JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

IFRS Consolidated Financial Statements
for the year ended 31 December 2014

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The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out below, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of Joint Stock Company Aeroflot - Russian Airlines and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2014, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, information about financial position of the Group, and the financial results of its operations and cash flows and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 (set out on pages 1-69) were approved on 27 February 2015 and signed on behalf of management by:

V.G. Savelyev
General Director

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

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Joint Stock Company Aeroflot – Russian Airlines and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T: +7 495 967 6000, F: +7 495 967 6001, www.pwc.ru

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

27 February 2015

Moscow, Russian Federation

A.N. Korablev, Senior Manager (licence no. 01-000389), ZAO PricewaterhouseCoopers Audit

Audited entity: Joint Stock Company Aeroflot – Russian Airlines

State registration certificate № 032.175, issued by the Moscow Registration Chamber on 21 June 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 2 August 2002 under registration № 1027700092661

Address of audited entity: 10 Arbat street, 119002, Russian Federaion

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

OJSC AEROFLOT
Consolidated Statement of Profit or Loss
for the year ended 31 December 2014
(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Traffic revenue	5	277,354	257,546
Other revenue	6	42,417	33,410
Revenue		**319,771**	**290,956**
Operating costs, excluding staff costs and depreciation and amortisation	7	(239,327)	(212,105)
Staff costs	8	(52,148)	(45,349)
Depreciation and amortisation	19, 20	(12,136)	(10,658)
Other operating expenses and income, net	9	(4,892)	(3,049)
Operating costs		**(308,503)**	**(271,161)**
Operating profit		**11,268**	**19,795**
Finance income	10	2,471	2,686
Finance costs	10	(28,399)	(8,814)
Hedging result	10	(1,723)	-
Share of results of associates		31	37
(Loss)/profit before income tax		**(16,352)**	**13,704**
Income tax	11	(794)	(6,369)
(Loss)/profit for the year		**(17,146)**	**7,335**
Attributable to:			
Shareholders of the Company		(15,471)	8,016
Non-controlling interest		(1,675)	(681)
(LOSS)/PROFIT FOR THE YEAR		**(17,146)**	**7,335**
(Loss)/profit per share - basic (in Roubles per share)		**(14.6)**	**7.6**
(Loss)/profit per share - diluted (in Roubles per share)		**(14.6)**	**7.6**
Weighted average number of shares outstanding (millions)		**1,056.9**	**1,054.1**
Weighted average number of diluted shares outstanding (millions)		**1,056.9**	**1,054.1**

Approved on 27 February 2015 and signed on behalf of management

V. G. Savelyev
General Director

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

The consolidated statement of profit or loss should be read in conjunction with the notes set out on pages 7 to 69 which are forming part of the consolidated financial statements

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2014	2013
(Loss)/profit for the year		**(17,146)**	**7,335**
Other comprehensive (loss)/profit:			
Items that may be reclassified subsequently to profit or loss:			
Translation from the functional currency to the presentation currency		33	28
Loss from the change in fair value of hedging financial instruments	22	(60,389)	(903)
Deferred tax related to the loss on the change in fair value of financial instruments	11	12,115	2
Other comprehensive loss for the year		**(48,241)**	**(873)**
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR		**(65,387)**	**6,462**
Total comprehensive (loss)/profit attributable to:			
Shareholders of the Company		(63,712)	7,143
Non-controlling interest		(1,675)	(681)
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR		**(65,387)**	**6,462**

The consolidated statement of comprehensive income should be read in conjunction with the notes set out on pages 7 to 69 which are forming part of the consolidated financial statements

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	31 December 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents	12	26,547	18,660
Short-term financial investments		961	272
Accounts receivable and prepayments	14	56,769	55,691
Current income tax prepayment		668	476
Aircraft lease security deposits	13	321	405
Expendable spare parts and inventories	15	6,516	4,927
Derivative financial instruments	22	431	1,034
Total current assets		**92,213**	**81,465**
Non-current assets			
Deferred tax assets	11	18,540	2,174
Investments in associates		140	123
Long-term financial investments	16	6,115	6,099
Aircraft lease security deposits	13	2,110	1,088
Other non-current assets	17	3,759	5,955
Prepayments for aircraft	18	29,241	12,318
Property, plant and equipment	19	116,044	88,777
Intangible assets	20	2,762	3,350
Goodwill	21	6,660	6,660
Derivative financial instruments	22	134	1,175
Total non-current assets		**185,505**	**127,719**
TOTAL ASSETS		**277,718**	**209,184**
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	22	26,312	213
Accounts payable and accrued liabilities	23	48,952	36,249
Unearned traffic revenue		22,469	16,334
Deferred revenue related to frequent flyer programme	24	799	577
Provisions	25	2,349	881
Finance lease liabilities	26	16,912	8,688
Short-term borrowings and current portion of long-term loans and borrowings	27	17,343	5,029
Total current liabilities		**135,136**	**67,971**
Non-current liabilities			
Long-term loans and borrowings	27	6,860	8,377
Finance lease liabilities	26	132,366	63,348
Provisions	25	4,845	1,655
Deferred tax liabilities	11	133	1,647
Deferred revenue related to frequent flyer programme	24	2,560	1,862
Derivative financial instruments	22	4,839	4,546
Other non-current liabilities	28	4,484	5,298
Total non-current liabilities		**156,087**	**86,733**
TOTAL LIABILITIES		**291,223**	**154,704**
Equity			
Share capital	30	1,359	1,359
Treasury shares reserve		(3,571)	(3,573)
Accumulated profit on disposal of treasury shares		1,659	1,659
Investment revaluation reserve		(5)	(10)
Translation from the functional currency to the presentation currency		-	(28)
Hedging reserve	22	(48,657)	(383)
Retained earnings		45,584	61,122
Equity attributable to shareholders of the Company		**(3,631)**	**60,146**
Non-controlling interest		(9,874)	(5,666)
TOTAL EQUITY		**(13,505)**	**54,480**
TOTAL LIABILITIES AND EQUITY		**277,718**	**209,184**

The consolidated statement of financial position should be read in conjunction with the notes set out on pages 7 to 69 which are forming part of the consolidated financial statements

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities:			
(Loss)/profit before income tax		(16,352)	13,704
Adjustments for:			
Depreciation and amortisation	19, 20	12,136	10,658
Charge/(reversal) of impairment provision for accounts receivable and prepayments, net	9	3,103	(834)
Loss on accounts receivable write-off	9	33	616
Change in impairment provision for obsolete expendable spare parts and inventory		242	376
Charge of provision for impairment of property, plant and equipment	19	34	184
Non-cash operations, related to assets classified as held for sale		-	(13)
(Gain)/loss on disposal of property, plant and equipment		(1,907)	193
Gain on accounts payable write-off	9	(384)	(119)
Share of financial results of associates		(31)	(37)
Gain on sale of investments and accrual of provision for impairment of investments	10	(1)	(331)
Loss from change in the fair value of derivative financial instruments	10	9,869	939
Hedging result	10	1,723	-
Change in provisions	25	1,271	1,639
Interest expense	10	4,934	3,320
Foreign exchange loss	10	14,795	3,348
Write-off of VAT	9	-	20
Recovery of VAT	9	(285)	-
Change in the share-based payment provision	36	-	(34)
Change in other provisions and other assets impairments		(46)	193
Other operating expenses/(income), net		165	(224)
Other finance (income)/costs, net		(449)	15
Loss/(gain) on derivative financial instruments, net		2,813	(620)
Dividend income		(60)	(49)
Total operating cash flows before working capital changes		**31,603**	**32,944**
Change in accounts receivable and prepayments		4,658	(3,014)
Change in expendable spare parts and inventories		(1,831)	(1,019)
Change in accounts payable and accrued liabilities		8,452	4,345
Total operating cash flows after working capital changes		**42,882**	**33,256**
Change in restricted cash	12	(82)	(60)
Income taxes paid		(6,863)	(4,260)
Income tax refunded		40	9
Net cash flows from operating activities		**35,977**	**28,945**

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Cash flows from investing activities:			
Proceeds from sale of investments and deposits return		1,869	228
Purchases of investments and deposits placement		(2,552)	(361)
Proceeds from sale of property, plant and equipment		126	66
Purchases of property, plant and equipment and intangible assets		(6,160)	(4,410)
Dividends received		70	58
Prepayments for aircraft		(21,361)	(7,154)
Return of prepayments for aircraft		9,620	7,783
Payments and return of operating lease security deposits, net		(104)	191
Net cash flows used in investing activities		**(18,492)**	**(3,599)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		18,398	6,500
Repayment of loans and borrowings		(9,870)	(14,579)
Repayment of the principal element of finance lease liabilities		(15,629)	(9,795)
Interest paid		(3,409)	(2,857)
Proceeds from disposal of treasury shares		2	365
Proceeds from sale of treasury shares to non-controlling shareholders		119	12
Purchase of treasury shares		-	(12)
Dividends paid		(2,833)	(1,289)
(Payments)/proceeds on settlement of derivative financial instruments, net		(1,451)	(127)
Net cash used in financing activities		**(14,673)**	**(21,782)**
Effect of exchange rate fluctuations on cash and cash equivalents		5,075	26
Net increase in cash and cash equivalents		**7,887**	**3,590**
Cash and cash equivalents at the beginning of the year		18,660	15,070
Cash and cash equivalents at the end of the year	12	**26,547**	**18,660**
Non-cash transactions as part of the investing activities:			
Property, plant and equipment acquired under finance leases		34,472	18,605

The consolidated statement of cash flows should be read in conjunction with the notes set out on pages 7 to 69 which are forming part of the consolidated financial statements

(All amounts in millions of Russian Roubles, unless otherwise stated)

		Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated result on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Accumulated currency translation reserve	Hedging reserve	Share-based payment reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2013		1,359	(2,440)	(12)	(54)	517	207	54,339	53,916	(4,522)	49,394
Profit/(loss) for the year		-	-	-	-	-	-	8,016	8,016	(681)	7,335
Translation from the functional currency to the presentation currency		-	-	2	26	-	-	-	28	-	28
Loss from the change in fair value of derivative financial instruments net of related deferred tax	11,22	-	-	-	-	(900)	-	-	(900)	-	(900)
Total other comprehensive loss		-	-	-	-	-	-	-	(872)	-	(872)
Total comprehensive profit/(loss)		-	-	-	-	-	-	-	7,144	(681)	6,463
Disposal of subsidiary		-	-	-	-	-	-	-	-	(347)	(347)
Share-based payments		-	-	-	-	-	(207)	-	(207)	-	(207)
Additions of treasury shares		-	(12)	-	-	-	-	-	(12)	-	(12)
Disposal of treasury shares		-	538	-	-	-	-	-	538	-	538
Sale of shares to non-controlling shareholders		-	-	-	-	-	-	-	-	12	12
Dividends declared		-	-	-	-	-	-	(1,233)	(1,233)	(128)	(1,361)
31 December 2013		1,359	(1,914)	(10)	(28)	(383)	-	61,122	60,146	(5,666)	54,480
1 January 2014		1,359	(1,914)	(10)	(28)	(383)	-	61,122	60,146	(5,666)	54,480
Loss for the year		-	-	-	-	-	-	(15,471)	(15,471)	(1,675)	(17,146)
Translation from the functional currency to the presentation currency		-	-	5	28	-	-	-	33	-	33
Loss from the change in fair value of derivative financial instruments net of related deferred tax	11,22	-	-	-	-	(48,274)	-	-	(48,274)	-	(48,274)
Total other comprehensive loss		-	-	-	-	-	-	-	(48,241)	-	(48,241)
Total comprehensive loss		-	-	-	-	-	-	-	(63,712)	(1,675)	(65,387)
Disposal of treasury shares		-	2	-	-	-	-	-	2	-	2
Sale of treasury shares to non-controlling shareholders		-	-	-	-	-	-	2,585	2,585	(2,283)	302
Dividends declared		-	-	-	-	-	-	(2,652)	(2,652)	(250)	(2,902)
31 December 2014		1,359	(1,912)	(5)	-	(48,657)	-	45,584	(3,631)	(9,874)	(13,505)

The consolidated statement of changes in equity should be read in conjunction with the notes set out on pages 7 to 69 which are forming part of the consolidated financial statements

(All amounts in millions of Russian Roubles, unless otherwise stated)

1. NATURE OF THE BUSINESS

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

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

As at 31 December 2014 and 2013, the Government of the Russian Federation (the "RF") represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

The principal subsidiaries are:

Company name	Registered address	Principal activity	31 December 2014	31 December 2013
OJSC Donavia ("Donavia")	Rostov-on-Don, RF	Airline	100.00%	100.00%
OJSC Rossiya airlines ("AK Rossiya")	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
OJSC Vladivostok Avia ("Vladavia")	Primorsk Region, RF	Airline	26.60%	52.16%
OJSC Aurora Airlines ("AK Aurora")	Yuzhno-Sakhalinsk, RF	Airline	51.00%	100.00%
OJSC Orenburg airlines ("Orenburgavia")	Orenburg, RF	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo	Moscow, RF	Cargo transportation services	100.00%	100.00%
LLC Dobrolet ("Dobrolet")	Moscow, RF	Airline	100.00%	100.00%
LLC Pobeda Airlines ("Pobeda")	Moscow, RF	Airline	100.00%	-
LLC Aeroflot-Finance ("Aeroflot-Finance")	Moscow, RF	Finance services	100.00%	100.00%
CJSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
CJSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%

In 2013, following an order of the Russian Prime-Minister, OJSC Aurora Airlines was founded based on two Far East airlines – OJSC Sahalinskiye Aviatrassi and OJSC Vladivostok Avia. 49% of OJSC Aurora Airlines was sold for RUB 181 million to the governments of the Russian Far East regions in January 2014.

On 16 September 2014 the Company registered legal entity LLC Low Cost Carrier, which was renamed to LLC Pobeda Airlines on 9 December 2014.

The Group's major associate is:

Company name	Registered address	Principal activity	31 December 2014	31 December 2013
CJSC AeroMASH–AB ("AeroMASH–AB")	Moscow Region, RF	Aviation security	45.00%	45.00%

(All amounts in millions of Russian Roubles, unless otherwise stated)

1. NATURE OF THE BUSINESS (CONTINUED)

The table below provides information on the Group's aircraft fleet as at 31 December 2014 (number of items):

Type of aircraft	Ownership	Aeroflot	Donavia	Vladavia	AK Rossiya	Orenburgavia	AK Aurora	Pobeda	Group total
Il-96-300	Owned	5	-	-	-	-	-	-	5
An-24	Owned	-	-	-	-	-	1	-	1
Mi-8	Owned	-	-	3	-	-	-	-	3
Total owned		5	-	3	-	-	1	-	9
Airbus A319	Finance lease	4	-	-	9	-	-	-	13
Airbus A320	Finance lease	1	-	-	-	-	-	-	1
Airbus A321	Finance lease	21	-	-	-	-	-	-	21
Airbus A330	Finance lease	8	-	-	-	-	-	-	8
Boeing B737	Finance lease	-	-	-	-	-	2	-	2
Boeing B777	Finance lease	10	-	-	-	-	-	-	10
An-148	Finance lease	-	-	-	6	-	-	-	6
Total finance lease		44	-	-	15	-	2	-	61
SSJ 100	Operating lease	16	-	-	-	-	-	-	16
Airbus A319	Operating lease	3	10	-	7	-	6	-	26
Airbus A320	Operating lease	62	-	1	11	-	-	-	74
Airbus A321	Operating lease	5	-	-	-	-	-	-	5
Airbus A330	Operating lease	14	-	-	-	-	-	-	14
Boeing B737	Operating lease	6	-	-	-	24	3	8	41
Boeing B767	Operating lease	-	-	-	3	-	-	-	3
Boeing B777	Operating lease	-	-	-	-	3	-	-	3
DHC 8 S-300	Operating lease	-	-	-	-	-	4	-	4
DHC 8 S-200	Operating lease	-	-	-	-	-	3	-	3
DHC 6 S-400	Operating lease	-	-	-	-	-	2	-	2
Total operating lease		106	10	1	21	27	18	8	191
Total fleet		155	10	4	36	27	21	8	261

As at 31 December 2014: 5 aircraft Il-96-300 and 3 aircraft Mi-8 are not operated, 11 Boeing B737 and 1 aircraft Airbus A320 are under redelivery maintenance.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting" dated 23 July 2010. The consolidated financial statements are presented in millions of Russian Roubles ("RUB million"), except where specifically noted otherwise.

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

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

Functional and presentation currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Since 1 January 2007, the functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB" or "rouble"). Since 1 January 2013 the presentation currency of the Group's consolidated financial statements is the Russian Rouble as well.

Consolidation

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

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

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

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

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

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

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

Consolidation (continued)

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

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

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

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

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

a) fair value, or

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

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

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

Purchases of non-controlling interests

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

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

Investments in associates

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

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

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

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

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

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

Disposals of subsidiaries or associates

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

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

(All amounts in millions of Russian Roubles, unless otherwise stated)

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

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group performs goodwill impairment testing on an annual basis and whenever there are indications that goodwill may be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Goodwill is allocated to the cash generating units (namely, the Group's subsidiaries). These units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities denominated in foreign currency into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of profit or loss for the year within finance income or costs except for foreign exchange differences arising on translation of financial assets and liabilities representing hedge instruments. Foreign exchange differences on hedge instruments are recognised in the hedging reserve.

Translation at year-end rates does not apply to non-monetary items in the consolidated statement of financial position that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

	Official exchange rates	
	Roubles for 1 US Dollar	**Roubles for 1 Euro**
Average rate for 2014	38.42	50.82
31 December 2014	56.26	68.34
Average rate for 2013	31.85	42.31
31 December 2013	32.73	44.97

At 26 February 2015 the official exchange rates of US Dollar and Euro to rouble were 62.59 roubles for 1 US Dollar and 71.17 roubles for 1 Euro, respectively.

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

Revenue recognition

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

Passenger revenue: Ticket sales are reported as traffic revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported in the Group's consolidated statement of financial position in a separate line item (unearned traffic revenue) within current liabilities. This item is reduced either when the Group completes the transportation service or when the passenger requests a refund. Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the date the tickets are issued based on an analysis of historical patterns of actual sales data. Commissions, which are payable to the sales agents are recognised as sales and marketing expenses within operating costs in the consolidated statement of profit or loss in the period of ticket sale by agents.

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

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

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

Other revenue: Revenue from bilateral airline agreements is recognised when earned with reference to the terms of each agreement. Hotel accommodation revenue is recognised when the services are provided. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped to the customer. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues from sale of services are recognised in the period in which the services were rendered.

Segment information

The Group determines and presents operating segments based on the information that internally is provided to the General Director of the Group, who is the Group's chief operating decision maker. Segments whose revenue, financial result or assets are not less than ten percent or more of all the segments are reported separately.

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

Intangible assets

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

Property, plant and equipment

Property, plant and equipment are reported at cost, less accumulated depreciation and impairment losses (where appropriate). Depreciation is calculated in order to allocate the cost (less estimated residual value where applicable) over the remaining useful lives of the assets.

(a) Fleet

(i) *Owned aircraft and engines*: Owned fleet consists of Russian-made aircraft, while engines are both Russian and foreign-made. The full list of aircraft is presented in Note 1.

(ii) *Finance leased aircraft and engines:* Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright.

(iii) *Capitalised costs on regular repairs and maintenance works of aircraft operated under finance lease:* Expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are separately capitalised. The carrying amount of those parts that are replaced is derecognised from the consolidated statement of financial position and included in operating costs in the Group's consolidated statement of profit or loss. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and maintenance costs are expensed as incurred and included in operating costs (aircraft maintenance) in the Group's consolidated statement of profit or loss.

(iv) *Depreciation of fleet:* The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life or lease term, if it is shorter. The airframe, engines and interior of aircraft are depreciated separately over their respective estimated useful lives.

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

Airframes of aircraft	20-32 years
Engines	8-10 years
Interiors	5 years
Buildings	15-50 years
Facilities and transport vehicles	3-5 years
Other non-current assets	1-5 years

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

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

Property, plant and equipment (continued)

(b) *Land, buildings and other plant and equipment*

Property, plant and equipment is stated at the historical US Dollar cost recalculated at the exchange rate on 1 January 2007, the date of the change of the functional currency of the Company and its major subsidiaries from the US Dollar to the Russian Rouble. Depreciation is accrued based on the straight-line method on all property, plant and equipment based upon their expected useful lives or, in the case of leasehold properties, over the duration of the leases or useful life if it is shorter. The useful lives of the Group's property, plant and equipment range from 1 to 50 years. Land is not depreciated.

(c) *Construction in progress*

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

Gain or loss on disposal of non-current asset

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Group's consolidated statement of profit or loss within operating costs.

Finance lease

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

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

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

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

Capitalisation of borrowing costs

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

The capitalisation starts when the Group:

(a) bears expenses related to the qualifying asset;

(b) bears borrowing costs; and

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

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

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

Impairment of property, plant and equipment

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

Operating leases

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

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

Operating leases (continued)

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

The operating lease agreements include requirements to perform regular repairs and maintenance works during the lease term. Accordingly, the Group accrues a provision in the amount of discounted expenses needed to perform regular repairs and maintenance works. The estimated expenses are based on the most reliable data available at the time of such estimation. The provisions of the operating lease agreements, age and condition of the aircraft and engines, market value of fixtures, key parts and components subject to replacement and the cost of required work are taken into account. The provision is recorded at the discounted value.

The costs of regular repairs and maintenance works performed for aircraft held under finance lease are capitalized and amortized over the shorter of (i) the scheduled usage period to the next major inspection event or (ii) the remaining life of the asset or (iii) remaining lease term.

Aircraft lease security deposits

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

Classification of financial assets

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

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

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

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

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

Classification of financial liabilities

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

Financial instruments – key measurement terms

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

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

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

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

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

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

(i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

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

Financial instruments – key measurement terms (continued)

(iii) level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

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

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

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

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

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

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets

The Group derecognises financial assets when:

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

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

- (i) also transferring all substantial risks and rewards of ownership of the assets, or
- (ii) neither transferring nor retaining all substantial risks and rewards of ownership but losing control over such assets.

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

Financial instruments and hedge accounting (continued)

The fair values of various derivative instruments used for hedging purposes are disclosed in note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as a separate line below operating result of the Group.

Amounts accumulated in equity are reclassified to profit or loss (as profit or loss from financing activities) in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within financial gains and losses as a separate line.

Available-for-sale investments

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

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

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

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

Cash and cash equivalents

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are individually recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Doubtful accounts receivable balances are assessed individually and any impairment losses are included in other operating costs in the Group's consolidated statement of profit or loss.

Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

Prepayments

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

Trade and other payables

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

*Loans and **borrowings***

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

Short-term loans and borrowings comprise:

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

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

Expendable spare parts and inventories

Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower. The costs are determined on the first-in, first- out ("FIFO") basis. The Group accrues a provision for the full amount of obsolete inventories which the Group does not plan to continue using in its operations.

Value added taxes

Value added tax ("VAT") related to sales of goods or provision of services is recorded as a liability to the tax authorities on an accruals basis. Domestic flights in general are subject to VAT at 18% and international flights are subject to VAT at 0%. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported leased aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT. The recovery of input VAT is typically delayed by up to six months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the date of the consolidated statement of financial position is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the consolidated statement of financial position as VAT receivable. VAT receivable that is not expected to be recovered within the twelve months from the reporting date is classified as a non-current asset. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT.

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

Frequent flyer programme

Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot Bonus. Subject to the programme's terms and conditions, the miles earned entitle members to a number of benefits such as free flights and flight class upgrades. In accordance with IFRIC 13 *Customer Loyalty Programmes,* accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used. The fair value of miles accumulated on the Group's own flights is recognised under current and non-current deferred revenue related to frequent flyer programme (Note 24) within current and non-current liabilities in the Group's consolidated statement of financial position. The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme, as well as the fair value of promo miles, is recognised as other current and non-current liabilities related to frequent flyer programme (Notes 23 and 28) in accounts payable and accrued non-current liabilities, respectively, in the Group's consolidated statement of financial position. Revenue is recognised upon the provision of air transportation services to passengers.

Employee benefits

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

Provisions

Provisions are recognised if, and only if, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate (Note 27). Where the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax

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

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

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

Income tax (continued)

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Uncertain income tax positions

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

Pensions

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

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

Pensions (continued)

The Group also participates in a defined contribution plan, under which the Group has committed to making additional contributions as a percentage (20% in 2014) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Share capital

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

Share-based compensation

The title to future equity compensations (shares or share options) to employees for the provided services is measured at fair value of these instruments at the date of the transfer and is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to these awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The effect of revisiting initial estimates, if any, is recognised in profit or loss in alignment with the Group's equity.

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

Treasury shares purchased

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paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. The Company's shares, which are held as treasury stock or belong to the Company's subsidiaries, are reflected as a reduction of the Group's equity.

The sale or re-issue of such shares does not impact net profit for the current year and is recognised as a change in the shareholders' equity of the Group. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

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

Dividends

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

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

Earnings/loss per share

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

Changes in presentation of consolidated financial statements.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Useful lives and residual value of property, plant and equipment

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

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

Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the date the tickets are issued based on an analysis of historical patterns of actual sales data. The assessment of the probability that the tickets will not be used is a matter of management judgement. A change in these estimates may require the adjustment to the revenue amount in the consolidated statement of profit or loss (Note 5) and to the unearned traffic revenue in the consolidated statement of financial position.

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

Frequent flyer programme

At the reporting date, the Group estimates and recognises the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 2) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value. The assessment of the fair value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus members, are a matter of management judgement. A change in these estimates may require the adjustment of deferred revenue related to frequent flyer programme in the consolidated statement of financial position (Note 24) and adjustment to revenue in the consolidated statement of profit or loss (Note 5).

Compliance with tax legislation

Compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities (Note 39).

Classification of a lease agreement as operating and finance lease

Management applies professional judgement with regard to the classification of aircraft lease agreements as operating and finance lease agreements in order to determine whether all significant risks and rewards related to the ownership of an asset are transferred to the Group in accordance with the agreement and which risks and rewards are significant. A change in these estimates may require a different approach to aircraft accounting.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 21.

Deferred tax asset recognition

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

New standards and interpretations effective from 1 January 2014

The following new standards and interpretations became effective for the Group from 1 January 2014:

IFRIC 21 – “Levies” (issued on 20 May 2013, effective for annual periods beginning on or after 1 January 2014);

Amendments to IFRS 10, IFRS 12 and IAS 27 – “Investment Entities” (issued on 31 October 2012, effective for annual periods beginning on or after 1 January 2014);

“Offsetting financial assets and financial liabilities” – Amendments to IAS 32 (issued in December 2011, effective for annual periods beginning on or after 1 January 2014);

Amendments to IAS 36 – “Recoverable amount disclosures for non-fi (issued on 29 May 2013, effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period);

Amendments to IAS 39 – “Novation of Derivatives and Continuation of Hedge Accounting” (issued on 27 June 2013, effective for annual periods beginning on or after 1 January 2014).

These Standards, amendments to standards and interpretations did not have material impact on the Group’s consolidated financial statements.

New Accounting Pronouncements

The following new standards or amendments effective for the annual periods beginning on or after 1 January 2015 and which the Group has not early adopted:

IFRS 9 “Financial Instruments Part 1: Classification and Measurement” (issued in June 2014 effective for annual periods beginning on or after 1 January 2018). The Group is considering the implications of the amendment and its impact on the Group’s consolidated financial statements;

Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective on or after 1 July 2014). These amendments were approved for implementation in Russian Federation;

IFRS 14 “Regulatory deferral accounts” (issued in January 2014, effective for annual periods beginning on or after 1 January 2016). This standard was approved for implementation in Russian Federation;

IFRS 15 “Revenue from contracts with customers” (issued on 28 May 2014, effective for annual periods beginning on or after 1 January 2017). The Group is considering the implications of the standard and its impact on the Group’s consolidated financial statements;

Annual Improvements to International Financial Reporting Standards, 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). These improvements were approved for implementation in Russian Federation;

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

Annual Improvements to International Financial Reporting Standards, 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). These improvements were approved for implementation in Russian Federation;

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 « (issued on 6 May 2014 and effective for the annual periods beginning on or after 1 January 2016). These amendments were approved for implementation in Russian Federation;

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 "Property, plant and equipment» and IAS 38 «Int (issued in May 2014 and effective on or after 1 January 2016). These amendments were approved for implementation in Russian Federation;

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective from 1 January 2016);

Annual Improvements to International Financial Reporting Standards, 2014 (issued on 25 September 2014 and effective on or after 1 January 2016);

Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for the periods beginning on or after 1 January 2016);

« Disclosure Initiative» - Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016);

Applying the Consolidation Exception for Investment entities – Amendments to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Standards, amendments to standards and interpretations effective for annual periods on or after 1 January 2015 were not approved for implementation in Russian Federation, if above not stated otherwise.

(All amounts in millions of Russian Roubles, unless otherwise stated)

5. TRAFFIC REVENUE

	2014	2013
Scheduled passenger flights	253,613	230,594
Charter passenger flights	15,023	17,174
Cargo flights	8,718	9,778
Total traffic revenue	**277,354**	**257,546**

6. OTHER REVENUE

	2014	2013
Airline agreements revenue	21,605	16,886
Revenue from partners under frequent flyer programme	7,685	5,615
Refuelling services	2,815	2,154
Catering services on board	1,118	1,217
Ground handling and maintenance	1,000	902
Hotel revenue	447	515
Sales of duty free goods	604	420
Other revenue	7,143	5,701
Total other revenue	**42,417**	**33,410**

7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION

	2014	2013
Aircraft servicing and ground handling	51,965	46,015
Operating lease expenses	23,834	19,177
Aircraft maintenance	19,224	20,374
Sales and marketing expenses	11,415	12,808
Administration and general expenses	10,791	8,663
Passenger services	9,105	6,815
Communication expenses	7,784	5,903
Food and beverages for catering services	5,980	4,924
Custom duties	1,435	1,396
Insurance expenses	1,358	1,242
Cost of duty free goods sold	362	192
Other expenses	8,875	5,468
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	**152,128**	**132,977**
Aircraft fuel	87,199	79,128
Total operating costs less staff costs and depreciation and amortisation	**239,327**	**212,105**

(All amounts in millions of Russian Roubles, unless otherwise stated)

8. STAFF COSTS

	2014	2013
Wages and salaries	42,379	36,703
Pension costs	7,980	6,930
Social security costs	1,789	1,716
Total staff costs	**52,148**	**45,349**

Pension costs include:

- compulsory payments to the Pension Fund of the RF,
- contributions to a non-government pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% in 2014, 20% in 2013) of the transfers made personally by the employees participating in the programme, and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under a defined benefit pension plan as follows:

	2014	2013
Payments to the Pension Fund of the RF	7,904	6,866
Defined contribution pension plan	37	45
Defined benefit pension plan	39	19
Total pension costs	**7,980**	**6,930**

9. OTHER OPERATING EXPENSES AND INCOME, NET

	2014	2013
Gain/(loss) on fixed assets disposal	1,872	(377)
Gain on accounts payable write-off	384	119
Fines and penalties received from suppliers	307	207
Recovery of VAT	285	-
Insurance compensation received	61	171
Write-off of VAT	-	(20)
(Increase)/decrease of bad debt provision	(3,103)	834
Increase of accrued reserves	(1,271)	(1,639)
Loss on accounts receivable write-off	(33)	(616)
Other expenses and income, net	(3,394)	(1,728)
Total other operating expenses and income, net	**(4,892)**	**(3,049)**

(All amounts in millions of Russian Roubles, unless otherwise stated)

10. FINANCE INCOME AND COSTS

	2014	2013
Finance income:		
Realised gain on derivative financial instruments (Note 22)	1,058	1,812
Interest income on bank deposits and security deposits	958	543
Gain on disposal of investments	1	331
Other finance income	454	-
Total finance income	**2,471**	**2,686**

	2014	2013
Finance costs:		
Foreign exchange loss	(9,720)	(3,348)
Realised loss on derivative financial instruments (Note 22)	(3,871)	(1,192)
Loss on change in fair value of derivative financial instruments (Note 22)	(9,869)	(939)
Interest expense	(4,934)	(3,320)
Other finance costs	(5)	(15)
Total finance costs	**(28,399)**	**(8,814)**

	2014	2013
Hedging result:		
Ineffective portion of fuel hedging	(1,187)	-
Effect of revenue hedging with liabilities in foreign currency	(536)	-
Total hedging result	**(1,723)**	**-**

(All amounts in millions of Russian Roubles, unless otherwise stated)

11. INCOME TAX

	2014	2013
Current income tax charge	6,559	6,224
Deferred income tax (benefit)/expense	(5,765)	145
Total income tax	**794**	**6,369**

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

	2014	2013
(Loss)/profit before income tax	(16,352)	13,704
Tax rate applicable in accordance with Russian legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with Russian legislation	3,270	(2,741)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	737	105
Non-deductible expenses	(3,811)	(2,653)
Unrecognised current year tax losses	(477)	(36)
Recognition of previously unrecognised tax losses	54	149
Write-off of deferred tax assets	(201)	(993)
Prior years income tax adjustments	(219)	(18)
Deferred income tax, recognized as part of other comprehensive income	(147)	(182)
Total income tax	**(794)**	**(6,369)**

During the year the Group revised its estimates related to the possibility of usage of deferred tax assets of OJSC “Orenburg airlines” and made a write-off in the amount of RUB 201 million (2013: RUB 993 million related to OJSC “Vladivostok Avia”).

(All amounts in millions of Russian Roubles, unless otherwise stated)

11. INCOME TAX (CONTINUED)

	31 December 2014	Movements for the year	31 December 2013	Movements for the year	31 December 2012
Tax effect of temporary differences:					
Tax losses carried forward	1,017	560	457	(947)	1,404
Long-term financial investments	25	(6)	31	(1)	32
Accounts receivable	(133)	(177)	44	(54)	98
Property, plant and equipment	9,933	8,700	1,233	(78)	1,309
Accounts payable	2,209	745	1,464	826	639
Derivative financial instruments	6,117	5,607	510	189	321
Deferred tax assets before tax set off	**19,168**	**15,429**	**3,739**	**(65)**	**3,803**
Tax set off	(628)	936	(1,565)	(667)	(898)
Deferred tax assets after tax set off	**18,540**	**16,365**	**2,174**	**(732)**	**2,905**
Property, plant and equipment	(92)	2,317	(2,409)	(34)	(2,104)
Customs duties related to the imported aircraft under operating leases	(461)	140	(601)	166	(767)
Long-term financial investments	(15)	-	(15)	157	(172)
Accounts receivable	(164)	(3)	(161)	(56)	(105)
Accounts payable	(29)	(3)	(26)	(311)	14
Deferred tax liabilities before tax set off	**(761)**	**2,451**	**(3,212)**	**(78)**	**(3,134)**
Tax set off	628	(936)	1,565	667	898
Deferred tax liabilities after tax set off	**(133)**	**1,515**	**(1,647)**	**589**	**(2,236)**
Movements for the year, net		17,880		(143)	
Less deferred tax recognised directly in equity		(12,115)		(2)	
Deferred income tax benefit/(expense) for the year		**5,765**		**(145)**	

The Group has unrecognised potential deferred tax assets in respect of unused tax losses carried forward. These tax losses carried forward expire as follow:

	31 December 2014	31 December 2013
Tax losses carried forward expiring by the end of:		
- 31 December 2018	1,989	2,258
- 31 December 2019	3,909	3,909
- 31 December 2021	915	915
- 31 December 2022	1,552	1,552
- 31 December 2023	96	96
- 31 December 2024	160	-
Total tax losses carried forward	**8,621**	**8,730**

(All amounts in millions of Russian Roubles, unless otherwise stated)

11. INCOME TAX (CONTINUED)

Deferred tax asset in respect of the change in the fair value of the derivative financial instruments of RUB 12,115 million (2013: deferred tax liability of RUB 2 million) has been recognised in these consolidated financial statements as a part of comprehensive income.

A deferred tax liability in relation to temporary differences of RUB 205 million (2013: RUB 192 million) relating to investments in subsidiaries of the Group has not been recognised in these consolidated financial statements as the Group is able to control the timing of reversal of the temporary difference, and reversal is not expected in the foreseeable future.

Management believes that the deferred tax assets of RUB 13,814 million as at 31 December 2014 (31 December 2013: RUB 3 million) and deferred tax liabilities of RUB 351 million as at 31 December 2014 (31 December 2013: RUB 3 million) are recoverable after more than twelve months after the end of the reporting period.

12. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash on hand and bank accounts denominated in roubles	13,211	9,776
Bank accounts denominated in US Dollars	7,626	4,023
Bank deposits denominated in roubles with maturity of less than 90 days	3,431	1,891
Bank deposits denominated in US Dollars with maturity of less than 90 days	-	1,309
Bank accounts denominated in other currencies	1,350	1,067
Bank accounts denominated in Euro	778	499
Cash in transit	151	95
Total cash and cash equivalents	**26,547**	**18,660**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 34. Most of the funds are held with a highly reliable state-controlled Russian bank – OJSC Sberbank of Russia ("Sberbank of RF") with long-term credit rating BBB (Fitch rating agency) as at 31 December 2014 (31 December 2013: BBB according to Fitch rating agency), and OJSC Bank BFA ("Bank BFA") with long-term credit rating B (S&P rating agency) as at 31 December 2014 (31 December 2013: B according to S&P rating agency).

As at 31 December 2014 the Group had restricted cash of RUB 186 million (31 December 2013: RUB 104 million) recorded within other non-current assets in the Group's consolidated statement of financial position.

(All amounts in millions of Russian Roubles, unless otherwise stated)

13. AIRCRAFT LEASE SECURITY DEPOSITS

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to three monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using an average market yield from 3.7% to 9.5% p.a. in 2014 (2013: from 5.0% to 9.5% p.a.).

	Aircraft lease security deposits
1 January 2013	**1,322**
Payment of security deposits	322
Amortisation charge	241
Return of security deposits	(503)
Foreign exchange difference	111
31 December 2013	**1,493**
Payment of security deposits	304
Amortisation charge	127
Return of security deposits	(372)
Foreign exchange difference	935
Deposit write-off	(56)
31 December 2014	**2,431**

	31 December 2014	**31 December 2013**
Current portion of security deposits	321	405
Non-current portion of security deposits	2,110	1,088
Total aircraft lease security deposits	**2,431**	**1,493**

Analysis of aircraft lease security deposits by their credit quality is presented below:

	31 December 2014	**31 December 2013**
International companies	2,408	1,473
Russian companies	23	20
Total aircraft lease security deposits	**2,431**	**1,493**

(All amounts in millions of Russian Roubles, unless otherwise stated)

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2014	**31 December 2013**
Trade accounts receivable	29,683	24,889
Other financial receivables	5,119	1,547
Less: impairment provision	(4,532)	(2,440)
Total financial receivables	**30,270**	**23,996**
Prepayments to suppliers	9,284	10,869
VAT and other taxes recoverable	10,959	10,501
Prepayments for aircraft	4,498	8,197
Deferred customs duties related to the imported aircraft under operating leases, current portion	842	935
Other receivables	916	1,193
Accounts receivable and prepayments	**56,769**	**55,691**

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

Deferred customs duties of RUB 842 million as of 31 December 2014 (31 December 2013: RUB 935 million) relate to the current portion of customs duties related to imported aircraft under operating leases. These customs duties are recognised within operating costs in the Group's consolidated statement of profit or loss over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 17.

Financial receivables are analysed by currencies in Note 34.

As at 31 December 2014 and 31 December 2013, sufficient impairment provision was made against accounts receivable and prepayments.

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

	Impairment provision
1 January 2013	**3,274**
Increase in impairment provision	1,100
Provision use	(577)
Release of provision	(1,357)
31 December 2013	**2,440**
Increase in impairment provision	3,550
Provision use	(1,011)
Release of provision	(447)
31 December 2014	**4,532**

Financial receivables are analysed by credit quality in Note 34.

(All amounts in millions of Russian Roubles, unless otherwise stated)

15. EXPENDABLE SPARE PARTS AND INVENTORIES

	31 December 2014	31 December 2013
Expendable spare parts	4,349	3,629
Fuel	714	362
Other inventories	2,129	1,370
Total expendable spare parts and inventories, gross	**7,192**	**5,361**
Less: impairment provision for obsolete expendable spare parts and inventories	(676)	(434)
Total expendable spare parts and inventories	**6,516**	**4,927**

16. LONG-TERM FINANCIAL INVESTMENTS

	31 December 2014	31 December 2013
Available-for-sale investments:		
Available-for-sale securities	6,062	6,062
Mutual investment funds	15	15
SITA Investment Certificates	39	20
Total available-for-sale investments (before impairment provision)	**6,116**	**6,097**
Other long-term investments:		
Loans issued to related parties and promissory notes of related parties (Note 36)	-	29
Total other long-term financial investments (before impairment provision)	**-**	**29**
Less: provision for impairment of long-term financial investments	**(1)**	**(27)**
Total long-term financial investments	**6,115**	**6,099**

Available-for-sale securities are mainly represented by the initial value of the Group's investment in OJSC MASH, a state-related company engaged in servicing of aircraft, passengers and handling cargo of Russian and foreign airlines, and providing non-aviation services to entities operating in Sheremetyevo airport and adjacent area, and to Sheremetyevo airport passengers.

The RF represented by the Federal Agency for State Property Management owns over 80% of the entity's shares (Note 36).

Management is unable to measure the fair value of the Group's investments in OJSC MASH reliably, as this entity has not published its most recent financial information, its shares are not quoted and recent trade prices are not publicly accessible. As at 31 December 2014 the investments are recognised in the consolidated statement of financial position at their initial cost of RUB 6,013 million (31 December 2013: RUB 6,013 million).

17. OTHER NON-CURRENT ASSETS

	31 December 2014	31 December 2013
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	2,083	2,915
VAT recoverable on acquisition of aircraft	328	1,886
Other non-current assets	1,348	1,154
Total other non-current assets	**3,759**	**5,955**

(All amounts in millions of Russian Roubles, unless otherwise stated)

18. PREPAYMENTS FOR AIRCRAFT

As at 31 December 2014 and 31 December 2013 non-current portion of prepayments for aircraft were RUB 29,241 million and RUB 12,318 million, respectively. Movements in the non-current portion of prepayments are due to concluding new agreements for delivery of Airbus A320 and A321.

As at 31 December 2014 and 31 December 2013 non-current prepayments include advance payments for the acquisition of the following aircraft:

		31 December 2014		**31 December 2013**	
Expected lease type	**Aircraft type**	**Number of aircraft, units**	**Expected delivery date**	**Number of aircraft, units**	**Expected delivery date**
Lease type is not determined	Boeing B787	22	2016-2019	22	2016–2019
Lease type is not determined	Airbus A350	22	2018-2023	22	2018–2023
Operating lease	SSJ 100	-	-	12	2015
Finance lease	Boeing B777	3	2016	6	2015-2016
Lease type is not determined	Airbus A320	30	2016-2018	10	2016–2017
Lease type is not determined	Airbus A321	19	2016-2018	4	2016–2017

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

(All amounts in millions of Russian Roubles, unless otherwise stated)

19. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2013	**6,175**	**75,504**	**10,948**	**12,233**	**721**	**105,581**
Additions	1,013	18,024	108	2,197	1,293	22,635
Capitalised expenditures	-	2,101	-	-	330	2,431
Disposals	(774)	(1,032)	(34)	(748)	-	(2,588)
Transfers	-	-	66	416	(482)	-
31 December 2013	**6,414**	**94,597**	**11,088**	**14,098**	**1,862**	**128,059**
Additions (i)	1,358	33,672	249	2,624	1,027	38,930
Capitalised expenditures	-	1,473	-	-	172	1,645
Disposals (ii)	(902)	(3,218)	(16)	(661)	(7)	(4,804)
Transfers	60	200	397	878	(1,535)	-
31 December 2014	**6,930**	**126,724**	**11,718**	**16,939**	**1,519**	**163,830**
Accumulated depreciation						
1 January 2013	**(4,233)**	**(17,246)**	**(3,871)**	**(6,231)**	**(15)**	**(31,596)**
Charge for the year	(887)	(6,866)	(370)	(1,711)	-	(9,834)
(Accrual)/release of impairment provision	(240)	-	-	56	1	(183)
Disposals	731	1,032	4	564	-	2,331
31 December 2013	**(4,629)**	**(23,080)**	**(4,237)**	**(7,322)**	**(14)**	**(39,282)**
Charge for the year	(382)	(8,851)	(396)	(1,711)	-	(11,340)
(Accrual)/release of impairment provision	17	-	-	8	(59)	(34)
Disposals (ii)	884	1,462	6	518	-	2,870
31 December 2014	**(4,110)**	**(30,469)**	**(4,627)**	**(8,507)**	**(73)**	**(47,786)**
Carrying amount						
31 December 2013	**1,785**	**71,517**	**6,851**	**6,776**	**1,848**	**88,777**
31 December 2014	**2,820**	**96,255**	**7,091**	**8,432**	**1,446**	**116,044**

(i) The 2014 additions mainly relate to the addition of six aircraft Boeing B777, with initial cost of RUB 33,672 million which were received under finance lease terms (the 2013 additions mainly relate to the addition of four aircraft Boeing B777, with initial cost of RUB 18,024 million which were received under finance lease terms).

(ii) The 2014 disposals mainly relate to cabins of 6 aircraft Tu-204 of OJSC “Vladivostok Avia” which were received under finance lease terms with the book value of RUB 1,723 million.

(All amounts in millions of Russian Roubles, unless otherwise stated)

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In 2014, capitalised borrowing costs amounted to RUB 362 million with capitalisation rate of 2.9% p.a. (2013: 3.7% p.a.).

As at 31 December 2014 property and land (including tenancy) with the total carrying amount of RUB 713 million (31 December 2013: RUB 771 million) were pledged to third and related parties as a security for the Group's borrowings (Note 27).

As at 31 December 2014 the cost of fully depreciated property plant and equipment was RUB 7,793 million (31 December 2013: RUB 5,552 million).

20. INTANGIBLE ASSETS

	Software	Licences	Investments in software and R&D	Trademark and client base	Other	Total
Cost						
1 January 2013	**2,144**	**134**	**643**	**1,686**	**2**	**4,609**
Additions	466	-	419	-	-	885
Disposals	(3)	-	(14)	-	-	(17)
31 December 2013	**2,607**	**134**	**1,048**	**1,686**	**2**	**5,477**
Additions	296	-	157	-	-	453
Disposals	(637)	-	(21)	-	-	(658)
31 December 2014	**2,266**	**134**	**1,184**	**1,686**	**2**	**5,272**
Accumulated amortisation						
1 January 2013	**(914)**	**(71)**	**-**	**(321)**	**(1)**	**(1,307)**
Charge for the year	(521)	(19)	-	(284)	-	(824)
Disposals	4	-	-	-	-	4
31 December 2013	**(1,431)**	**(90)**	**-**	**(605)**	**(1)**	**(2,127)**
Charge for the year	(553)	-	-	(243)	-	(796)
Disposals	412	1	-	-	-	413
31 December 2014	**(1,572)**	**(89)**	**-**	**(848)**	**(1)**	**(2,510)**
Carrying amount						
31 December 2013	**1,176**	**44**	**1,048**	**1,081**	**1**	**3,350**
31 December 2014	**694**	**45**	**1,184**	**838**	**1**	**2,762**

(All amounts in millions of Russian Roubles, unless otherwise stated)

21. GOODWILL

The aggregate carrying amount of goodwill, allocated to the Group entities is presented in the table below:

CGU name	31 December 2014	31 December 2013
AK Rossiya	5,357	5,357
Orenburgavia	1,145	1,145
AK Aurora	158	158
Total	**6,660**	**6,660**

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

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

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

AK Rossiya

The discount rate was assumed at 17.5% p.a. for 2015-2016 and 13.4% p.a. for subsequent periods (31 December 2013: 12.9% p.a. for the whole projection period). This rate was calculated based on the risk-free rate on ten-year U.S. government bonds, adjusted for country risk (for Russia) and currency risk (roubles), the risk of investing in equities, and the risk associated with small-cap shares. The industry average D/E ratio and Beta coefficient as at 31 December 2014 were taken into account in the calculation.

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

Pre-tax WACC was 17.6% p.a. (31 December 2013: 16.1% p.a.).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 2.3% p.a. (2013: 3.5% p.a.).

As a basis for cash flows forecast the Group adopted the approved AK Rossiya's budget for 2014 and management's estimate for subsequent periods.

(All amounts in millions of Russian Roubles, unless otherwise stated)

21. GOODWILL (CONTINUED)

Orenburgavia

The discount rate was assumed at 17.5% p.a. for 2015-2016 and 13.4% p.a. for subsequent periods (31 December 2013: 13.2% p.a. for the whole projection period). This rate was calculated based on the risk-free rate on ten-year U.S. government bonds, adjusted for country risk (for Russia) and currency risk (roubles), the risk of investing in equities, and the risk associated with small-cap shares. The industry average D/E ratio and Beta coefficient as at 31 December 2014 were taken into account.

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

Pre-tax WACC was 15.6% p.a. (31 December 2013: 16.5% p.a.).

Estimated seat load factor is 71.8%.

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 2.3% (2013: 3.5%).

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

The Group's management maintained sensitivity analysis of goodwill impairment test results against seat load factor fluctuations as the most sensitive variable of the model. In case of decrease of this variable by 200 bps the Group should recognise full impairment of goodwill associated with Orenburgavia.

22. DERIVATIVE FINACIAL INSTRUMENTS

	31 December 2014	31 December 2013
Derivative financial assets		
including:		
Current	431	1,034
Non-current	134	1,175
Total derivative financial assets	**565**	**2,209**
Derivative financial liabilities		
including:		
Current	26,312	213
Non-current	4,839	4,546
Total derivative financial liabilities	**31,151**	**4,759**

As at 31 December 2014 gross values of derivative financial asset and liabilities amounted to RUB 12,949 million and RUB 43,535 million, respectively. Net amounts of derivative financial assets and liabilities after offsetting were RUB 565 million and RUB 31,151 million.

As at 31 December 2013 gross values of derivatives amounted to RUB 2,209 million as assets and RUB 4,759 million as liabilities. Net amounts of assets and liabilities after offsetting were RUB 794 million and RUB 3,345 million, respectively.

(All amounts in millions of Russian Roubles, unless otherwise stated)

22. DERIVATIVE FINACIAL INSTRUMENTS (CONTINUED)

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

	Derivative financial instruments	
	2014	**2013**
1 January	**(2,551)**	**(1,605)**
Level 3 derivative financial instruments that are not subject to special hedge accounting rules		
Change in fair value for the year	(6,629)	(1,951)
Additions	(427)	394
Settlements during the year (Note 10)	(2,779)	(35)
Level 3 derivative financial instruments that are subject to special hedge accounting rules		
Change in fair value for the year	(13,939)	-
Additions	(12)	-
Level 2 derivative financial instruments that are subject to special hedge accounting rules		
Change in fair value for the year	(4,215)	(8)
Settlements during the year (Note 10)	(34)	655
31 December	**(30,586)**	**(2,550)**
of which:		
Assets	565	2,209
Liabilities	(31,151)	(4,759)
31 December	**(30,586)**	**(2,550)**

For the purpose of risk management the Group applies the following derivative financial instruments:

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

In April and May 2013, the Group entered into two cross-currency interest rate swap agreements with a fixed interest rate with a Russian bank to hedge some of its Euro-denominated revenues from potential unfavourable RUB/EUR exchange rate fluctuations. As a result of efficiency test performed for this hedging instrument the loss from the change in fair value of this derivative financial instrument of RUB 4,060 million was recorded within the other comprehensive income together with the corresponding deferred tax of RUB 849 million.

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

(b) Interest rate swap with a fixed interest rate

During 2014, interest rate swap with a fixed interest rate was closed due to the contractual term expiration. The results of closure of the transaction were reported within finance expenses in the amount of RUB 34 million. Decrease of hedging reserve and corresponding deferred tax amounted to RUB 30 million and RUB 6 million, respectively were recorded within the other comprehensive income.

22. DERIVATIVE FINACIAL INSTRUMENTS (CONTINUED)

(c) Fuel options

As of 31 December 2014 the Group was party to a number of option agreements concluded in 2012, 2013 and 2014 with Russian banks to hedge a portion of its aircraft fuel costs. Decrease in fair value of these derivative financial instruments amounted to a loss of RUB 9,364 million for 2014, which is reported in the consolidated statement of profit or loss (2013: a profit of RUB 79 million).

For certain option agreements concluded in 2014 the Group applies cash flow hedge accounting model according to IAS 39 in order to decrease exposure to volatility of cash flows from change in fuel prices.

Loss from change in fair value of option agreements to which hedge accounting is applied for 12 months 2014 amounted to RUB 13,952 million, effective part of this hedging relationship in the amount of RUB 12,763 million before deferred income tax was recognised within hedging reserve, ineffective part amounting to RUB 1,187 million – within hedging result line item of the consolidated statement of profit or loss.

A similar transaction entered into in September 2013 was closed in the first half of 2014 due to the contractual term expiration. The gain of RUB 26 million on the closure of this transaction was recorded in 2014 within the finance income line item of the consolidated statement of profit or loss.

(d) Currency options

The Group entered into currency option agreements with a number of Russian banks to hedge the currency risk. The loss from the change in fair value of these derivative financial instruments in 2014 recorded in the consolidated statement of profit or loss amounted to RUB 531 million (2013: loss in amount of RUB 1,018 million).

For the year ended 31 December 2014, the gain on the currency and fuel options was RUB 1,058 million, the loss was RUB 3,837 million (2013: RUB 831 million and RUB 866 million, respectively) which were recorded within finance income and finance costs, respectively.

Assessment principles for currency and fuel options

The derivative financial instruments listed below are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the reporting period if hedge accounting is not applied. In case hedge accounting is applied the effective portion is accounted within hedge reserve.

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

- spot price for Brent crude oil observable in the information systems at the valuation date;
- forecast price for Brent crude oil determined based on the data provided by analysts for the term of the option;
- volatility calculated based on historical closing prices for underlying asset; and
- respective currency market rate (MosPrime LIBOR, EURIBOR, etc.).

(All amounts in millions of Russian Roubles, unless otherwise stated)

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2014	31 December 2013
Accounts payable	27,097	18,989
Dividends payable	36	25
Other financial payables	5,906	1,643
Total financial payables	**33,039**	**20,657**
Staff related liabilities	6,906	7,152
VAT payable on imported leased aircraft	2,005	3,786
Advances received (other than unearned traffic revenue)	1,181	1,927
Other taxes payable	3,838	981
Other current liabilities related to frequent flyer programme (Note 24)	1,489	896
Income tax payable	72	142
Customs duties payable on imported leased aircraft	115	267
Other payables	307	441
Total accounts payable and accrued liabilities	**48,952**	**36,249**

As at 31 December 2014, staff related liabilities primarily include salary payable, as well as social contribution liabilities of RUB 4,132 million (31 December 2013: RUB 4,329 million) and the unused vacation accrual of RUB 2,682 million (31 December 2013: RUB 2,266 million).

As at 31 December 2014, accounts payable and accrued liabilities include the current portion of VAT payable of RUB 2,005 million (31 December 2013: RUB 3,786 million) and customs duties payable of RUB 115 million (31 December 2013: RUB 267 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs.

Financial payables by currency are analysed in Note 34.

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

Deferred revenue and other liabilities related to frequent flyer programme (Aeroflot Bonus programme) as at 31 December 2014 and 31 December 2013 represent the number of bonus miles earned when flying on the Group flights, but unused by the Aeroflot Bonus programme members and the number of promo-miles and bonus miles earned by programme members for using programme partners' services, respectively, and are estimated at fair value. Deferred revenue and other liabilities related to frequent flyer programme also include liabilities under the Company’s discount programme as at 31 December 2014 and 31 December 2013, which represent the fair value of coupons for a discount on the repeated purchase of tickets at Aeroflot’s web-site.

	31 December 2014	31 December 2013
Deferred revenue related to frequent flyer programme, current	799	577
Deferred revenue related to frequent flyer programme, non-current	2,560	1,862
Other current liabilities related to frequent flyer programme (Note 23)	1,489	896
Other non-current liabilities related to frequent flyer programme (Note 28)	3,279	2,451
Total deferred revenue and other liabilities related to frequent flyer programme	**8,127**	**5,786**

(All amounts in millions of Russian Roubles, unless otherwise stated)

25. PROVISIONS

	Litigations	Tax risks	Regular repairs and maintenance works	Total provisions
1 January 2013	**102**	**122**	**-**	**224**
Additional provision for the year	474	14	1,252	1,740
Release of provision for the year	(12)	(89)	-	(101)
Unwinding of the discount	-	-	559	559
Foreign exchange loss, net	-	-	114	114
31 December 2013	**564**	**47**	**1,925**	**2,536**
Additional provision for the year	1,055	-	2,224	3,279
Release of provision for the year	(440)	(47)	(1,521)	(2,008)
Unwinding of the discount	-	-	634	634
Foreign exchange loss, net	193	-	2,181	2,374
Other changes	-	-	379	379
31 December 2014	**1,372**	**-**	**5,822**	**7,194**

	31 December 2014	31 December 2013
Current liabilities	2,349	881
Non-current liabilities	4,845	1,655
Total provisions	**7,194**	**2,536**

Litigations

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 39).

Tax risks

The Group makes a provision for contingent liabilities and accrued fines and penalties based on the best management’s estimate of the amount of additional taxes that may be required to be paid (Note 39).

Regular repairs and maintenance works

As at 31 December 2014, the Group made a provision of RUB 5,822 million (31 December 2013: RUB 1,925 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

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(All amounts in millions of Russian Roubles, unless otherwise stated)

26. FINANCE LEASE LIABILITIES

The Group leases aircraft from third and related parties under finance lease agreements (Note 36). The aircraft that the Group have operated under finance lease agreements as at 31 December 2014 are listed in Note 1.

	31 December 2014	31 December 2013
Total outstanding payments on finance lease contracts	170,485	86,514
Future finance lease interest expense	(21,207)	(14,478)
Total finance lease liabilities	**149,278**	**72,036**
including:		
Current finance lease liabilities	16,912	8,688
Non-current finance lease liabilities	132,366	63,348
Total finance lease liabilities	**149,278**	**72,036**

	31 December 2014			31 December 2013		
Due for repayment:	Principal	Future interest expense	Total payments	Principal	Future interest expense	Total payments
On demand or within 1 year	16,912	4,191	21,103	8,688	2,652	11,340
Later than 1 year and not later than 5 years	65,406	11,832	77,238	29,409	7,802	37,211
Later than 5 years	66,960	5,184	72,144	33,939	4,024	37,963
Total	**149,278**	**21,207**	**170,485**	**72,036**	**14,478**	**86,514**

As at 31 December 2014 interest payable amounted to RUB 480 million (31 December 2013: RUB 251 million) and is included in accounts payable and accrued liabilities.

The effective interest rate as at 31 December 2014 was 3.0% p.a. (31 December 2013: 4.1% p.a.).

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the debt (lease obligations) denominated in the same currency. The Group applies cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39. At 31 December 2014, finance lease liabilities in the amount of RUB 144,059 million denominated in US dollars are designated as a hedging instrument denominated in US dollars of highly probable revenue forecasted or the period 2015 - 2026. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities match the future cash inflows on the revenue being hedged. At 31 December 2014, a foreign currency loss of RUB 43,596 million (before deferred income tax) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in other comprehensive income. The amount reclassified from the hedging reserve to profit or loss from inception of the hedge was RUB 536 million.

In 2014 interest expense on finance leases was RUB 2,966 million (2013: RUB 1,786 million).

Leased aircraft and engines with the carrying amount disclosed in Note 19 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

(All amounts in millions of Russian Roubles, unless otherwise stated)

27. LOANS AND BORROWINGS

	31 December 2014	31 December 2013
Short-term bank loans, bonds and other borrowings:		
Short-term loans in US dollars	10,409	-
Short-term loans in Russian Roubles	1,603	1,000
Current portion of bonds in Russian Roubles	102	101
Current portion of long-term bank loans in US dollars	1,154	792
Current portion of loans and borrowings in Russian Roubles	4,075	3,136
Total short-term loans and borrowings	**17,343**	**5,029**
Long-term bank loans, bonds and other borrowings:		
Long-term loans in Russian Roubles	5,575	5,636
Long-term bonds in Russian Roubles	5,102	5,101
Long-term loans and borrowings in US dollars	1,514	1,669
Less:		
Current portion of bonds in Russian Roubles	(102)	(101)
Current portion of long-term bank loans in US dollars	(1,154)	(792)
Current portion of loans and borrowings in Russian Roubles	(4,075)	(3,136)
Total long-term loans and borrowings	**6,860**	**8,377**

Description of the main changes in loans and borrowings during 2014:

The Group has opened long-term credit lines with OJSC Alfa-Bank in the amount of RUB 3,600 million. As at 31 December 2014 the outstanding amount of the credit lines was RUB 2,800 million. Interest rates varies from 11.9% to 14.8% p.a. The loans are unsecured.

The Group has opened long-term credit line with OJSC AKB ROSBANK in the amount of USD 60 million. As at 31 December 2014 the credit line was entirely used and the outstanding amount including interest accrued was RUB 3,382 million. Interest rate is LIBOR +4.5% p.a. The loan is unsecured.

The Group has opened long-term credit line with OJSC Nordea Bank in the amount of USD 55 million. As at 31 December 2014 the principal outstanding amount of the credit line was USD 44.85 million, which is equal to RUB 2,523 million. Interest rate is LIBOR +5.0% p.a. The loan is unsecured.

The Group has opened long-term credit line with OJSC Moscow Credit Bank in the amount of RUB 4,000 million, which can be obtained in roubles or foreign currency. As at 31 December 2014 the principal outstanding amount was USD 40 million, which is equal to RUB 2,523 million (including interest). Interest rate is 5.75% p.a. The loan is unsecured.

The Group has opened long-term credit line with PJSC VTB in the amount of RUB 5,000 million which can be obtained either in US Dollars, Euro or roubles. As at 31 December 2014 the principal outstanding amount of the credit line was USD 40 million, which is equal to RUB 2,251 million (including interest). Interest rate is 7.5% p.a. The loan is unsecured.

The Group has opened long-term credit line with PJSC Gazprombank in the amount of RUB 1,500 million with interest rate of 13.0% p.a. As at 31 December 2014 the principal outstanding amount of the credit line was RUB 750 million. The loan is unsecured.

As at 31 December 2014 and 31 December 2013, the fair value of loans and borrowings, including bonds was not materially different from their carrying amounts.

As at 31 December 2014 the Group has bonds issued (BO-03 series) with notional amount of RUB 5,000 million and interest coupon rate of 8.3% p.a. As at 31 December 2014 effective yield to maturity for these bonds was 11.3% p.a.

As at 31 December 2014 the Group was able to attract RUB 21,562 million of cash (31 December 2013: RUB 16,229 million) available under existing credit lines granted to the Group by various lending institutions.

As at 31 December 2014 bank loans in the amount of RUB 2,000 million (31 December 2013: RUB 1,600 million) were secured by property and land (Note 19).

(All amounts in millions of Russian Roubles, unless otherwise stated)

28. OTHER NON-CURRENT LIABILITIES

	31 December 2014	**31 December 2013**
Other non-current liabilities related to frequent flyer programme (Note 24)	3,279	2,451
VAT payable on imported leased aircraft	328	1,886
Defined benefit pension obligation, non-current portion	659	707
Customs duties payable on imported leased aircraft	54	169
Other non-current liabilities	164	85
Total other non-current liabilities	**4,484**	**5,298**

As at 31 December 2014 other non-current liabilities include the non-current portion of VAT payable of RUB 328 million (31 December 2013: RUB 1,886 million) and customs duties of RUB 54 million (31 December 2013: RUB 169 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets are cleared through customs.

Non-current customs duties payable on imported leased aircraft have been discounted using a discount rate of 10.8% to 12.0% p.a. (31 December 2013: 9.8% to 12.0% p.a.).

29. NON-CONTROLLING INTEREST

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

	2014	**2013**
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
Loss attributable to non-controlling interest for the year	(1,356)	(158)
Accumulated losses attributable to non-controlling interests in subsidiary	(3,809)	(2,452)

The summarised financial information of AK Rossiya is presented below:

	31 December 2014	**31 December 2013**
Current assets	5,200	4,016
Non-current assets	11,431	10,492
Current liabilities	11,974	9,593
Non-current liabilities	19,892	14,723

	2014	**2013**
Revenue	35,655	32,090
Loss for the year	(5,449)	(657)
Comprehensive loss for the year	(5,449)	(657)

As at 31 December 2014 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

(All amounts in millions of Russian Roubles, unless otherwise stated)

30. SHARE CAPITAL

As at 31 December 2014 and 31 December 2013 share capital was equal to RUB 1,359 million.

	Number of ordinary shares authorised and issued (shares)	Number of treasury shares (shares)	Number of ordinary shares outstanding (shares)
31 December 2013	1,110,616,299	(53,757,439)	1,056,858,860
31 December 2014	1,110,616,299	(53,716,189)	1,056,900,110

All issued shares are fully paid. The total number of unissued ordinary shares is 250,000,000 shares (31 December 2013: 250,000,000 shares) with a par value of RUB 1 per share (31 December 2013: RUB 1 per share).

Ordinary shareholders are entitled to one vote per share.

In 2014, the number of the Group's treasury shares decreased by 41,250 shares due to the exercise of rights under the share option programme (Note 36) (2013: the decrease was 9,057,005 shares).

As at 31 December 2014, treasury shares were held by wholly-owned subsidiaries of the Group and by the Company:

	31 December 2014 (shares)	31 December 2013 (shares)
Aeroflot	-	227,696
Aeroflot Finance	53,714,098	53,527,652
LLC Partner ("Partner")	2,091	2,091
Total number of treasury shares	**53,716,189**	**53,757,439**

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

The Company's shares are listed on the Moscow Exchange; as at 31 December 2014 and 31 December 2013, they were traded at RUB 31.8 per share and RUB 84.1 per share, respectively.

The Company launched Global Depositary Receipts (GDRs) programme in December 2000. For the liquidity increase in January 2014 the Company adjusted the ratio of ordinary shares to GDR to 5:1, as at 31 December 2014 the GDRs were traded on the Frankfurt stock exchange at RUB 180 per GDR. As at 31 December 2013 the ratio of ordinary shares to GDR was 100:1 and the GDRs were traded on the Frankfurt stock exchange at RUB 8,005 per GDR.

31. DIVIDENDS

A 7 June 2014 the shareholders approved dividends in respect of 2013 in the amount of RUB 2.4984 per share totalling to RUB 2,774 million for the Company's total declared and placed shares.

A 4 June 2013 the shareholders approved dividends in respect of 2012 in the amount of RUB 1.1636 per share totalling to RUB 1,292 million for the Company's total declared and placed shares.

All dividends are declared and paid in roubles.

(All amounts in millions of Russian Roubles, unless otherwise stated)

32. OPERATING SEGMENTS

The Group has a number of operating segments, but none of them, except for "Passenger Traffic", meet the quantitative threshold for determining reportable segment.

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

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2014				
External sales	317,850	1,921	-	319,771
Inter-segment sales	2	11,645	(11,647)	-
Total revenue	**317,852**	**13,566**	**(11,647)**	**319,771**
Operating profit	**11,225**	**344**	**(301)**	**11,268**
Finance income				2,471
Finance costs				(28,399)
Hedging result				(1,723)
Share of results of associates				31
Loss before income tax				**(16,352)**
Income tax				(794)
Loss for the year				**(17,146)**
31 December 2014				
Segment assets	262,661	8,568	(12,860)	258,369
Investments in associates	-	142	-	142
Unallocated assets				19,207
Total assets				**277,718**
Segment liabilities	291,267	4,165	(4,413)	291,019
Unallocated liabilities				204
Total liabilities				**291,223**
2014				
Capital expenditures and PP&E additions (Note 19)	39,951	622	-	40,573
Depreciation (Note 19)	11,118	222	-	11,340

(All amounts in millions of Russian Roubles, unless otherwise stated)

32. OPERATING SEGMENTS (CONTINUED)

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2013				
External sales	288,652	2,304	-	290,956
Inter-segment sales	10	9,204	(9,214)	-
Total revenue	**288,662**	**11,508**	**(9,214)**	**290,956**
Operating profit	**18,597**	**1,400**	**(202)**	**19,795**
Finance income				2,686
Finance costs				(8,814)
Share of results of associates				37
Profit before income tax				**13,704**
Income tax				(6,369)
Profit for the year				**7,335**
31 December 2013				
Segment assets	210,903	6,971	(11,480)	206,394
Investments in associates	-	141	-	141
Unallocated assets				2,649
Total assets				**209,184**
Segment liabilities	153,415	4,782	(5,282)	152,915
Unallocated liabilities				1,789
Total liabilities				**154,704**
2013				
Capital expenditures and PP&E additions (Note 19)	24,614	452	-	25,066
Depreciation (Notes 19)	9,670	164	-	9,834

(All amounts in millions of Russian Roubles, unless otherwise stated)

32. OPERATING SEGMENTS (CONTINUED)

	2014	2013
Passenger revenue:		
International flights from the RF to:		
CIS	8,184	9,457
Europe	33,691	31,271
Middle East and Africa	7,012	6,996
Asia	17,352	14,512
North America	7,934	7,497
Total passenger revenue from flights from the RF	**74,173**	**69,733**
International flights to the RF from:		
CIS	7,881	9,487
Europe	34,292	32,116
Middle East and Africa	7,148	7,301
Asia	18,074	15,414
North America	7,921	7,326
Total passenger revenue from flights to the RF	**75,316**	**71,644**
Domestic flights	104,009	89,215
Other international flights	115	2
Total passenger traffic revenue	**253,613**	**230,594**

33. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

Financial assets and liabilities are classified by measurement categories as at 31 December 2014 as follows:

	Note	Loans and receivables	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Derivative financial instruments (hedging)	Total
Cash and cash equivalents	12	26,547	-	-	-	**26,547**
Short-term financial investments		960	1	-	-	**961**
Financial receivables	14	30,270	-	-	-	**30,270**
Aircraft lease security deposits	13	2,431	-	-	-	**2,431**
Derivative financial instruments	22	-	-	529	36	**565**
Long-term financial investments	16	-	6,115	-	-	**6,115**
Other non-current assets		186	-	-	-	**186**
Total financial assets		**60,394**	**6,116**	**529**	**36**	**67,075**

(All amounts in millions of Russian Roubles, unless otherwise stated)

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

	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	22	(12,360)	(18,791)	-	**(31,151)**
Financial payables	23	-	-	(33,039)	**(33,039)**
Finance lease liabilities	26	-	-	(149,278)	**(149,278)**
Loans and borrowings	27	-	-	(24,203)	**(24,203)**
Total financial liabilities		**(12,360)**	**(18,791)**	**(206,520)**	**(237,671)**

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

Assets	Note	Loans and receivables	Available-for-sale financial assets	Assets at fair value through profit or loss	Derivative financial instruments (hedging)	Total
Cash and cash equivalents	12	18,660	-	-	-	**18,660**
Short-term financial investments		530	-	-	-	**530**
Financial receivables	14	23,996	-	-	-	**23,996**
Aircraft lease security deposits	13	1,493	-	-	-	**1,493**
Derivative financial instruments	22	-	-	2,018	192	**2,210**
Long-term financial investments	16	29	6,070	-	-	**6,099**
Other non-current assets		104	-	-	-	**104**
Total financial assets		**44,812**	**6,070**	**2,018**	**192**	**53,092**

	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	22	(3,981)	(779)	-	**(4,760)**
Financial payables	23	-	-	(20,657)	**(20,657)**
Finance lease liabilities	26	-	-	(72,036)	**(72,036)**
Loans and borrowings	27	-	-	(13,490)	**(13,490)**
Total financial liabilities		**(3,981)**	**(779)**	**(106,183)**	**(110,943)**

(All amounts in millions of Russian Roubles, unless otherwise stated)

34. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

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

Liquidity risk

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

The following are the Group's financial liabilities (excluding derivative financial instruments) as at 31 December 2014 and 31 December 2013 by contractual maturity (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

	Average interest rate						
31 December 2014	**Contractual**	**Effective**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans in foreign currency	5.3%	5.3%	11,798	366	-	-	12,164
Loans in roubles	11.8%	11.8%	6,511	194	1,635	-	8,340
Bonds denominated in roubles	8.3%	8.3%	517	5,102	-	-	5,619
Finance lease liabilities	2.9%	3.0%	21,103	21,045	56,193	72,144	170,485
Financial payables			33,039	-	-	-	33,039
Total future payments, including future interest payments			**72,968**	**26,707**	**57,828**	**72,144**	**229,647**

	Average interest rate						
31 December 2013	**Contractual**	**Effective**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans in foreign currency	3.5%	3.5%	835	891	1	-	1,727
Loans in roubles	11.5%	11.5%	4,693	2,703	-	-	7,396
Bonds denominated in roubles	8.3%	8.3%	516	415	5,108	-	6,039
Finance lease liabilities	3.9%	4.1%	11,340	9,860	27,351	37,963	86,514
Financial payables			20,657	-	-	-	20,657
Total future payments, including future interest payments			**38,041**	**13,869**	**32,460**	**37,963**	**122,333**

As of 31 December 2014 net short-term liabilities of the Group amounted to RUB 42,923 million (31 December 2013: net short-term assets in the amount of RUB 13,494 million). Loss for 2014 amounted to RUB 17,146 million (2013: profit in the amount of RUB 7,335 million). Financial result for 2014 was materially affected by foreign exchange differences which are related to decrease of exchange rate of Russian rouble to US Dollar and revaluation of derivative financial instruments. In 2014 cash flows from operating activities were positive and amounted to RUB 35,977 million (2013: RUB 28,945 million).

The treasury function of the Group provides flexibility of financing through available credit lines. As at 31 December 2014, the Group was able to attract RUB 21,562 million of cash (31 December 2013: RUB 16,229 million) available under credit lines granted by various lending institutions. Additionally for the improvement of liquidity the management is planning to increase operational effectiveness of the Group and further increase of cash flows from operating activities.

34. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

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

The Groups analyses the exchange rate trends on a regular basis. To hedge the risk of negative changes in the exchange rates the Group entered into financial derivative contracts with a number of Russian banks.

The Group uses long-term lease liabilities nominated in US Dollars as hedging instrument for risk of change in US Dollar exchange rate in relation to revenue.

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

In millions of Russian Roubles	**Note**	**31 December 2014** US Dollar	Euro	Other currency	Total	**31 December 2013** US Dollar	Euro	Other currency	Total
Cash and cash equivalents	12	7,626	778	1,350	9,754	4,023	499	1067	5,589
Financial receivables		21,820	3,618	3,560	28,998	11,094,	2,732	2,595,,	16,421
Aircraft lease security deposits		2,408	-	-	2,408	1,473	-	-	1,473
Derivative financial instruments		529	36	-	565	76	192	-	268
Other non-current assets		66	52	68	186	28	36	41	105
Total assets		**32,449**	**4,484**	**4,978**	**41,911**	**16,694**	**3,459**	**3,703**	**23,856**
Financial payables		9,444	4,085	785	14,314	6,480	2,530	480	9,490
Finance lease liabilities		146,436	-	-	146,436	69,034	-	-	69,034
Short-term loans and borrowings	27	11,563	-	-	11,563	792	-	-	792
Long-term loans and borrowings	27	360	-	-	360	877	-	-	877
Derivative financial instruments		17,325	4,839	-	22,164	852	750	-	1,602
Total liabilities		**185,128**	**8,924**	**785**	**194,837**	**78,035**	**3,280**	**480**	**81,795**
Total (liabilities)/assets, net		**(152,679)**	**(4,440)**	**4,193**	**(152,926)**	**(61,341)**	**179**	**3,223**	**(57,939)**

The Group also expects that payments of Euro 2.3 million, Euro 2.3 million and Euro 126.4 million related to the cross-currency interest rate swap with a fixed interest rate disclosed in Note 22, will be made in March and September 2015 and March 2016, respectively.

Strengthening or weakening of listed below currencies against rouble as at 31 December 2014 and 31 December 2013 by 50% and 20%, respectively, would have increased/(decreased) profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(All amounts in millions of Russian Roubles, unless otherwise stated)

34. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	31 December 2014		31 December 2013	
	Percent of change in rate of currency versus rouble	**Effect on profit after tax (increase/ (decrease))**	**Percent of change in rate of currency versus rouble**	**Effect on profit after tax (increase/ (decrease))**
Increase in the rate of currency versus rouble:				
US Dollar	50%	(57,803)	20%	(10,224)
Euro	50%	151	20%	123
Other currencies	50%	1 747	20%	537
Decrease in the rate of currency versus rouble:				
US Dollar	50%	57,803	20%	10,224
Euro	50%	(151)	20%	(123)
Other currencies	50%	(1,747)	20%	(537)

As of 31 December 2014 the effect on the Group's equity would be RUB 63,566 million considering immaterial effect from change in exchange rates of other currencies.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial results and cash flows. Changes in interest rates impact primarily change in cost of borrowings (fixed interest rate borrowings) or future cash flows (variable interest rate borrowings). At the time of raising new borrowings as well as finance lease management uses judgment to decide whether it believes that a fixed or variable interest rate would be more favourable to the Group over the expected period until maturity.

As at 31 December 2014 and 31 December 2013, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2014	**31 December 2013**
Fixed rate financial instruments:		
Financial assets	3,582	3,295
Financial liabilities	(38,112)	(31,435)
Total fixed rate financial instruments	**(34,530)**	**(28,140)**
Variable rate financial instruments:		
Variable rate financial liabilities	**(135,225)**	**(54,006)**

During the year some of the Group's loans bore variable interest rates (Note 27). If the variable part of interest rates on loans in 2014 were 20% higher or lower than the actual variable part of interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2013: would not have changed significantly).

The interest expense under finance lease agreements primarily accrues at variable interest rates. If in 2014 variable part of those rates were 20% higher or lower than what they actually were, with all other variables held constant, interest expense on finance leases for the year would not have been materially different (2013: would not have been materially different).

34. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Aircraft fuel price risk

The results of the Group's operations are significantly impacted by changes in the price of aircraft fuel. In 2012, 2013 and 2014 the Group entered into agreements with a number of Russian banks to hedge a portion of its fuel costs from potential future price increases. In accordance with the terms of each agreement the Group will be compensated by the bank for the excess between the actual aircraft fuel price and the ceiling price specified in the agreement, whilst the Group has agreed to compensate the bank the shortfall between the actual prices and the floor price specified in the agreement.

In case as at 31 December 2014 price for Brent crude oil was 50% higher or lower than its actual price, with all other variables remaining constant (including forecast of crude oil price), the effect of change in crude oil price on the Group's equity and result would not be materially different (2013: would not be materially different).

Capital management risk

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

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

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

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

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

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

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

(All amounts in millions of Russian Roubles, unless otherwise stated)

34. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Capital management risk (continued)

The ratios are as follows:

	As at and for the year ended 31 December 2014	**As at and for the year ended 31 December 2013**
Total debt	174,309	86,585
Cash and cash equivalents and short-term financial investments	(27,508)	(18,932)
Net debt	146,801	67,653
Equity attributable to shareholders of the Company	(3,631)	60,146
Total capital	143,170	127,798
EBITDA	24,840	31,849
Net debt/Total capital	1.0	0.5
Total debt/EBITDA	7.0	2.7
Net debt/EBITDA	5.9	2.1

There were no changes in the Group's approach to capital management in 2014 and 2013.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements in 2014 and 2013, except for minimal share capital according to the legislation.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, financial receivables and investments in securities.

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

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

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

(iii) Management actively monitors its investing performance and in accordance to current policy investing only in liquid securities with high credit ratings. Management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2014 the total amount of investments into securities was RUB 6,092 million, major part of financial receivables amounted to RUB 17,314 million relates to receivables regulated by clearing house.

(All amounts in millions of Russian Roubles, unless otherwise stated)

34. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

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

	31 December 2014	**31 December 2013**
Cash and cash equivalents (Note 12)	26,547	18,660
Financial receivables (Note 14)	30,270	23,996
Short-term financial investments	961	273
Long-term financial investments (Note 16)	6,115	6,099
Aircraft lease security deposits (Note 13)	2,431	1,493
Other non-current assets	186	104
Total financial assets exposed to credit risk	**66,510**	**50,625**

Analysis by credit quality of financial receivables is as follows:

	31 December 2014	**31 December 2013**
Past due but not impaired		
- less than 90 days overdue	58	119
- 91 days to 2 years overdue	32	-
Total past due but not impaired receivables	90	119

Credit risk concentration

As at 31 December 2014 a large portion of the cash as well as long-term financial investments of the Group was placed in two banks (as at 31 December 2013: two banks) and invested in one company (as at 31 December 2013: one company), respectively, which causes the credit risk concentration for the Group.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial instruments carried at fair value. This category includes only derivative financial instruments disclosed in Note 22.

Financial assets carried at amortised cost. The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of financial receivables, lease security deposits and loans issued approximate their fair values, which belong to Level 2 in the fair value hierarchy. Cash and cash equivalents belong to level 1 and are carried at amortised cost which is approximately equal to their fair value.

Liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2014 and 31 December 2013, the fair values of financial payables (Note 23), finance lease liabilities (Note 26), loans, borrowings and bonds (Note 27) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

(All amounts in millions of Russian Roubles, unless otherwise stated)

36. RELATED PARTIES TRANSACTIONS

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

As at 31 December 2014 and 31 December 2013, the outstanding balances with related parties and income and expense items with related parties for the years ended 31 December 2014 and 31 December 2013 were disclosed below:

Associates

As at 31 December 2014 and 31 December 2013, the outstanding balances with associates and income and expense items with associates for the years ended 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	31 December 2013
Assets		
Accounts receivable	1	38
Liabilities		
Accounts payable and accrued liabilities	140	75

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

	2014	2013
Transactions		
Sales to associates	19	17
Purchase from associates	1,372	1,306

Purchases from associates consist primarily of aviation security services.

(All amounts in millions of Russian Roubles, unless otherwise stated)

36. RELATED PARTIES TRANSACTIONS (CONTINUED)

Government-related entities

As at 31 December 2014 and 31 December 2013, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Group operates in an economic environment where the entities are directly or indirectly controlled by the Government of the RF through its government authorities, agencies, associations and other organizations, collectively referred to as government-related entities.

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

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

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

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

	31 December 2014	31 December 2013
Assets		
Cash and cash equivalents	15,781	11,726
Derivative financial instruments		
OJSC Sberbank of RF	529	1,253
PJSC Gazprombank	-	105
Liabilities		
Derivative financial instruments		
OJSC Sberbank of RF	(9,887)	(2,912)
PJSC VTB	(4,613)	(29)

36. RELATED PARTIES TRANSACTIONS (CONTINUED)

Government-related entities (continued)

The amounts of the Group's finance and operating lease liabilities are disclosed in Notes 26 and 37. The share of liabilities to the government-related entities is approximately 12% for finance lease and 7% for operating lease (31 December 2013: 20% and 8%, respectively).

For the year ended 31 December 2014 the share of the Group's transactions with government-related entities was less than 12% of operating costs, and less than 3% of revenue (2013: less than 13% and less than 2%, respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the government-related airports and also supplies of fuel by government-related entities.

As at 31 December 2014 the Group issued guarantees for the amount of RUB 398 million to a government-related entity to secure obligations under tender procedures (31 December 2013: RUB 788 million).

As at 31 December 2014 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group amounted to RUB 3,862 million (31 December 2013: RUB 2,452 million).

Transactions with the state also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 8, 9, 11, 14, 17, 23 and 28.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as other compensation, amounted to RUB 953 million (2013: RUB 738 million).

These remunerations are mainly represented by short-term payments. Such amounts are stated before personal income tax but exclude mandatory insurance contributions to non-budgetary funds. According to Russian legislation, the Group makes contributions to the Russian State pension fund as part of compulsory social insurance contributions for all its employees, including key management personnel.

Bonus programmes based on the Company's capitalisation

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

In 2014, expenses related to the bonus programmes were RUB 566 million and were recorded within staff costs in the Group's consolidated statement of profit or loss (2013: RUB 345 million). As at 31 December 2014, outstanding liability under these plans was RUB 247 million (as at 31 December 2013 it was RUB 345 million).

(All amounts in millions of Russian Roubles, unless otherwise stated)

36. RELATED PARTIES TRANSACTIONS (CONTINUED)

Share option programme

During 2010 the Group initiated a share option programme for its key management personnel (the "Share option programme"). The Share option programme ran for three years and was exercised in three tranches accrued over the three-year period from 1 January 2011 to 31 December 2014. The vesting requirement of the Share option programme was the continuous employment of participants in the Company during the vesting period of the Share option programme.

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

Market share price at the grant date, RUB	55,8
Expected volatility, %	40
Risk free interest rate, %	5

During 2013 the Group recorded release of 1,796,300 unused share options for the amount of RUB 33.9 million within staff costs in the Group's consolidated statement of profit and loss. As at 31 December 2014, there were no outstanding liabilities under the share option programme (the outstanding amount as at 31 December 2013: RUB 207.5 million).

Cross shareholding

As at 31 December 2014 Aeroflot-Finance and Partner, 100%-owned subsidiaries of the Group, owned 53,714,098 ordinary shares and 2,091 ordinary shares of the Company, respectively (31 December 2013: 53,527,652 ordinary shares and 2,091 ordinary shares of the Company, respectively) (Note 30).

37. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 36) are as follows:

	31 December 2014	31 December 2013
On demand or within 1 year	42,694	20,132
Later than 1 year and not later than 5 years	179,654	95,086
Later than 5 years	209,804	137,073
Total operating lease commitments	**432,152**	**252,291**

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the amounts.

The aircraft that the Group has operated under operating lease agreements as at 31 December 2014 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 2 to 16 years. The agreements are extendable.

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

38. CAPITAL COMMITMENTS

As at 31 December 2014, the Group entered into agreements on acquisition of property, plant and equipment with third parties for the total of RUB 776,579 million (31 December 2013: RUB 289,682 million). These commitments mainly relate to 6 Boeing B-777 (31 December 2013: 12), 22 Boeing B787 (31 December 2013: 22), 22 Airbus A350 (31 December 2013: 22) and 62 Airbus A320/321 (31 December 2013: 0) aircraft. The Group plans to use the mentioned aircraft under operating or finance lease agreements, thus does not expect cash outflow under the corresponding agreements.

39. CONTINGENCIES

Operating Environment of the Group

The recent political and economic volatility observable in the region, including developments in Ukraine, have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian Rouble and making it complex to raise international funding. There is a menace of toughening sanctions against Russia and certain individuals and legal entities at the present day. The financial markets continue to be volatile. These and other events may have an influence on the Group's operations and financial position. Based on the management estimation, effect of the mentioned sanctions on financial results of the Group is not significant. The Group continues to monitor the situation and implement set of measures to minimize possible risks for t
operations and financial position

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

Tax contingencies

The taxation system in the RF continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes fuzzy and contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to audit and investigation by a number of authorities, which have the authority to impose severe fines and penalties charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the RF suggest that the tax authorities are taking a more tough stance in their interpretation and enforcement of tax legislation.

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

39. CONTINGENCIES (CONTINUED)

Tax contingencies (continued)

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

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

In addition to the above matters, as at 31 December 2014 management estimates that the Group has no possible obligations from exposure to other than remote tax risks (31 December 2013: risks in the amount of RUB 7,611 million which were mainly related to VAT accounting treatment for a certain type of transactions specific for a Group's subsidiary). The risks represent estimates arising from uncertainties in the interpretation of Russian tax legislation and related requirements for documentation. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these consolidated financial statements, if these are challenged by the tax authorities.

Insurance

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

Litigation

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

40. SUBSEQUENT EVENTS

During the period from January to February 2015, the Group received two Boeing B737, two SSJ100 and one Airbus A319 under operating lease. During the period two Boeing B737 were disposed of.