31 December 2012	**(1,233,101)**	**(15,128,250)**	**(1,424,441)**	**-**	**(17,785,792)**
Carrying amounts					
At 1 January 2011	**4,837,229**	**21,778,064**	**774,209**	**567,101**	**27,956,603**
At 31 December 2011	**6,086,538**	**39,830,425**	**1,084,186**	**379,710**	**47,380,859**
At 31 December 2012	**6,535,992**	**40,572,630**	**1,801,589**	**680,838**	**49,591,049**

'000 USD	**Land and buildings**	**Rotables, aircraft, helicopter and engines**	**Other**	**Construction in progress**	**Total**
Cost					
Balance at 1 January 2011	184,370	885,819	63,106	18,608	1,151,903
Acquisition through business combinations (Note 6)	4,296	17,187	1,303	217	23,003
Additions	7,786	179,909	16,290	(6,033)	197,952
Disposals	(1,369)	(91,488)	(4,519)	(507)	(97,883)
Revaluation	36,250	696,082	-	-	732,332
Effect of movements in exchange rates	(13,916)	(109,101)	(4,402)	(492)	(127,911)
Balance at 31 December 2011	**217,417**	**1,578,408**	**71,778**	**11,793**	**1,879,396**
Depreciation and impairment losses					
Balance at 1 January 2011	(25,652)	(171,243)	(37,703)	-	(234,598)
Depreciation for the year	(7,327)	(96,712)	(6,191)	-	(110,230)
Disposals	109	31,274	3,585	-	34,968
Revaluation	2,742	(129,272)	-	-	(126,530)
Effect of movements in exchange rates	1,757	24,664	2,206	-	28,627
Balance at 31 December 2011	**(28,371)**	**(341,289)**	**(38,103)**	**-**	**(407,763)**
Cost					
Balance at 1 January 2012	217,417	1,578,408	71,778	11,794	1,879,397
Acquisition through business combinations (Note 6)	12,117	81,479	956	304	94,856
Additions	15,129	126,961	33,943	9,878	185,911
Disposals	(2,431)	(44,620)	(5,695)	(495)	(53,241)
Revaluation	-	-	-	-	-
Effect of movements in exchange rates	13,560	91,685	5,233	935	111,413
Balance at 31 December 2012	**255,792**	**1,833,913**	**106,215**	**22,416**	**2,218,336**
Depreciation and impairment losses					
Balance at 1 January 2012	(28,371)	(341,289)	(38,103)	-	(407,763)
Depreciation for the year	(10,788)	(149,568)	(10,157)	-	(170,513)
Disposals	586	14,823	4,154	-	19,563
Effect of movements in exchange rates	(2,026)	(22,053)	(2,793)	-	(26,872)
Balance at 31 December 2012	**(40,599)**	**(498,087)**	**(46,899)**	**-**	**(585,585)**
Carrying amounts					
At 1 January 2011	**158,718**	**714,576**	**25,403**	**18,608**	**917,305**
At 31 December 2011	**189,046**	**1,237,119**	**33,675**	**11,793**	**1,471,633**
At 31 December 2012	**215,193**	**1,335,826**	**59,316**	**22,416**	**1,632,751**

As at 31 December 2012 the cost of fully depreciated property, plant and equipment was RUB 1,461,774 thousand/USD 48,128 thousand (2011: RUB 678,111 thousand/USD 21,062 thousand).

Expenses capitalised in property, plant and equipment, which consist of overhaul costs, in 2012 amounted to RUB 1,327,592 thousand/USD 43,710 thousand (2011: RUB 933,582 thousand/USD 28,997 thousand).

(a) Security

At 31 December 2012 properties with a carrying amount of RUB 11,126,408 thousand/USD 359,881 thousand (2011: RUB 4,127,014 thousand/USD 128,184 thousand) are pledged to secure bank loans (see note 21).

(b) Operating leases

The Group has entered into operating lease contracts for a number of fixed assets: buildings, installations and aircraft (frames and engines). These leases have an average life of 1 to 7 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed in note 37.

(c) Finance leases

In 2008-2011 the Group entered into aircraft lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term of 5 to 8 years. The estimated average remaining useful life of leased assets varies from 34 to 38 years. As at 31 December 2012 the carrying value of the aircraft used by the Group under finance leases was RUB 10,551,355 thousand/USD 347,396 thousand (2011: RUB 11,068,461 thousand/USD 343,783 thousand). Finance lease obligations are disclosed in note 21.

8 Intangible assets

	Customer relationships ’000 RUB	Licences and certificates ’000 RUB	Goodwill ’000 RUB	Total ’000 RUB
Cost				
Balance at 1 January 2011	262,012	238,754	119,624	620,390
Acquisition through business combinations (Note 6)	-	5	-	5
Additions	-	95,894	457,395	553,289
Effect of movements in exchange rates	12,434	-	6,505	18,939
Balance at 31 December 2011	**274,446**	**334,653**	**583,524**	**1,192,623**
Depreciation and impairment losses				
Balance at 1 January 2011	(25,113)	(127,781)	-	(152,894)
Depreciation for the year	(9,720)	(91,039)	-	(100,759)
Balance at 31 December 2011	**(34,833)**	**(218,820)**	**-**	**(253,653)**
Cost				
Balance at 1 January 2012	274,446	334,653	583,524	1,192,623
Acquisition through business combinations (Note 6)	-	3	-	3
Additions	-	92,112	-	92,112
Disposals	-	(1,000)	-	(1,000)
Effect of movements in exchange rates	(3,344)	(1,150)	(7,143)	(11,637)
Balance at 31 December 2012	**271,102**	**424,618**	**576,381**	**1,272,101**
Depreciation and impairment losses				
Balance at 1 January 2012	(34,833)	(218,820)	-	(253,653)
Depreciation for the year	(7,715)	(108,433)	-	(116,148)
Effect of movements in exchange rates	-	3,856	-	3,856
Balance at 31 December 2012	**(42,548)**	**(323,397)**	**-**	**(365,945)**
Carrying amounts				
At 1 January 2011	**236,899**	**110,973**	**119,624**	**467,496**
At 31 December 2011	**239,613**	**115,833**	**583,524**	**938,970**
At 31 December 2012	**228,554**	**101,221**	**576,381**	**906,156**

	Customer relationships ’000 USD	Licences and certificates ’000 USD	Goodwill ’000 USD	Total ’000 USD
Cost				
Balance at 1 January 2011	8,597	7,834	3,925	20,356
Acquisition through business combinations (Note 6)	-	-	14,469	-
Additions	-	3,263	-	17,732
Effect of movements in exchange rates	(73)	(703)	(270)	(1,046)
Balance at 31 December 2011	**8 524**	**10 394**	**18 124**	**37 042**
Depreciation and impairment losses				
Balance at 1 January 2011	(824)	(4,193)	-	(5,017)
Depreciation for the year	(331)	(3,098)	-	(3,429)
Effect of movements in exchange rates	73	495	-	568
Balance at 31 December 2011	**(1,082)**	**(6,796)**	**-**	**(7,878)**
Cost				
Balance at 1 January 2012	8,524	10,394	18,124	37,042
Acquisition through business combinations (Note 6)	-	-	-	-
Additions	-	2,962	-	2,962
Disposals	-	(32)	-	(32)
Effect of movements in exchange rates	402	656	853	1,911
Balance at 31 December 2012	**8,926**	**13,980**	**18,977**	**41,883**
Depreciation and impairment losses				
Balance at 1 January 2012	(1,082)	(6,796)	-	(7,878)
Depreciation for the year	(248)	(3,488)	-	(3,736)
Effect of movements in exchange rates	(71)	(364)	-	(435)
Balance at 31 December 2012	**(1,401)**	**(10,647)**	**-**	**(12,048)**
Carrying amounts				
At 1 January 2011	**7,773**	**3,641**	**3,925**	**15,339**
At 31 December 2011	**7,442**	**3,598**	**18,124**	**29,164**
At 31 December 2012	**7,525**	**3,333**	**18,977**	**29, 835**

(a) Goodwill

Goodwill arose in 2008 and 2011 on the acquisition of subsidiaries an in 2008 on the acquisition of a foreign subsidiary. Goodwill is calculated based on the historical rate.

The total amount of goodwill refers to the helicopter operations segment for which the Group carried out annual impairment testing as of 31 December 2012.

The recoverable amount of a cash-generating unit (CGU) was determined by means of calculating the asset value in use based on estimated future cash flows and financial plans approved by the management for the following year. A pre-tax discount rate applied to the estimated future cash flows was 10,8% (2011: 8,2%), and cash flows beyond a one-year period were extrapolated with due account of the growth rate equal to 6% (2011: 9,5%) which is corresponds to an average long-term rate of price increase for transportation services.

Following the goodwill impairment test carried out as of 31 December 2012, no impairment loss was identified.

Key assumptions used for calculation of asset value in use

Calculation of asset value in use in the helicopter operations segment depends mainly on the following figures:

- Cost of flight hour;
- Scope of work;
- Discount rate;
- Estimated inflation of income and expenses.

Cost of flight hour

Estimated values were defined based on published industry indices. Forecast figures are used if the data are publicly available, otherwise historic data forecast is used as indicators of future price change.

Scope of work

Estimated amount of work for goodwill impairment testing purposes is based on the size of owned and leased fleet and the fleet work load rate which rely on historic data.

The following assumptions were made by the management for goodwill impairment testing purposes:

- Amount of helicopter operations outside Russia will increase due to the expansion of the aircraft fleet and amount of work;
- Significant increase in the amount of work in Russia is planned for 2013-2014 due to the expansion of the aircraft fleet, after 2014 the forecast is stable.

Discount rates

A discount rate reflects the current assessment of risks attributable to CGU in terms of the time value of money and specific risks of relative assets which were not included into the cash flow risks. Calculation of the discount rate is based on specific circumstances of the Group and proceeds from the weighted average cost of capital.

The discount rate was determined based on the capital asset pricing model and analysis of similar entities in the industry and made and made 10,8 % (2011: 8,2%).

Operating expenses and gross profit

Amounts of operating expenses and gross revenue are based on average figures for the prior periods.

Sensitivity to changes in the assumptions

If estimated cost of flight hour decreases in future periods by more than 10% and such decrease is not compensated by any other factors, goodwill will be impaired in full.

The management believe that currently there is no such reasonable change in the overall production volume and discount rate which would reduce the difference between the CGU recoverable value and carrying amount up to zero.

If the operating expenses increase rate exceeds 9 % and such increase is not compensated by any other factors, goodwill may be impaired.

(b) Other intangible assets

Other intangible assets in the total amount of RUB 329,775 thousand/USD 10,858 thousand (2011: RUB 355,446 thousand/USD 11,040 thousand) include customer relationships identified as a result of acquisition of a foreign subsidiary in 2008 in the amount of RUB 228,554 thousand/USD 7,525 thousand and RUB 239,613 thousand/USD 7,442 thousand as at 31 December 2012 and 2011 accordingly.

9 Equity accounted investees

Changes in the equity accounted investments between 1 January and 31 December 2011 and 2012 were as follow:

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Balance at 1January	55,201	192,086	1,715	6,303
Revaluation of property, plant and equipment of anassociate at 1 January 2012	501,876	-	16,141	-
Acquisition of investment	30,995	187,500	997	6,380
Share of net income (loss) net of income tax	(154,505)	(137,243)	(4,969)	(4,670)
Disposals	-	(4,004)	-	(136)
Changes in consolidated Group (note 6)	(402,560)	(183,138)	(12,947)	(5,812)
Translation difference	-	-	84	(350)
Balance at 31 December	**31,007**	**55,201**	**1,021**	**1,715**

Additions to equity-accounted investments relate to the acquisition of 32,90% shares of KATEKAVIA LLC in September 2012 at acquisition cost of RUB 30,756 thousand, and acquisition of 24% shares of Tulpar Technik LLC in December 2012 at acquisition cost of RUB 240 thousand.

In August 2012 the Group increased its share in Nefteyugansk United Airline Transportation Company OJSC to 89,85%, and the company was included into the Group consolidation perimeter (see Note 6).

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

’000 RUB	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Loss**
2011					
Nefteyuganskiy Aviaotryad OJSC	24.4%	3,893,301	1,700,303	2,456,583	(546,836)
		3,893,301	**1,700,303**	**2,456,583**	**(546,836)**
2012					
«PKF «KATEKAVIA» LLC	32.9%	217,591	203,268	319,651	34
		217,591	**203,268**	**319,651**	**34**

’000 USD	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Loss**
2011					
Nefteyugansk United Airline Transportation Company OJSC	24.4%	120,925	52,811	83,593	(18,608)
		120,925	**52,811**	**83,593**	**(18,608)**
2012					
«PKF «KATEKAVIA» LLC	32.9%	7,164	6,692	10,280	1
		7,164	**6,692**	**10,280**	**1**

10 Other investments

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

	2012 ’000 RUB	**2011 ’000 RUB**	**2012 ’000 USD**	**2011 ’000 USD**
Long-term				
Available-for-sale investments	221,296	73,211	7,286	2,274
	221,296	**73,211**	**7,286**	**2,274**
Short-term				
Investments held for trading (classified as at fair value through profit or loss)	87,370	-	2,877	-
Available-for-sale investments	-	2,769	-	86
	87,370	**2,769**	**2,877**	**86**

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

11 Loans issued

This Note provides information about terms and conditions of relative loan agreements issued by the Group and evaluated by their amortised cost. More detailed information about the Group's exposure to interest rate change risk and liquidity risk is provided in Note 36.

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Non-current loans issued				
Unsecured promissory notes	3,079,559	-	101,392	-
Unsecured loans issued	247,079	92,734	8,135	2,880
	3,326,638	**92,734**	**109,527**	**2,880**
Current loans issued				
Receivables under REPO transactions	72,678	-	2,393	-
Secured loans issued	776,030	733,591	25,550	22,785
Unsecured promissory notes	340,441	-	11,209	-
Unsecured loans issued	80,666	2,000	2,656	62
	1,269,815	**735,591**	**41,808**	**22,847**

Conditions and terms of payments on outstanding loans issued were as follows:

'000 RUB	Cur-rency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2012	Carrying amount 31 December 2011
Receivables under REPO transactions	RUB	-	-	2013	72,678	-
Unsecured promissory notes	RUB	10%	10%	2013-2015	3,420,000	-
Secured loans issued	RUB	6%	5%	2013	776,030	733,591
Unsecured loans issued	RUB	0-10%	8%	2013-2017	241,257	2,000
Unsecured loans issued	USD	0%	8%	2013	78,666	83,387
Unsecured loans issued	other	0%	0%	2017-2018	7,822	9,347
					4,596,453	**828,325**

'000 USD	Cur-rency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2012	Carrying amount 31 December 2011
Receivables under REPO transactions	RUB	-	-	2013	2,393	-
Unsecured promissory notes	RUB	10%	10%	2013-2015	112,601	-
Secured loans issued	RUB	6%	5%	2013	25,550	22,785
Unsecured loans issued	RUB	0-10%	8%	2013-2017	7,943	62
Unsecured loans issued	USD	0%	8%	2013	2,590	2,590
Unsecured loans issued	other	0%	0%	2017-2018	258	290
					151,335	**25,727**

As at 31 December 2012 secured loans issued are secured by pledge of equity financial instruments of unrelated parties.

As of 31 December 2012 the Group had contractual obligations for issue of unsecured loans for the amount of RUB 190,000 thousand / USD 6,256 thousand, which have not yet been received by the relative borrower.

Information about the Group's exposure to credit and foreign exchange risks is disclosed in Note 36.

12 Net investment in finance leases

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

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Gross investments in leases	1,279,692	606,777	42,133	18,846
Less: unearned finance lease income	(368,059)	(147,015)	(12,118)	(4,566)
Net investment in finance leases	**911,633**	**459,762**	**30,015**	**14,280**

Rate of return under the lease agreements varies from 15% to 21% per annum (2011: 15% to 21% per annum) depending on the total amount and duration of the contract as well as other terms. The amounts receivable under lease agreements are secured by the leased assets.

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

’000 RUB	2012		2011	
	Gross investment	Net investment	Gross investment	Net investment
Less than 1 year	459,360	404,953	218,801	131,933
1 to 5 years	820,331	506,680	387,976	327,829
Total	**1,279,691**	**911,633**	**606,777**	**459,762**

’000 USD	2012		2011	
	Gross investment	Net investment	Gross investment	Net investment
Less than 1 year	15,124	13,333	6,796	4,098
1 to 5 years	27,009	16,682	12,050	10,182
Total	**42,133**	**30,015**	**18,846**	**14,280**

13 Other advances issued

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Long-term				
Advances issued under operating lease agreements	1,544,872	1,356,636	50,864	42,137
Other	15,746	14,927	518	463
	1,560,618	**1,371,563**	**51,382**	**42,600**
Short-term				
Advances issued under operating lease agreements	1,687,019	134,037	55,544	4,163
Other	1,821,329	1,414,550	59,966	43,936
	3,508,348	**1,548,587**	**115,510**	**48,099**

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

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
1 January	**90,469**	**85,316**	**2,810**	**2,799**
Utilised during the year	(3,594)	(6,506)	(116)	(221)
Reversed during the year	(89,767)	(64,135)	(2,887)	(2,183)
Charged during the year	82,356	75,794	2,649	2,580
Effect of movements in exchange rates	-	-	160	(165)
31 December	**79,464**	**90,469**	**2,616**	**2,810**

14 Trade and other receivables

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Receivables due for consulting and marketing services	9,044,895	91,118	297,798	2,830
Sales-leaseback transaction	3,970,666	8,713,799	130,731	270,648
Trade receivables	5,587,366	5,279,309	183,960	163,974
Receivables from related parties (see note 40)	130,987	1,027,062	4,313	31,900
Other taxes receivable	1,521,671	869,453	50,100	27,005
Receivables for operations with securities	1,513	94,887	50	2,947
VAT recoverable	45,531	52,060	1,499	1,617
Deferred expenses	63,634	65,239	2,095	2,026
Other accounts receivable	627,478	437,311	20,659	13,582
Less:				
Provision for impairment of trade receivables	(87,313)	(60,083)	(2,875)	(1,866)
Provision for impairment of other receivables	(17,707)	(20,491)	(583)	(636)
	20,888,721	**16,549,664**	**687,747**	**514,027**

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

The total amount of current trade and other receivables includes revenue from passenger transportation in the amount of RUB 1,073,513 thousand/USD 35,345 thousand (2011: RUB 405,307 thousand/USD 12,589 thousand) which remains as at 31 December 2012 at transportation sales agent cash desks. This amount of revenue is subject to transfer to the Group's bank account in early January.

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
1 January	**80,574**	**118,444**	**2,503**	**3,886**
Utilised during the year	(10,474)	(8,984)	(337)	(306)
Reversed during the year	(70,755)	(74,435)	(2,276)	(2,533)
Charged during the year	105,675	45,549	3,399	1,551
Effect of movements in exchange rates	-	-	169	(95)
31 December	**105,020**	**80,574**	**3,458**	**2,503**

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

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Property, plant and equipment	14,114	6,729	(6,544,620)	(6,126,714)	(6,530,506)	(6,119,985)
Intangible assets	12,517	3,003	(70,143)	(76,856)	(57,626)	(73,853)
Investments	57,398	25,197	(24,327)	(7,134)	33,071	18,063
Inventories	102,266	141,560	(19,421)	(591)	82,845	140,969
Trade and other receivables	412,181	58,252	(184,896)	(19,786)	227,285	38,466
Advance received and deferred income	131,239	154,884	(57,084)	(43,177)	74,155	111,707
Trade and other payables	238,200	110,223	(45,074)	(6,985)	193,126	103,238
Tax loss carry-forwards	190,471	169,252	-	-	190,471	169,252
Other differences	34,146	21,679	(10,017)	(10,678)	24,129	11,001
Tax assets/(liabilities)	1,192,532	690,779	(6,955,582)	(6,291,921)	(5,763,050)	(5,601,142)
Set off of tax	(1,104,146)	(642,276)	1,104,146	642,276	-	-
Net tax assets/(liabilities)	**88,386**	**48,503**	**(5,851,436)**	**(5,649,645)**	**(5,763,050)**	**(5,601,142)**

	Assets		Liabilities		Net	
’000 USD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Property, plant and equipment	464	209	(215,477)	(190,294)	(215,013)	(190,085)
Intangible assets	412	93	(2,309)	(2,387)	(1,897)	(2,294)
Investments	1,890	783	(801)	(222)	1,089	561
Inventories	3,367	4,397	(639)	(18)	2,728	4,379
Trade and other receivables	13,571	1,809	(6,088)	(615)	7,483	1,194
Advance received and deferred income	4,321	4,811	(1,879)	(1,341)	2,442	3,470
Trade and other payables	7,843	3,423	(1,484)	(217)	6,359	3,206
Tax loss carry-forwards	6,271	5,257	-	-	6,271	5,257
Other differences	1,124	673	(330)	(331)	794	342
Tax assets/(liabilities)	39,263	21,455	(229,007)	(195,425)	(189,744)	(173,970)
Set off of tax	(36,353)	(19,949)	36,353	19,949	-	-
Net tax assets/(liabilities)	**2,910**	**1,506**	**(192,654)**	**(175,476)**	**(189,744)**	**(173,970)**

(b) Unrecognised deferred tax assets

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

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Tax losses	467,296	279,782	15,385	8,690
	467,296	**279,782**	**15,385**	**8,690**

The tax losses expire in 2018-2022. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

(c) Unrecognised deferred tax liability

A deferred tax liability for temporary differences related to investments in subsidiaries has not been recognised as the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future. The amount of contingent liabilities is estimated to be RUB 592,410 thousand / USD 19,504 thousand.

(d) Movement in temporary differences during the year

'000 RUB	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Foreign currency translation reserve	Acquisition of a subsidiary	31 December 2012
Property, plant and equipment	(6,119,985)	48,280	(17,193)	9,034	(450,642)	(6,530,506)
Intangible assets	(73,853)	14,470	-	1,757	-	(57,626)
Investments	18,063	15,008	-	-	-	33,071
Inventories	140,969	(58,124)	-	-	-	82,845
Trade and other receivables	38,466	188,819	-	-	-	227,285
Advance received and deferred income	111,707	(37,552)	-	-	-	74,155
Trade and other payables	103,238	89,888	-	-	-	193,126
Other items	11,001	13,128	-	-	-	24,129
Tax loss carry-forwards	169,252	21,219	-	-	-	190,471
	(5,601,142)	**295,136**	**(17,193)**	**10,791**	**(450,642)**	**(5,763,050)**

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

'000 USD	1 January 2012	Recognised in profit or loss	Recognised in other comprehen-sive income	Foreign currency translation reserve	Acquisition of a subsidiary	31 December 2012
Property, plant and equipment	(190,085)	1,553	(553)	(11,435)	(14,493)	(215,013)
Intangible assets	(2,294)	465	-	(68)	-	(1,897)
Investments	561	483	-	45	-	1,089
Inventories	4,379	(1,869)	-	218	-	2,728
Trade and other receivables	1,194	6,073	-	216	-	7,483
Advance received and deferred income	3,470	(1,208)	-	180	-	2,442
Trade and other payables	3,206	2,891	-	262	-	6,359
Other items	342	422	-	30	-	794
Tax loss carry-forwards	5,257	682	-	332	-	6,271
	(173,970)	**9,492**	**(553)**	**(10,220)**	**(14,493)**	**(189,744)**

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

16 Inventories

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Spare parts	1,849,348	1,626,600	60,888	50,522
Fuel	768,629	663,531	25,307	20,609
Work in progress	13,393	58,933	441	1,830
Finished goods and goods for resale	3,293	1,236	108	38
Other inventories	945,555	506,893	31,132	15,745
Allowance for impairment	(309,855)	(301,504)	(10,202)	(9,365)
	3,270,363	**2,555,689**	**107,674**	**79,379**

17 Security deposits

As at 31 December 2012 security deposits in the amount of RUB 8,685,531 thousand/USD 285,965 (2011: RUB 1,202,702 thousand/USD 37,356 thousand) are under operating lease agreements, bear interest rate of 6% per annum (2011: 6% per annum), denominated in USD, and are to be returned by a lessor within up to 31 December 2013.

18 Cash and cash equivalents

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Ruble denominated cash on hand and balances with banks	460,724	371,400	15,169	11,536
Foreign currency denominated balances with banks	698,409	324,244	22,994	10,071
Other	29,972	22,583	987	701
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**1,189,105**	**718,227**	**39,150**	**22,308**

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

19 Assets classified as held for sale

	2012 '000 RUB	2011 'RUB	2012 '000 USD	2011 '000 USD
As at 1 January	156,256	252,232	4,853	8,276
Additions	778,575	34,732	25,634	1,182
Disposals	(798,019)	(130,708)	(26,274)	(4,448)
Effect of movements in exchange rates	-	-	291	(157)
As at 31 December	**136,812**	**156,256**	**4,504**	**4,853**

As at 31 December 2012 assets classified as held for sale mainly comprise real estate (2011: mainly comprise real estate).

20 Capital and reserves

(a) Share capital

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital ’000 RUB	Treasury shares at cost ’000 RUB	Surplus from reissuance of treasury shares ’000 RUB
As at 1 January 2011	**553,820**	**23,388**	**577,208**	**174,859**	**13,010**
Sale of treasury shares	15,341	(15,341)	-	(93,926)	-
As at 31 December 2011	**569,161**	**8,047**	**577,208**	**80,933**	**13,010**
Purchase of treasury shares	(30,758)	30,758	-	495,535	-
As at 31 December 2012	**538,403**	**38,805**	**577,208**	**576,468**	**13,010**

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital ’000 USD	Treasury shares at cost ’000 USD	Surplus from reissuance of treasury shares ’000 USD
As at 1 January 2011	**553,820**	**23,388**	**20,871**	**6,868**	**451**
Sale of treasury shares	15,341	(15,341)	-	(3,196)	-
As at 31 December 2011	**569,161**	**8,047**	**20,871**	**3,672**	**451**
Purchase of treasury shares	(30,758)	30,758	-	15,937	-
As at 31 December 2012	**538,403**	**38,805**	**20,871**	**19,609**	**451**

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

As at 31 December 2012 the number of authorised ordinary shares amounted to 577,208,000 (2011: 577,208,000) with a nominal value of 1 RUB per share. All authorised shares have been issued and fully paid.

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

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

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

(b) Dividends

In accordance with Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2012, the Company had retained earnings of RUB 1,738,592 thousand/USD 57,242 thousand (2011: RUB 1,478,422 thousand/ USD 45,919 thousand), including profit for the current year, of RUB 369,894 thousand/ USD 11,896 thousand (2011: RUB 261,176 thousand/ USD 8,887 thousand).

Profit to be distributed among the Company shareholders is determined according to the Russian legislation.

The Company's shares are listed on the Moscow Interbank Currency Stock Exchange ("MICEX-RTS"), and as of 31 December 2012 traded at RUB 24.634 per share in A1 top level quotation list (2011: RUB 17.800 per share).

The following dividends were declared by the Company:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
0.14 RUB per ordinary share for 2011 (for 2010: 0.12 RUB)	75,627	69,241	2,432	2,356
	75,627	**69,241**	**2,432**	**2,356**

21 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see note 36.

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Non-current liabilities				
Unsecured bonds issued	11,191,933	8,568,529	368,487	266,136
Unsecured promissory notes issued	300,000	6,723,152	9,877	208,819
Finance lease liabilities	3,140,021	4,602,662	103,383	142,957
Secured bank loans	3,471,201	4,324,059	114,287	134,304
Unsecured bank loans	2,676	1,143,798	88	35,525
	18,105,831	**25,362,200**	**596,122**	**787,741**
Current liabilities				
Current portion of secured bank loans	12,678,236	4,072,350	417,422	126,486
Unsecured promissory notes issued	2,926,515	1,633,758	96,353	50,744
Current portion of finance lease liabilities	1,679,748	1,460,064	55,305	45,349
Liabilities under REPO transactions	-	356,713	-	11,079
Unsecured bank overdraft	58,820	351,591	1,937	10,920
Unsecured bank loans	7,906,062	310,296	260,302	9,638

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Unsecured bonds issued	4,666,720	37,755	153,649	1,173
Secured bank loans	1,220,00	-	40,168	-
Secured bank overdraft	84,727	-	2,789	-
	31,220,828	**8,222,527**	**1,027,924**	**255,389**

(a) Terms and debt repayment schedule

Terms and conditions of the outstanding loans were as follows:

’000 RUB	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2012	Carrying amount 31 December 2011
Unsecured bonds issued	RUB	8,71 -12,5%	10,38%	2013-2016	15,586,238	8,454,256
Unsecured promissory notes	USD	-	-	-	-	6,439,220
Finance lease liabilities	USD	6-45,88%	24,78%	2013-2016	4,819,769	6,062,726
Secured bank loans	USD	3,9-11,5%	6,88%	2013-2017	7,177,202	4,043,855
Secured bank loans	RUB	9,5-13,3%	10,96%	2013-2015	9,611,138	2,955,549
Unsecured promissory notes	RUB	8-12,07%	10,73%	2013	3,226,515	1,917,690
Unsecured bank loans	USD	4,5-8%	5,96%	2013-2017	5,647,722	1,402,507
Secured bank loans	EUR	EURIBOR +4,35%	4,70%	2013	411,747	859,074
Secured bank loans	USD	LIBOR+ 1,6-2,5%	1,96%	2013	169,350	537,931
Liabilities under REPO transactions	RUB	-	-	-	-	356,713
Unsecured bank overdraft	USD	5,5%	5,5%	2013	143	294,011
Unsecured bank overdraft	RUB	9,9%	9,9%	2013	52,769	-
Unsecured bonds issued	USD	10%	10%	2013-2015	272,415	152,028
Unsecured bank overdraft	EUR	5,5%	5,5%	2013	5,908	57,580
Unsecured bank loans	RUB	10,15%-10,50%	10,44%	2013	2,261,016	51,587
Secured bank overdrafts	RUB	10%	10%	2013	84,727	-
					49,326,659	**33,584,727**

'000 USD	Cur-rency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2012	Carrying amount 31 December 2011
Unsecured bonds issued	RUB	8,71 - 12,5%	10,38%	2013-2016	513,166	262,586
Unsecured promissory notes	USD	-	-	-	-	200,000
Finance lease liabilities	USD	6-45,88%	24,78%	2013-2016	158,688	188,306
Secured bank loans	USD	3,9-11,5%	6,88%	2013-2017	236,304	125,601
Secured bank loans	RUB	9,5-13,3%	10,96%	2013-2015	316,479	91,798
Unsecured promissory notes	RUB	8-12,07%	10,73%	2013	106,232	59,563
Unsecured bank loans	USD	4,5-8%	5,96%	2013-2017	185,947	43,561
Secured bank loans	EUR	EURIBOR +4,35%	4,70%	2013	13,556	26,683
Secured bank loans	USD	LIBOR+ 1,6-2,5%	1,96%	2013	5,576	16,708
Liabilities under REPO transactions	RUB	-	-	-	-	11,079
Unsecured bank overdraft	USD	5,5%	5,5%	2013	5	9,133
Unsecured bank overdraft	RUB	9,9%	9,9%	2013	1,737	-
Unsecured bonds issued	USD	10%	10%	2013-2015	8,969	4,722
Unsecured bank overdraft	EUR	5,5%	5,5%	2013	195	1,788
Unsecured bank loans	RUB	10,15%-10,50%	10,44%	2013	74,442	1,602
Secured bank overdrafts	RUB	10%	10%	2013	2,790	-
					1,624,046	**1,043,130**

As at 31 December 2012 finance lease liabilities include liabilities of RUB 594,435 thousand/ USD 19,571 thousand (2011: RUB 775,617 thousand/USD 24,090 thousand) under lease agreements with a floating interest rate, set at LIBOR + 4% per annum.

Bank loans are secured by property, plant and equipment with a carrying amount of RUB 11,126,408 thousand/USD 359,881 thousand (2011: RUB 4,127,014 thousand/USD 128,184 thousand). Bank loans are also secured by pledge of future revenues.

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

As at the 31 December 2012 unutilised credit lines amounted to RUB 11,089,459 thousand / USD 365,113 thousand, including RUB 1,664,101 thousand/ USD 54,131 thousand nominated in RUB, RUB 9,390,863 thousand/USD 309,188 thousand nominated in USD and RUB 54,495 thousand/USD 1,794 thousand nominated in EUR (2011: RUB 25,901,923 thousand/USD 804,505 thousand, including RUB 13,002,882 thousand/USD 403,865 thousand nominated in RUB, RUB 12,893,884 thousand/USD 400,480 thousand nominated in USD and RUB 5,157 thousand/USD 160 thousand nominated in EUR).

As of 31 December 2012 the Group registered at MICEX and has available for placement five bond issues with a total nominal value of RUB 7,500,000 thousand / USD 246,932 thousand.

(b) Finance lease liabilities are payable as follows:

As at 31 December 2012 the Group has entered into finance lease agreements under which 30 aircraft have been received (see note 7) with a bargain purchase option to acquire the leased assets at the end of lease term of 5 to 8 years. The minimum future lease payments under the agreements as well as the present value of the minimum lease payments are presented in the following table:

	2012			2011		
'000 RUB	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	2,276,297	596,549	1,679,748	2,453,901	993,837	1,460,064
Between one and five years	4,004,055	864,034	3,140,021	6,333,905	1,731,243	4,602,662
	6,280,352	**1,460,583**	**4,819,769**	**8,787,806**	**2,725,080**	**6,062,726**

	2012			2011		
'000 USD	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	74,945	19,640	55,305	76,217	30,868	45,349
Between one and five years	131,831	28,448	103,383	196,729	53,772	142,957
	206,776	**48,088**	**158,688**	**272,946**	**84,640**	**188,306**

22 Derivatives

(a) Hedging of fair value

As of 31 December 2012 the Group had currency swap agreements for a total conditional amount of USD 3,950 thousand (Peruvian sols 26,550 thousand), under which the Group receives payment at a fixed rate of 2.58 and 2.73 Sols for 1 USD and pays the amount at a market price. The swap is used to hedge a risk of changes of fair value of unacknowledged contractual obligations for purchase of property, plant and equipment. Increase of a fair value of the currency swap by RUB 53,894 thousand / USD 1,733 was accounted for as financial income.

(b) Derivatives

In 2008 the Group executed interest rate swap contracts which it did not designate as effective hedging instruments since the written documentation which properly designates hedging components was not prepared in full at the time when hedging operations commenced.

The Group keeps these derivatives as economic hedging instruments. The total fair value of hedge liabilities was determined by discounting the future cash flows to be received or paid as a result of hedge agreements and made RUB 20,270 thousand / USD 667 thousand.

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

The impact of hedge relationships on the Group's exposure to interest rate risk relating to variable rate instruments is disclosed in note 36.

23 Trade and other payables

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Non-current				
Frequent flyer programme liabilities (see note 24(a))	84,740	80,723	2,790	2,507
Trade payables	531,513	629,076	17,500	19,539
Other account payables	-	687	-	21
	616,253	**710,486**	**20,290**	**22,067**
Current				
Trade payables	6,755,031	6,510,874	222,405	202,226
Unused vacation accrual	1,640,215	1,304,836	54,003	40,528
Accrued payroll	931,339	725,685	30,664	22,539
Payables to related parties (see note 40)	264,682	377,407	8,714	11,722
Accrued liabilities and other payables	3,266,955	194,585	107,564	6,044
Frequent flyer programme liabilities (see note 24(a))	54,827	52,227	1,805	1,622
Dividends payable	5,568	17,657	183	548
	12,918,617	**9,183,271**	**425,338**	**285,229**

As at 31 December 2012 the liabilities under payment of treasury promissory notes are included into the «Accrued liabilities and other payables» line for an amount of RUB 2,022,795 thousand / USD 66,599 thousand.

Trade payables include the cost of guarantee issued to an unrelated party to secure contractual obligations for purchase of aircraft by another unrelated party.

The guarantee applies in accordance with the contractual payment schedule till the end of 2015.

The Group does not expect any liability to arise in connection with such payment.

As at 31 December 2012 the fair value of the guarantee calculated in accordance with IAS 39 based on analysis of credit ratings of similar entities amounted to: non-current part – RUB 335,278 thousand / USD 13,055 thousand, and current part – RUB 61,225 thousand / USD 2,016 thousand.

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

24 Deferred income

(a) Incentive programme liabilities

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

As at 31 December 2012 deferred income and other liabilities related to the frequent flyer programme "Status" included the following:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Deferred income, non-current	314,412	333,611	10,352	10,362
Deferred income, current	203,424	231,809	6,698	7,200
Other non-current liabilities (see note 23)	84,740	80,723	2,790	2,507
Other current liabilities (see note 23)	54,827	52,227	1,805	1,622
	657,403	**698,370**	**21,645**	**21,691**

(b) Deferred income on sale and finance leaseback

In 2010 the Group sold a number of Mi-171 helicopters (previously classified as non-current assets held for sale, see note 19) and leased them back under finance lease agreements. In accordance with IAS 17 *Leases*, the amount of the gain realised on the sale was recognised as deferred income to be released to profit or loss over the lease term.

As at 31 December 2012 deferred income related to the sale and finance leaseback comprised:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Deferred income, non-current	89,018	163,033	2,931	5,064
Deferred income, current	49,343	49,343	1,624	1,532
	138,361	**212,376**	**4,555**	**6,596**

25 Employee benefits

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

The components of net benefit expense recognised in profit or loss for the years ended 31 December 2012 and 2011 and amounts recognised in consolidated statement of financial position as at 31 December 2012 and 2011 are as follows:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Liabilities as at 1 January	**179,229**	**213,997**	**5,567**	**7,023**
Benefit expense	87,112	(33,766)	2,802	(1,149)
Benefits paid	(12,199)	(13,712)	(392)	(467)
Acquisitions	12,562	12,710	404	432
Effect of movements in exchange rates	-	-	400	(272)
Liabilities as at 31 December, including:	**266,704**	**179,229**	**8,781**	**5,567**
non-current part	246,810	165,859	8,126	5,152
current part	19,894	13,370	655	415

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Liabilities as at January 1	**179,229**	**240,161**	**5,567**	**7,880**
Interest cost on benefit obligation	15,898	19,201	511	653
Current service cost	13,687	13,423	440	457
Past service cost	15,749	(23,183)	507	(789)
Benefits paid	(12,199)	(13,712)	(392)	(467)
Actuarial (gains)/losses on obligation	48,272	(68,084)	1,553	(2,317)
Acquisition	12,562	12,710	404	432
Effect of movements in exchange rates	-	-	405	(242)
As at December 31, including:	**273,198**	**180,516**	**8,995**	**5,607**
Unrecognized past service cost	(6,494)	(1,287)	(214)	(40)
Benefit Liabilities	**266,704**	**179,229**	**8,781**	**5,567**

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

	’000 RUB				
	2012	**2011**	**2010**	**2009**	**2008**
Defined benefit obligation	273,198	180,516	240,161	215,037	177,866
Experience adjustment on plan liabilities	(11,861)	(35,302)	(630)	(5,605)	(26,303)

	’000 USD				
	2012	**2011**	**2010**	**2009**	**2008**
Defined benefit obligation	8,995	5,607	7,880	7,110	6,054
Experience adjustment on plan liabilities	(391)	(1,096)	(21)	(185)	(895)

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

	2012 ’000 RUB	**2011 ’000 RUB**	**2012 ’000 USD**	**2011 ’000 USD**
Current service costs	13,687	13,423	441	457
Past service costs	21,248	1,694	683	58
Interest on obligation	15,898	19,201	511	653
Net actuarial losses/(gains) recognised in year	36,642	(68,084)	1,178	(2,317)
Net post-employment benefit expenses	**87,475**	**(33,766)**	**2,813**	**(1,149)**

(b) Actuarial assumptions

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

	2012 %	**2011 %**
Discount rate at 31 December	7.2	8.0
Average long-term payroll increase rate	7.5	7.5
Benefit increase rate	6.0	6.0

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

26 Taxes payable

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Value added tax payable	340,742	1,166,648	11,219	36,236
Social insurance charges	159,359	92,111	5,247	2,861
Personal income tax	98,759	75,514	3,252	2,345
Property tax	50,570	43,335	1,665	1,346
Contributions to pension fund	6,315	1,532	208	48
Other taxes and tax provisions	43,776	18,328	1,440	569
	699,521	**1,397,468**	**23,031**	**43,405**

27 Advances received

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Advances from passengers	1,097,881	1,261,231	36,147	39,173
Advances from customers	3,368,176	436,063	110,895	13,545
Advances from related parties (see note 40)	6,754	2,903	222	90
	4,472,811	**1,700,197**	**147,264**	**52,808**

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

28 Revenue

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Aircraft transportation services, regular	40,699,033	30,157,488	1,308,945	1,026,205
Helicopters transportation services, abroad	9,794,527	10,147,621	315,007	345,305
Helicopters transportation services, inland	8,553,776	6,089,074	275,103	207,200
Aircraft transportation services, charter	7,727,056	5,048,875	248,514	171,804
Repair and maintenance services	1,039,606	842,575	33,435	28,671
Airport services	163,255	162,349	5,252	5,525
Passenger traffic and helicopter services revenue	67,977,253	52,447,982	2,186,256	1,784,710
Consulting and marketing services	9,263,773	793,002	297,938	26,984
Other	2,045,215	2,096,729	65,777	71,348
	79,286,241	**55,337,713**	**2,549,971**	**1,883,042**

Grants from the regional government were provided to the Group for the execution of regular flights to several Russian regions. The grants are provided both in the form of cash remuneration to cover the Group's losses from performing such flights and in the form of reduced airport duties, etc. Since 2005 the Group has taken part in a new regional programme where the Group sells tickets at a discount to passengers flying within the Tyumen and other region,s. This discount is reimbursed by the regional government. The amount of reimbursement received in 2012 amounted to RUB 519,654 thousand/USD 16,713 thousand (2011: RUB 356,314 thousand/USD 12,125 thousand) and is included in regular aircraft transportation services revenue.

In 2011 the Company entered into the consulting services agreement and in 2012 recognized revenue from this contract in amount of RUB 9,176,752 thousand/USD 295 139 thousand, and related accounts receivable of RUB 9,044,895 thousand/USD 297,798 thousand (Note 14) and loss from exchange rate changes of RUB 131,857 thousand/USD 4,241 thousand.

In 2012 and 2011 the Group generated revenue from the following major customer groups and geographical areas:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Group of customers				
Individual customers	40,699,033	30,157,488	1,308,945	1,026,205
Commercial organizations	31,843,619	17,758,489	1,024,142	604,289
United Nations	6,743,589	7,421,736	216,884	252,548
	79,286,241	**55,337,713**	**2,549,971**	**1,883,042**
Geographical area				
Russia	58,811,016	37,813,687	1,891,455	1,286,731
Other countries	20,475,225	17,524,026	658,516	596,311
	79,286,241	**55,337,713**	**2,549,971**	**1,883,042**

29 Direct operating expenses

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Rent of air fleet and equipment	8,849,728	5,859,031	284,621	199,372
Airport services	7,876,151	6,763,265	253,309	230,142
Air navigation and meteo services	3,289,201	2,396,860	105,786	81,561
Passenger servicing	3,117,074	1,995,366	100,250	67,899
Travel expenses	2,285,300	1,647,630	73,499	56,066
Freight transportation services	2,193,490	651,230	70,546	22,160
Spare parts and other materials	1,415,040	2,073,600	45,510	70,561
UN missions support	312,548	327,750	10,052	11,153
Custom duties	297,972	299,251	9,583	10,183
Other direct operating expense	258,079	166,283	8,301	5,657
Direct operating expenses except fuel	**29,894,583**	**22,180,266**	**961,457**	**754,754**
Fuel expenses	17,932,238	14,035,745	576,729	477,611
	47,826,821	**36,216,011**	**1,538,186**	**1,232,365**

30 Personnel expenses

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Remuneration	11,168,416	9,177,157	359,194	312,282
Social insurance charges	2,802,030	2,010,317	90,118	68,407
Expenses related to defined benefit plans (see note 25)	87,475	(33,766)	2,813	(1,149)
	14,057,921	**11,153,708**	**452,125**	**379,540**

31 Sales-leaseback transaction

In 2012 the Group performed a sale-leaseback transaction in respect of its 3 helicopters. As of 31 December 2012 three helicopters were leased back of lease term within up to June 2019. The carrying amount of assets sold in 2012 comprised RUB 697,069 thousand/USD 22,418 thousand (2011: RUB 974,980 thousand/USD 33,177 thousand), and the sales revenue comprised RUB 1,171,300 thousand/USD 37,670 thousand (2011: RUB 7,928,773 thousand/USD 269,802 thousand).

32 Other operating income and expenses

Other operating income comprised:

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Indemnities and penalties	497,299	668,095	15,994	22,734
Other operating income	173,049	132,823	5,565	4,520
	670,348	**800,918**	**21,559**	**27,254**

Other operating expenses comprised:

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD	2011 ’000 USD
Loss from disposal of property, plant and equipment	567,726	369,465	18,259	12,572
Insurance expenses	520,037	398,853	16,725	13,572
Training expenses	508,132	447,672	16,342	15,233
Consulting, audit and legal expenses	462,147	426,209	14,863	14,503
Utilities	409,871	457,909	13,182	15,582
Taxes other than income tax	351,260	344,276	11,297	11,715
Other operating expenses	333,458	637,826	10,726	21,705
Bank charges	298,987	228,379	9,616	7,771
Communication services	171,825	166,026	5,526	5,650
Advertising	104,546	109,621	3,362	3,730
	3,727,989	**3,586,236**	**119,898**	**122,033**

33 Other finance income and finance costs

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Interest income on loans and receivables	243,564	128,763	7,833	4,382
Gain from disposal of other investments	190,647	413,624	6,131	14,074
Hedge income	66,806	-	2,149	-
Interest income on security deposits	61,805	178,907	1,988	6,088
Other finance income	**562,822**	**721,294**	**18,101**	**24,544**
Interest expense on financial liabilities measured at amortised cost	5,113,886	3,882,014	164,471	132,098
Unwinding of discount	3,491	-	112	-
Interest on borrowings	-	111,533	-	3,795
Dividends	648	26,594	21	905
Hedge expenses	-	23,531	-	801
Other finance costs	**5,118,025**	**4,043,672**	**164,604**	**137,599**

34 Income tax expense

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Current tax expense				
Current year	228,140	185,593	7,337	6,315
	228,140	**185,593**	**7,337**	**6,315**
Deferred tax expense				
Origination and reversal of temporary differences	(572,752)	(155,593)	(18,421)	(5,295)
Corrections of prior years	(189,680)	26,225	(6,100)	893
Current year losses for which no deferred tax asset was recognised	467,296	279,782	15,029	9,520
	(295,136)	**150,414**	**(9,492)**	**5,118**
Income tax expense, excluding share of income tax of equity accounted investees	**(66,996)**	**336,007**	**(2,155)**	**11,433**

(a) Income tax recognised directly in other comprehensive income

'000 RUB	2012			2011		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Revaluation of property, plant and equipment	(627,345)	125,469	(501,876)	(18,091,357)	3,618,270	(14,473,087)
Investment revaluation reserve	(85,965)	17,193	(68,772)	-	-	-
Realisation of property, plant and equipment revaluation reserve	1,117,089	(231,823)	885,266	429,050	(85,810)	343,240
	403,779	**(89,161)**	**314,618**	**(17,662,307)**	**3,532,460**	**(14,129,847)**

'000 USD	2012			2011		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Revaluation of property, plant and equipment	(20,176)	4,035	(16,141)	(615,616)	123,123	(492,493)
Investment revaluation reserve	(2,765)	553	(2,212)	-	-	-
Realisation of property, plant and equipment revaluation reserve	35,927	(7,456)	28,471	14,600	(2,920)	11,680
	12,986	**(2,868)**	**10,118**	**(601,016)**	**120,203**	**(480,813)**

Reconciliation of effective tax rate:

	2012		2011	
	'000 RUB	**%**	**'000 RUB**	**%**
Profit before income tax	**111,826**	**100**	**449,994**	**100**
Income tax at applicable tax rate	22,365	20	89,999	20
Effect of income taxed at higher rates	64,303	58	13,276	3
Non-deductible expenses	(151,499)	(135)	84,973	19
Current year losses for which no deferred tax asset was recognised	187,515	168	249,815	56
Recognition of previously unrecognised tax losses	-	-	(128,281)	(29)
Underaccrued in prior years	(189,680)	(170)	26,225	6
	(66,996)	**(59)**	**336,007**	**75**

	2012		2011	
	'000 USD	**%**	**'000 USD**	**%**
Profit before income tax	**3,596**	**100**	**15,312**	**100**
Income tax at applicable tax rate	719	20	3,062	20
Effect of income taxed at higher rates	2,068	58	452	3
Non-deductible expenses	(4,872)	(135)	2,891	19
Current year losses for which no deferred tax asset was recognised	6,030	168	8,501	56
Recognition of previously unrecognised tax losses	-	-	(4,365)	(29)
Underaccrued in prior years	(6,100)	(170)	892	6
	(2,155)	**(59)**	**11,433**	**75**

35 Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding of 536,036 thousand (2011: 558,431 thousand), calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	**2012**	**2011**
Issued shares at 1 January	569,161	553,820
Effect of own shares held	(33,125)	4,611
Weighted average number of shares for the year ended 31 December	**536,036**	**558,431**
Profit for the year attributable to owners of the Company, '000 RUB	69,566	178,941
Basic and diluted earnings per share, RUB	**0.13**	**0.32**
Profit for the year attributable to owners of the Company, '000 USD	2,237	6,089
Basic and diluted earnings per share, USD	**0.004**	**0.011**

36 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

As at 31 December 2012 accounts receivable from the Group's major debtor amounted to RUB 9,044,895 thousand/USD 297,797 thousand (2011: RUB 8,713,799 thousand/USD 270,648 thousand). Management determines risk concentration by reference to a percentage of receivables from particular customers to the total accounts receivable.

(i) Exposure to credit risk

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

	Carrying amount			
	2012 '000 RUB	**2011 '000 RUB**	**2012 '000 USD**	**2011 '000 USD**
Long-term loans issued	3,326,638	92,734	109,527	2,880
Long-term net investments in leases	506,680	327,829	16,682	10,182
Long-term other investments	221,298	73,211	7,286	2,274
Long-term receivables	15,384	13,536	507	420
Trade and other receivables	19,257,885	15,562,912	634,052	483,379
Security deposits	8,685,531	1,202,702	285,965	37,356
Short-term loans issued	1,269,815	735,591	41,808	22,847
Short-term net investments in leases	404,953	131,933	13,333	4,098
Short-term other investments	87,370	2,769	2,877	86
Cash and cash equivalents	1,189,105	718,227	39,150	22,308
	34,964,659	**18,861,444**	**1,151,187**	**585,830**

Impairment losses

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

'000 RUB	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	18,088,155	-	5,478,111	-
Overdue	1,290,134	(105,020)	10,178,911	(80,574)
less than 30 days	425,259	-	1,117,219	-
from 30 to 60 days	306,518	-	8,772,078	-
from 60 to 150 days	363,847	-	77,227	-
over 150 days	194,510	(105,020)	212,387	(80,574)
	19,378,289	**(105,020)**	**15,657,022**	**(80,574)**

'000 USD	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	595,540	-	170,148	-
Overdue	42,476	(3,458)	316,154	(2,503)
less than 30 days	14,001	-	34,700	-
from 30 to 60 days	10,092	-	272,458	-
from 60 to 150 days	11,979	-	2,399	-
over 150 days	6,404	(3,458)	6,597	(2,503)
	638,016	**(3,458)**	**486,302**	**(2,503)**

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

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

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and debt capital consistent with the management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of debt instruments at competitive rates both in the capital markets and bank sector and coordinates relationships with the banks centrally.

As of 31 December 2012 the Group's current liabilities amounted to RUB 49,631,067 thousand / USD 1,634,069 thousand and exceeded the Group's current assets by RUB 9,993,698 thousand / USD 329,036 thousand. At present, the Group believes that it has access to sufficient funding and has also both utilised and unutilised borrowing facilities to timely redeem or refinance outstanding short-term debt as well as to meet currently foreseeable borrowing requirements. In particular, the Group is continuously working with the financial market to maintain the fixed limits in banks and to open new letter of credit limits (Note 21). In addition, the Group has five bond issues registered earlier with a total nominal value of RUB 7,5 bln., which can be placed within a short period of time given the demand in the financial market subject to the conditions satisfactory to the UTair Group.

The Group has been present in the financial market since 2004 and throughout these years it has formed its investor market which includes banks, management companies and non-state pension funds which actively buy the Group's bonds. All bond issues are included into A1 level quotation lists which ensures a wide range of investors from among those who can acquire only securities included into the top level quotation lists (A1).

One of the forms of operational funds raising is bill debts which have been actively used since 2003. The Company has fixed limits for promissory notes in a number of banks and investment companies and it is continuously working with them to keep such limits current (holds meetings, provides financial and economical information to enable the investors to monitor the fixed limits).

The flawless credit history of the Company is another critical factor which means absence of violated obligations both for repayment of debts and payment of interest throughout the entire period of operation in the debt market which is highly appreciated by the financial community.

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

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

2012

'000 RUB	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans	17,369,437	18,927,282	-	2,995,333	12,350,576	3,581,373	-
Finance lease liabilities	4,819,769	6,280,352	-	622,392	1,653,905	4,004,055	-
Trade and other payables	13,395,294	13,395,294	9,230,740	3,294,389	247,747	622,394	24
Unsecured bonds issued	15,858,653	18,829,432	-	573,768	5,721,145	12,534,519	-
Unsecured promissory notes	3,226,515	3,226,515	-	551,189	2,375,326	300,000	-
Unsecured bank loans	7,908,738	8,222,814	-	339,457	7,881,921	1,436	-
Unsecured bank overdrafts	58,820	64,038	-	7,314	56,724	-	-
Secured bank overdrafts	84,727	93,142	-	86,831	6,311	-	-
	62,721,953	**69,038,869**	**9,230,740**	**8,470,673**	**30,293,655**	**21,043,777**	**24**
Derivative financial liabilities							
Interest rate swaps used for hedging	36,823	22,369	-	8,914	12,082	1,373	-
	36,823	**22,369**	**-**	**8,914**	**12,082**	**1,373**	**-**

2012

'000 USD	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans	571,877	623,167	-	98,619	406,634	117,914	-
Finance lease liabilities	158,688	206,777	-	20,492	54,454	131,831	-
Trade and other payables	441,031	441,031	303,916	108,465	8,157	20,492	1
Unsecured bonds issued	522,135	619,946	-	18,891	188,365	412,690	-
Unsecured promissory notes	106,231	106,231	-	18,148	78,206	9,877	-
Unsecured bank loans	260,390	270,730	-	11,176	259,507	47	-
Unsecured bank overdrafts	1,937	2,109	-	241	1,868	-	-
Secured bank overdrafts	2,790	3,067	-	2,859	208	-	-
	2,065,078	**2,273,058**	**303,916**	**278,891**	**997,399**	**692,851**	**1**
Derivative financial liabilities							
Interest rate swaps used for hedging	1,212	736	-	293	398	45	-
	1,212	**736**	**-**	**293**	**398**	**45**	**-**

2011

’000 RUB	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans and overdrafts	8,396,409	9,173,144	-	1,427,017	3,090,361	4,655,766	-
Trade and other payables	10,046,162	10,046,162	4,499,731	4,617,642	514,196	414,372	221
Finance lease liabilities	6,062,726	8,787,806	-	638,464	1,815,437	6,333,905	-
Unsecured bonds issued	8,606,284	10,461,431	-	260,044	666,865	9,534,522	-
Unsecured promissory notes	8,356,910	8,868,163	-	745,776	1,026,064	7,096,323	-
Unsecured bank loans	1,454,094	1,551,099	-	32,828	339,785	1,178,486	-
Unsecured bank overdrafts	351,591	351,591	-	351,591	-	-	-
Liabilities under REPO transactions	356,713	357,373	-	357,373	-	-	-
	43,630,889	**49,596,769**	**4,499,731**	**8,430,735**	**7,452,708**	**29,213,374**	**221**
Derivative financial liabilities							
Interest rate swaps used for hedging	61,068	70,207	-	15,140	34,380	20,687	-
	61,068	**70,207**	**-**	**15,140**	**34,380**	**20,687**	**-**

2011

’000 USD	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans and overdrafts	260,790	284,916	-	44,323	95,986	144,607	-
Trade and other payables	312,030	312,030	139,760	143,422	15,971	12,870	7
Finance lease liabilities	188,306	272,946	-	19,830	56,387	196,729	-
Unsecured bonds issued	267,308	324,929	-	8,077	20,713	296,139	-
Unsecured promissory notes	259,563	275,442	-	23,164	31,869	220,409	-
Unsecured bank loans	45,164	48,177	-	1,020	10,554	36,603	-
Unsecured bank overdrafts	10,920	10,920	-	10,920	-	-	-
Liabilities under REPO transactions	11,079	11,100	-	11,100	-	-	-
	1,355,160	**1,540,460**	**139,760**	**261,856**	**231,480**	**907,357**	**7**
Derivative financial liabilities							
Interest rate swaps used for hedging	1,897	2,181	-	470	1,068	643	-
	1,897	**2,181**	**-**	**470**	**1,068**	**643**	**-**

(d) Market risk

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

(i) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are euro and USD.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations (disclosed in note 22).

Exposure to currency risk

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

'000 RUB	**USD-denominated 2012**	**EUR-denominated 2012**	**USD-denominated 2011**	**EUR-denominated 2011**
Trade and other receivables	2,501,266	1,048,757	3,761,826	257,202
Secured deposits	8,685,531	-	1,202,702	-
Cash and cash equivalents	260,475	10,395	152,182	4,733
Long-term loans issued	-	-	83,387	-
Finance lease liabilities	(4,819,769)	-	(6,062,726)	-
Bank loans and overdrafts	(13,226,617)	(418,032)	(12,869,552)	(916,654)
Trade and other payables	(1,794,611)	(1,246,422)	(1,791,635)	(209,830)
Net exposure	**(8,393,725)**	**(605,302)**	**(15,523,816)**	**(864,549)**

'000 USD	**USD-denominated 2012**	**EUR-denominated 2012**	**USD-denominated 2011**	**EUR-denominated 2011**
Trade and other receivables	82,352	26,070	116,841	6,172
Secured deposits	285,965	-	37,356	-
Cash and cash equivalents	8,576	258	4,727	114
Long-term loans issued	-	-	2,590	-
Finance lease liabilities	(158,688)	-	(188,306)	-
Bank loans and overdrafts	(435,477)	(10,391)	(399,724)	(21,997)
Trade and other payables	(59,086)	(30,983)	(55,648)	(5,035)
Net exposure	**(276,358)**	**(15,046)**	**(482,164)**	**(20,746)**

The following significant exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2012	**2011**	**2012**	**2011**
USD 1	31.0930	29.3874	30.3727	32.1961
EUR 1	39.9524	40.8848	40.2286	41.6714

Sensitivity analysis

A strengthening of the RUB, as indicated below, against the following currencies at 31 December would have increased profit or loss by the amounts shown below. There would have been no impact directly on equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	2012		2011	
’000 RUB	**Strengthening of RUB**	**Profit or loss**	**Strengthening of RUB**	**Profit or loss**
USD	5%	419,686	5%	776,191
USD	10%	839,372	10%	1,552,382
EUR	5%	30,265	5%	43,227
EUR	10%	60,530	10%	86,455

	2012		2011	
’000 USD	**Strengthening of RUB**	**Profit or loss**	**Strengthening of RUB**	**Profit or loss**
USD	5%	13,818	5%	24,108
USD	10%	27,636	10%	48,216
EUR	5%	752	5%	1,037
EUR	10%	1,505	10%	2,075

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

(ii) Interest rate risk

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

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

As at 31 December 2012 the share of the Group's liabilities bearing a floating interest rate constituted 2.5% of the total liabilities (2011: 6.7%).

Profile

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

	Carrying amount			
	2012 ’000 RUB	**2011 ’000 RUB**	**2012 ’000 USD**	**2011 ’000 USD**
Fixed rate instruments				
Financial assets	14,193,617	2,490,789	467,315	77,363
Finance lease liabilities	(4,225,334)	(5,287,108)	(139,116)	(164,216)
Other financial liabilities	(43,925,793)	(26,130,072)	(1,446,226)	(811,591)
	(33,957,510)	**(28,926,391)**	**(1,118,027)**	**(898,444)**
Variable rate instruments				
Finance lease liabilities	(594,435)	(775,618)	(19,571)	(24,090)
Other financial liabilities	(617,920)	(1,452,997)	(20,345)	(45,130)
	(1,212,355)	**(2,228,615)**	**(39,916)**	**(69,220)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. There would have been no impact directly on equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Profit or loss 2012		Profit or loss 2011	
’000 RUB	**Increase**	**Decrease**	**Increase**	**Decrease**
EUR-denominated borrowings	(4,109)	4,109	(8,513)	8,513
USD-denominated borrowings	-	-	-	-
USD-denominated borrowings with hedged interest rate	(7,634)	7,634	(13,135)	13,135
Hedge liabilities related to credit line agreements	208	(208)	3,802	(3,802)
Hedge liabilities related to lease contracts	6,068	(6,068)	17,569	(17,569)
Cash flow sensitivity (net)	**(5,467)**	**5,467**	**(277)**	**277**

	Profit or loss 2012		Profit or loss 2011	
’000 USD	**Increase**	**Decrease**	**Increase**	**Decrease**
EUR-denominated borrowings	(135)	135	(265)	265
USD-denominated borrowings	-	-	-	-
USD-denominated borrowings with hedged interest rate	(251)	251	(408)	408
Hedge liabilities related to credit line agreements	8	(8)	118	(118)
Hedge liabilities related to lease contracts	200	(200)	546	(546)
Cash flow sensitivity (net)	**(178)**	**178**	**(9)**	**9**

(e) Fair values hierarchy

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

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

‘000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2012				
Available-for-sale financial assets	-	144,878	76,418	**221,296**
Financial assets held for trading	-	-	87,370	**87,370**
	-	**144,878**	**163,788**	**308,666**
Derivative financial liabilities	-	(36,823)	-	**(36,823)**
Guarantee issued (Note 23)	-	(394,504)	-	**(394,504)**
	-	**(288,449)**	**163,788**	**124,661**
31 December 2011				
Available-for-sale financial assets	-	-	75,980	**75,980**
	-	**-**	**75,980**	**75,980**
Derivative financial liabilities	-	(61,068)	-	**(61,068)**
	-	**(61,068)**	**75,980**	**14,912**

‘000 USD	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2012				
Available-for-sale financial assets	-	4,770	2,516	**7,286**
Financial assets held for trading	-	-	2,877	**2,877**
	-	**4,770**	**5,393**	**10,163**
Derivative financial liabilities	-	(1,212)	-	**(1,212)**
Guarantee issued (Note 23)	-	(12,988)	-	**(12,988)**
	-	**(9,430)**	**5,393**	**(4,037)**
31 December 2011				
Available-for-sale financial assets	-	-	2,360	**2,360**
	-	**-**	**2,360**	**2,360**
Derivative financial liabilities	-	(1,897)	-	**(1,897)**
	-	**(1,897)**	**2,360**	**463**

Financial assets available for sale as of 31 December 2012 in the amount of RUB 163,788 thousand / USD 5 393 thousand are accounted for at the initial cost and include unlisted promissory notes acquired in 2012. The Group management believes that the fair value of the above securities at the end of year did not change significantly between the date of the promissory note acquisition and the reporting date, therefore it is likely not to differ significantly from their carrying amount.

(f) Capital management

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

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

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Total liabilities	74,856,200	53,592,380	2,464,588	1,664,561
Less: cash and cash equivalents	(1,189,105)	(718,227)	(39,150)	(22,308)
Net debt	73,667,095	52,874,153	2,425,438	1,642,253
Total equity	21,981,463	20,979,968	723,725	651,631
Debt to capital ratio at 31 December	**3.35**	**2.52**	**3.35**	**2.52**

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

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

37 Operating leases

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Less than one year	6,153,141	5,601,985	202,588	173,996
Between one and five years	17,868,649	16,202,338	588,313	503,239
More than five years	9,422,784	6,780,791	310,239	210,609
	33,444,574	**28,585,114**	**1,101,140**	**887,844**

As at 31 December 2012 RUB 30,926,515 thousand/USD 1,018,234 thousand (2011: RUB 26,979,838 thousand/USD 837,985 thousand) out of total rent payments relates to the contracts denominated in USD; and RUB 56,365 thousand/USD 1,856 thousand (2011: RUB 68,398 thousand/USD 2,124 thousand) relates to the contracts nominated in euro.

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

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

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

In 2012 the Group concluded 20 contracts for operating lease of Airbus A321 aircraft due for delivery in 2013-2015 for 12 years. These contracts do not contain provisions for repurchase at the price below the fair value which would allow to reasonably expect exercising the right for repurchase as of the date when lease relations commenced.

38 Capital commitments

As at 31 December 2012 the Group had contractual commitments to purchase property, plant and equipment for RUB 7,348,800 thousand/USD 241,954 thousand (2011: RUB 66,507,250 thousand/USD 2,065,487 thousand), of which RUB 1,055,582 thousand/USD 34,754 thousand (2011: RUB 1,362,728 thousand/USD 42,326 thousand) had been advanced.

39 Contingencies

(a) Insurance

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

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

(b) Litigation

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

(c) Taxation contingencies

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

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

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

The estimated amount of potential liabilities that could be subject to different interpretations of the tax laws and regulations and are not accrued in the consolidated financial statements could be up to approximately RUB 547,608 thousand/USD 18,030 thousand (2011: RUB 242,179 thousand/USD 7,522 thousand). Management believes that it is possible, but not probable, that an outflow of economic resources will be required to settle the obligations.

(d) Guarantees

As at 31 December 2012 the Group has a guarantee issued to an unrelated party in connection with the contractual obligations for purchase of aircraft by another unrelated party.

The Group does not expect any liability to arise in connection with such payment.

The fair value of the guarantee calculated in accordance with IAS 39 based on analysis of credit ratings of similar entities is included into the «Trade and other payables» line for an amount of RUB 396,504 thousand / USD 13,055 thousand (Note 23).

40 Related party transactions

(a) Control relationships

As at 31 December 2012 the Company’s immediate and ultimate controlling party is a Non-State Pension Fund Surgutneftegaz.

(b) Management remuneration

Key management personnel comprise directors, members of the Management Board and the Supervisory Council. The total compensation to key management personnel is reported under personnel expenses in the consolidated statement of comprehensive income for the year ended 31 December 2012 and amounted to RUB 270,391 thousand/USD 8,696 thousand (2011: RUB

263,556 thousand/USD 8,968 thousand). Compensation to key management personnel consists of the contractual salary and performance bonus depending on the achieved operating results.

(c) Transactions with other related parties

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

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

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

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

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Trade receivables (note 14):				
Entities with joint control or significant influence over the Group	96,595	144,969	3,182	4,503
Associates	785	881,028	26	27,364
Other	33,607	1,065	1,105	33
	130,987	**1,027,062**	**4,313**	**31,900**

The outstanding balances are interest free and short-term, except for where it is specifically noted. Most relate to the rendering of transportation services to the related parties. The outstanding balances are neither guaranteed nor secured. The settlements are performed in cash. No doubtful debts due from related parties existed as at 31 December 2012 and as at 31 December 2011.

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Trade and accounts payable (note 23):				
Entities with joint control or significant influence over the Group	264,018	292,665	8,693	9,090
Associates	-	69,530	-	2,160
Other	73	253	2	7
	264,091	**362,448**	**8,695**	**11,257**
Advances received (note 27):				
Entities with joint control or significant influence over the Group	6,752	1,089	222	34
Associates	2	1,791	-	55
Other	-	23	-	1
	6,754	**2,903**	**222**	**90**

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Other (note 23):				
Entities with joint control or significant influence over the Group	37	-	1	-
Key management personnel	554	14,959	18	465
	591	**14,959**	**19**	**465**
	271,436	**380,310**	**8,936**	**11,812**

There were the following related party transactions in 2012 and 2011:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD	2011 '000 USD
Sales – transportation services:				
Entities with joint control or significant influence over the Group	88,009	67,593	2,831	2,300
Associates	264,369	419,726	8,503	14,283
Other	-	83	-	2
	352,378	**487,402**	**11,334**	**16,585**
Other sales				
Entities with joint control or significant influence over the Group	286,439	263,664	9,212	8,972
Associates	178,077	303,761	5,727	10,336
Key management personnel	280	-	9	-
Other	372	339	12	12
	465,168	**567,764**	**14,960**	**19,320**
Other operating income:				
Entities with joint control or significant influence over the Group	13,629	52	438	2
Associates	1,099	683,418	35	23,255
	14,728	**683,470**	**473**	**23,257**
Total sales to related parties	**832,274**	**1,738,636**	**26,767**	**59,162**
Direct operating expenses:				
Entities with joint control or significant influence over the Group	1,656,819	1,306,250	53,286	44,449
Associates	405,107	710,636	13,029	24,182
Other	14,336	-	461	-
	2,076,262	**2,016,886**	**66,776**	**68,631**
Other operating expenses:				
Entities with joint control or significant influence over the Group	28,237	25,019	908	851
Associates	87	15,100	3	514
Key management personnel	545	-	18	-
Other	8	-	-	-
	28,877	**40,119**	**929**	**1,365**
Total purchases from related parties	**2,105,139**	**2,057,005**	**67,705**	**69,996**

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

41 Events subsequent to the reporting date

On 30 April 2013 the Group fulfilled its obligations for purchasing of БО-06 and БО-07 bonds upon the holders' demand on public offer conditions with a total nominal value of RUB 826,032 thousand with a possibility of subsequent circulation.

On 26 April 2013 a regular meeting of the Supervisory Council was held where the member discussed the equity increase for an amount not less than RUB 10,000,000 thousand.

In April the Group started operation of a new helicopter type - AW139. Currently the Group operates 2 helicopters, and in general the contract stipulates for flight and technical support of 10 aircraft of such type.

In March 2013 two of the Group companies, namely UTair Cargo CJSC and UTair-South Africa were certified as technically compliant with the requirements to a service provider for the UN and were allowed to participate in invitations to bids for air operations in support of this international organization.

In March 2013 the Group redeemed its first and second BO-06 and BO-07 bonds issues with a total nominal value of RUB 3 bln., and made payment of the last of its twelve coupons, and thus the Group performed its obligations to the securities' holders in full. The total income paid under bonds of both issues throughout the circulation period amounted to RUB 1,121,760 thousand.

In March 2013 TS Technik (one of the Group's companies) obtained OTAR Part-145 Option 2 certification by Bermuda Department of Civil Aviation authorizing it to perform maintenance of the following aircraft types: ATR 42-42-200/300/320, ATR 42-42-400/500/ 72-212A, Boeing 737 Classic/ NG, Bombardier CL-600-2B19.

In February 2013 the management of MICEX Stock Exchange included the Group's БО-09 and БО-10 documentary interest-bearing inconvertible bonds dated 05 December 2011 into A1 quotation list.

The Group purchased 50% of shares of UTG Express CJSC.

Following the liquidity crisis which occurred in the Republic of Cyprus in the beginning of 2013, on 25 March 2013 the Cypriot government and the European Group in cooperation with the IMF reached an agreement concerning a set of measures to be aimed at the recovery of the financial sector stability. The Cypriot government will introduce a number of measures to include closing of one of the major banks, mandatory conversion of some security deposits into shares in another bank, temporary restrictions for withdrawal of funds, mandatory prolongation of security deposits which reached their maturity dates, and restrictions for capital flow. The Group management believes that these events subsequent to the reporting date do not have significant influence on the financial position and performance of the Group as of 31 December 2012, and will not have such influence on the Group in future.