OPEN JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

Condensed Consolidated Interim Financial Statements
as at and for the six-month period ended 30 June 2013

Contents

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

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

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

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

Management is also responsible for:

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

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2013 were approved on 9 October 2013 by:

V. G. Saveliev
General Director

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

Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of OJSC Aeroflot – Russian Airlines:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of OJSC Aeroflot – Russian Airlines and its subsidiaries (the “Group”) as of 30 June 2013 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

9 October 2013

Moscow, Russian Federation

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(All amounts are presented in millions of US dollars, unless otherwise stated)

	Notes	6m 2013	6m 2012
Traffic revenue	4	3,664.7	3,162.6
Other revenue	5	467.9	451.8
Revenue		**4,132.6**	**3,614.4**
Operating costs	6	(3,114.4)	(2,814.4)
Staff costs	7	(688.6)	(568.6)
Depreciation and amortisation	14, 15	(162.9)	(127.1)
Other income/(expenses), net	8	0.3	(6.2)
Operating costs		**(3,965.6)**	**(3,516.3)**
Operating profit		**167.0**	**98.1**
Finance income	9	63.9	5.8
Finance costs	9	(213.3)	(70.9)
Share of results of equity accounted investments		0.4	0.5
Profit before income tax		**18.0**	**33.5**
Income tax expense	10	(16.5)	(26.4)
Profit for the period		**1.5**	**7.1**
Attributable to:			
Shareholders of the Company		4.9	35.1
Non-controlling interest		(3.4)	(28.0)
		1.5	**7.1**
Basic earnings per share (US cents)		**0.5**	**3.4**
Diluted earnings per share (US cents)		**0.5**	**3.3**
Weighted average number of basic shares outstanding (millions shares)		**1,052.9**	**1,042.5**
Weighted average number of diluted shares outstanding (millions shares)		**1,056.7**	**1,054.8**

V. G. Saveliev
General Director

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

The condensed consolidated interim statement of income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 26.

(All amounts are presented in millions of US dollars, unless otherwise stated)

	Notes	6m 2013	6m 2012
Profit for the period		**1.5**	**7.1**
Other comprehensive income/(loss), that may be realised as profit or loss in subsequent periods:			
(Loss)/gain on hedging instruments		(22.2)	6.5
Deferred tax on (loss)/gain on hedging instruments	10	(1.9)	(0.2)
Exchange differences on translation to presentation currency		(117.4)	(23.4)
Other comprehensive loss for the period		**(141.5)**	**(17.1)**
Total comprehensive loss for the period		**(140.0)**	**(10.0)**
Total comprehensive (loss)/income attributable to:			
Shareholders of the Company		(148.2)	14.3
Non-controlling interest		8.2	(24.3)

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 26.

(All amounts are presented in millions of US dollars, unless otherwise stated)

	Notes	30 June 2013	31 December 2012
ASSETS			
Current assets			
Cash and cash equivalents		716.6	496.2
Short-term investments		0.8	4.8
Accounts receivable and prepayments	11	1,879.5	1,553.4
Aircraft lease deposits		10.9	8.1
Income tax receivable		35.1	68.8
Expendable spare parts and inventories		143.1	141.1
Assets held for sale		-	60.1
		2,786.0	**2,332.5**
Non-current assets			
Equity accounted investments		3.0	3.2
Long-term investments		186.5	200.2
Aircraft lease deposits		30.3	35.4
Deferred tax assets		90.1	95.7
Other non-current assets	12	243.9	270.4
Prepayments for aircraft	13	248.8	445.6
Property, plant and equipment	14	2,764.5	2,435.9
Derivative financial instruments	16	60.4	92.5
Intangible assets	15	97.4	108.7
Goodwill		203.6	225.8
		3,928.5	**3,913.4**
TOTAL ASSETS		**6,714.5**	**6,245.9**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	1,504.0	989.1
Unearned transportation revenue		533.2	502.9
Deferred revenue related to frequent flyer programme	18	14.3	11.8
Provisions		34.7	4.4
Short-term borrowings	20	70.0	466.0
Finance lease liabilities	19	278.9	246.3
Liabilities associated with assets classified as held for sale		-	25.5
		2,435.1	**2,246.0**
Non-current liabilities			
Long-term borrowings	21	346.9	240.0
Finance lease liabilities	19	2,056.5	1,635.4
Provisions		2.8	3.0
Deferred tax liabilities		22.1	73.7
Deferred revenue related to frequent flyer programme	18	55.1	45.2
Derivative financial instruments	16	114.1	145.4
Other non-current liabilities	22	239.9	230.9
		2,837.4	**2,373.6**
Equity			
Share capital	23	51.6	51.6
Treasury stock	23	(113.1)	(129.5)
Accumulated gain on disposal of treasury shares		48.8	49.2
Investment revaluation reserve		(0.4)	(0.4)
Cumulative translation reserve		(296.6)	(167.6)
Hedge reserve	16	(7.0)	17.0
Share based payment's reserve		3.0	6.8
Retained earnings		1,911.4	1,948.1
Equity attributable to shareholders of the Company		**1,597.7**	**1,775.2**
Non-controlling interest		(155.7)	(148.9)
Total equity		**1,442.0**	**1,626.3**
TOTAL LIABILITIES AND EQUITY		**6,714.5**	**6,245.9**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 26.

(All amounts are presented in millions of US dollars, unless otherwise stated)

	Notes	6m 2013	6m 2012
Cash flows from operating activities:			
Profit before income tax		18.0	33.5
Adjustments to reconcile profit before taxation to net cash provided by operating activities:			
Depreciation and amortisation	14, 15	162.9	127.1
Change in impairment allowance for bad and doubtful debts		(35.1)	(1.2)
Accounts receivable write-off	8	0.3	0.1
Change in impairment allowance for obsolete inventory		1.7	-
Reversal of impairment relating to property, plant and equipment	14	(0.2)	(0.2)
Non-cash transactions, related to assets held for sale		(0.4)	-
Loss on disposal of property, plant and equipment		2.0	4.7
Accounts payable write-back	8	-	(3.3)
Share of results in equity accounted investments		(0.4)	(0.5)
(Gain)/loss on disposal of investments	1	(10.9)	0.6
Change in provision for investments		(0.4)	-
Change in tax and legal provisions	30	32.3	0.1
Loss in fair value of hedging instruments	9	14.3	0.7
Interest expense	9	59.7	57.3
Unrealised net foreign exchange loss	9	125.8	12.3
VAT recovery	8	-	(0.1)
Share based payment’s reserve		-	1.1
Changes in other provisions and impairment of other assets		(1.8)	(0.9)
Other non-cash income		(5.6)	(2.1)
Other finance expense, net		0.1	-
(Gain)/loss on hedging instruments, net		(33.0)	-
Dividend income		(1.5)	(3.0)
Operating profit before working capital changes		**327.8**	**226.2**
Change in accounts receivable and prepayments and other non-current assets		(280.6)	(52.2)
Change in expendable spare parts and inventories		(14.5)	(5.3)
Change in accounts payable and accrued liabilities		683.0	437.3
		715.7	**606.0**
Income tax paid		(32.8)	(36.9)
Income tax received		-	12.4
Net cash flows from operating activities		**682.9**	**581.5**
Cash flows from investing activities:			
Proceeds from sale of investments		4.0	17.2
Purchases of investments		-	(10.0)
Proceeds from sale of equity accounted investments		-	1.8
Proceeds from sale of property, plant and equipment		1.4	10.0
Purchases of property, plant and equipment and intangible assets		(67.7)	(83.4)
Dividends received		0.7	0.9
Predelivery lease prepayments, net		98.2	(32.0)
Net cash flows from/(used in) investing activities		**36.6**	**(95.5)**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 26.

(All amounts are presented in millions of US dollars, unless otherwise stated)

	Note	6m 2013	6m 2012
Cash flows from financing activities:			
Proceeds from borrowings		170.6	407.1
Repayment of borrowings		(423.5)	(604.3)
Sale of treasury stock		7.4	4.8
Repayment of the principal element of finance lease liabilities		(158.8)	(87.6)
Interest paid		(46.4)	(38.1)
Dividends paid		(0.3)	-
Proceeds from hedging instruments		1.4	7.4
Sale of treasury stock to non-controlling party		0.4	-
Net cash flows used in financing activities		**(449.2)**	**(310.7)**
Effect of exchange rate fluctuations		(49.9)	(18.8)
Net increase in cash and cash equivalents		**220.4**	**156.5**
Cash and cash equivalents at the beginning of the period		496.2	393.1
Cash and cash equivalents at the end of the period		**716.6**	**549.6**
Non-cash investing and financing activities:			
Property, plant and equipment acquired under finance leases		599.8	118.7

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 26.

(All amounts are presented in millions of US dollars, unless otherwise stated)

	Share capital	Treasury shares	Investment revaluation reserve	Cumulative translation reserve	Hedge reserve	Share based payment reserve	Retained earnings	Attributable to shareholders of the Company	Non-controlling interest	Total
At 1 January 2012	**51.6**	**(83.4)**	**(0.3)**	**(274.1)**	**(6.8)**	**10.7**	**1,790.7**	**1,488.4**	**(84.2)**	**1,404.2**
Profit /(loss) for the period	-	-	-	-	-	-	35.1	35.1	(28.0)	7.1
Foreign currency translation for the period	-	-	-	(27.1)	-	-	-	(27.1)	3.8	(23.3)
Gain on hedging instruments	-	-	-	-	6.3	-	-	6.3	-	6.3
Total comprehensive income/(loss)								**14.3**	**(24.3)**	**(10.0)**
Share based compensation	-	-	-	-	-	(1.2)	-	(1.2)	-	(1.2)
Gain on disposal of treasury stock	-	1.7	-	-	-	-	-	1.7	-	1.7
Other movements in treasury stock	-	4.9	-	-	-	-	-	4.9	-	4.9
Foreign currency translation for the period	-	2.1	-	-	-	-	-	2.1	-	2.1
Dividends	-	-	-	-	-	-	(65.8)	(65.8)	(2.7)	(68.5)
At 30 June 2012	**51.6**	**(74.7)**	**(0.3)**	**(301.2)**	**(0.5)**	**9.5**	**1,760.0**	**1,444.4**	**(111.1)**	**1,333.3**
At 1 January 2013	**51.6**	**(80.3)**	**(0.4)**	**(167.6)**	**17.0**	**6.8**	**1,948.1**	**1,775.2**	**(148.9)**	**1,626.3**
Profit /(loss) for the period	-	-	-	-	-	-	4.9	4.9	(3.4)	1.5
Foreign currency translation for the period	-	-	-	(129.0)	-	-	-	(129.0)	11.6	(117.4)
Loss on hedging instruments	-	-	-	-	(24.1)	-	-	(24.1)	-	(24.1)
Total comprehensive income/(loss)								**(148.2)**	**8.2**	**(140.0)**
Disposal of subsidiary	-	-	-	-	-	-	-	-	(11.2)	(11.2)
Share based compensation	-	-	-	-	-	(3.8)	-	(3.8)	-	(3.8)
Gain on disposal of treasury stock	-	3.3	-	-	-	-	-	3.3	-	3.3
Other movements in treasury stock	-	7.6	-	-	-	-	-	7.6	-	7.6
Foreign currency translation for the period	-	5.1	-	-	0.1	-		5.2	-	5.2
Dividends	-	-	-	-	-	-	(41.6)	(41.6)	(3.8)	(45.4)
At 30 June 2013	**51.6**	**(64.3)**	**(0.4)**	**(296.6)**	**(7.0)**	**3.0**	**1,911.4**	**1,597.7**	**(155.7)**	**1,442.0**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 26.

(All amounts are presented in millions of US dollars, unless otherwise stated)

1. NATURE OF THE BUSINESS

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

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

As at 30 June 2013 and 31 December 2012 the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, Russian Federation.

The principal subsidiary companies are:

Company name	Place of incorporation and operation	Main activity	30 June 2013	31 December 2012
OJSC Donavia (Donavia)	Rostov-on-Don	Airline	100.00%	100.00%
OJSC AK Rossiya (Rossiya)	St. Petersburg	Airline	75% minus one share	75% minus one share
OJSC Vladivostok Avia (Vladavia)	Vladivostok region	Airline	52.16%	52.16%
OJSC AK Sahalinskiye aviatrassi (SAT)	Yuzhno Sakhalinsk	Airline	100.00%	100.00%
OJSC Orenburgskie avialinii (Orenavia)	Orenburg	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo (Aeroflot-Cargo)	Moscow	Cargo transportation services	100.00%	100.00%
LLC Aeroflot-Finance (Aeroflot-Finance)	Moscow	Finance services	100.00%	100.00%
CJSC Aeromar (Aeromar)	Moscow region	Catering	51.00%	51.00%
CJSC Aerofirst (Aerofirst)	Moscow region	Trading	-	66.67%
CJSC Sherotel (Sherotel)	Moscow region	Hotel	100.00%	100.00%

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

Company name	Place of incorporation and operation	Activity	30 June 2013	31 December 2012
CJSC AeroMASH – AB	Moscow region	Aviation security	45.00%	45.00%

During 2013 the Group disposed 66.67% of the share capital of CJSC Aerofirst. The subsidiary was previously classified as held for sale. The gain on disposal of subsidiary in the amount of USD 10.9 million was recognised in profit and loss.

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

(All amounts are presented in millions of US dollars, unless otherwise stated)

1. NATURE OF THE BUSINESS (CONTINUED)

The table below provides information on the Group's aircraft fleet as at 30 June 2013 (number of aircraft):

Type of aircraft	Type of ownership	Aeroflot	Donavia	Rossiya	Orenavia	Vladavia	SAT	Group total
Il-96-300	Owned	6	-	-	-	-	-	6
Tu-154	Owned	-	-	5*	-	-	-	5
An-24	Owned	-	-	-	-	-	2*	2
Mi-8	Owned	-	-	-	-	3^	1	4
Total owned		**6**	**-**	**5**	**-**	**3**	**3**	**17**
Airbus A-319	Finance lease	4	-	9	-	-	-	13
Airbus A-320	Finance lease	1	-	-	-	-	-	1
Airbus A-321	Finance lease	21	-	-	-	-	-	21
Airbus A-330	Finance lease	8	-	-	-	-	-	8
Boeing B-737	Finance lease	-	1	-	-	-	2	3
Boeing B-777	Finance lease	4	-	-	-	-	-	4
An-148	Finance lease	-	-	6	-	-	-	6
Tu-204	Finance lease	-	-	-	-	6	-	6
Total finance lease		**38**	**1**	**15**	**-**	**6**	**2**	**62**
SSJ 100	Operating lease	10	-	-	-	-	-	10
Airbus A-319	Operating lease	11	5	7	-	-	-	23
Airbus A-320	Operating lease	50	-	9	-	6	-	65
Airbus A-330	Operating lease	14	-	-	-	-	-	14
Boeing B-737	Operating lease	-	3	-	23	-	1	27
Boeing B-767	Operating lease	5	-	3	-	-	-	8
Boeing B-777	Operating lease	-	-	-	3	-	-	3
MD-11	Operating lease	3	-	-	-	-	-	3
DHC 8 S-300	Operating lease	-	-	-	-	-	4	4
DHC 8 S-200	Operating lease	-	-	-	-	-	2	2
Total operating lease		**93**	**8**	**19**	**26**	**6**	**7**	**159**
Total fleet		**137**	**9**	**39**	**26**	**15**	**12**	**238**

* - All of these aircraft are not operational as at 30 June 2013.
^ - one of these aircraft is not operational as at 30 June 2013.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRS.

Details of the exchange rates used to translate account balances and operations in Russian rouble to Euro and US Dollar as follows:

	Euro rate	US Dollar rate
Closing rate as at 30 June 2013	42.72	32.71
Average rate for six months of 2013	40.74	31.02
Closing rate as at 31 December 2012	40.23	30.37
Average rate for 2012	39.95	31.09
Closing rate as at 30 June 2012	41.32	32.82
Average rate for six months of 2012	39.74	30.64

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

The accounting policies adopted for preparation of the condensed consolidated interim financial statements are consistent with those of the previous financial year ended 31 December 2012 except as described below.

New standards and interpretations effective from 1 January 2013

Some of new standards, interpretations and amendments to standards listed in consolidated financial statements for the year ended 31 December 2012 became mandatory from 1 January 2013. These new or revised standards affected the Group's preparation and disclosure of information.

According to amendments to *IAS 1, 'Presentation of financial statements'* companies have to distinguish entries within other comprehensive income in two categories, based on possibility of re-classification of these entries as profit and loss in future periods. IAS 1 proposed name of statement, which is now changed to "Profit and loss and other comprehensive income".

IFRS 10, 'Consolidated financial statements'. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10.

IFRS 13 'Fair value measurement'. IFRS 13 measurement and disclosure requirements are applicable for the annual periods 31 December 2013 year end. The Group has included the disclosures required by IAS 34.16A(j).

IAS 19 (revised) 'Employee benefits'. From 1 January 2013 the Group has applied amendments to the standard retrospectively in accordance with the transition provisions of the standard. Revised standard IAS 19 changed significantly method of defined benefit pension plan expenses recognition and valuation, as well as changed requirements to employee benefit disclosure. Influence of revised IAS 19 on items of condensed consolidated interim financial statements is immaterial.

Other new or revised standards are not affected the condensed consolidated interim financial statements.

Income tax expenses

Income tax expenses are recognized in interim periods on the basis of the best accounting estimate of average weighted rate of income tax, expected for the full financial year.

New standards and interpretations

Some of new standards and amendments to standards disclosed in consolidated financial statements for the year ended 31 December 2012, are applicable for annual periods starting 1 January 2014, and hadn't been applied by the Group in advance. Those standards and interpretations are not expected to affect significantly the Group's financial statements.

Moreover, the following amendments to the standards, effective for annual periods starting 1 January 2014, were issued during the period from April to June 2013, and were not applied by the Group in advance.

(All amounts are presented in millions of US dollars, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' (issued 29 May 2013 and effective for annual periods starting 1 January 2014; execution ahead of time is permitted if IAS 13 is used with reference to the same accounting and comparative period). These amendments cancel requirement of recoverable amount disclosure, if cash-flow generating unit includes goodwill or intangible assets with indefinite useful life provided that loss of value is missing. The Group is currently assessing the impact of the mentioned amendments on disclosures and financial statements

Amendments to IAS 39 – 'Novation of Derivatives and Continuation of Hedge Accounting' (issued 27 June 2013 and effective for annual periods starting 1 January 2014). These amendments allow to continue accounting of hedges, when derivative accounted for as hedge is renewed (i.e. when parties agree on replacing initial counteragent by a new one) for clearing with central counteragent according to the legislative or statutory act in case special conditions are adhered. The Group is currently assessing the impact of the mentioned amendment on disclosures and financial statements of the Group.

Critical accounting estimates, and judgements in applying accounting policies

The Group when preparing condensed consolidated interim financial statements makes estimates, judgements and assumptions that affect implementation of accounting policy and reported amounts of assets and liabilities, gains and losses. Actual results may deviate from declared estimates. Judgements regarding accounting policy provisions and methods of valuation applied by management when preparing these condensed consolidated interim financial statements correspond to the ones used when preparing the consolidated financial statements for the year ended 31 December 2012, and as at this date, except for changes in accounting estimates with respect to amount of income tax expenses.

4. TRAFFIC REVENUE

	6m 2013	**6m 2012**
Scheduled passenger flights	3,238.6	2,801.0
Charter passenger flights	260.4	194.8
Cargo	165.7	166.8
	3,664.7	**3,162.6**

5. OTHER REVENUE

	6m 2013	**6m 2012**
Airline revenue agreements	263.1	211.9
Refuelling services	28.4	43.7
Catering services	14.9	14.0
Ground handling and maintenance	13.2	14.0
Sales of duty free goods	13.5	78.0
Hotel revenue	6.8	8.8
Other revenue	128.0	81.4
	467.9	**451.8**

(All amounts are presented in millions of US dollars, unless otherwise stated)

6. OPERATING COSTS

	6m 2013	6m 2012
Aircraft and traffic servicing	690.4	587.9
Operating lease expenses	291.9	268.9
Maintenance	279.7	254.0
Sales and marketing	177.9	145.8
Administration and general expenses	113.6	113.2
Communication expenses	87.1	71.7
Passenger services	91.1	56.2
Food and beverages	74.3	54.2
Customs duties	22.0	22.3
Insurance expenses	18.5	18.8
Cost of duty free goods sold	6.2	35.5
Other operating costs	70.7	120.7
Operating cost excluding aircraft fuel	**1,923.4**	**1,749.2**
Aircraft fuel	1,191.0	1,065.2
	3,114.4	**2,814.4**

7. STAFF COSTS

	6m 2013	6m 2012
Wages and salaries	567.9	449.6
Pension costs	92.3	91.3
Social security costs	28.4	27.7
	688.6	**568.6**

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

	6m 2013	6m 2012
Payments to the RFPF	92.0	89.1
Defined benefit pension plan	0.2	2.1
Defined contribution pension plan	0.1	0.1
	92.3	**91.3**

8. OTHER INCOME/(EXPENSES), NET

	6m 2013	6m 2012
Fines and penalties received from suppliers	7.4	5.1
Insurance compensation received	1.9	0.6
Accounts payable write-off	-	3.3
Accounts receivable write-off	(0.3)	(0.1)
VAT recovery	-	0.1
Other expense	(8.7)	(15.2)
	0.3	**(6.2)**

(All amounts are presented in millions of US dollars, unless otherwise stated)

9. FINANCE INCOME AND COSTS

	6m 2013	6m 2012
Finance income:		
Gain on derivative instruments (Note 16)	46.5	-
Gain on disposal of assets held for sale and impairment of investments	11.4	-
Interest income	6.0	5.8
Finance income	**63.9**	**5.8**
Finance costs:		
Net foreign exchange loss	(125.8)	(12.3)
Interest expense on finance lease liabilities	(34.1)	(26.7)
Interest expense on short and long-term loans and borrowings	(24.8)	(29.9)
Loss from revaluation of derivative instruments (Note 16)	(14.3)	(0.7)
Loss on derivative instruments (Note 16)	(13.5)	-
Interest expense on customs duty discounting	(0.8)	(0.7)
Loss on disposal of investments	-	(0.6)
Finance costs	**(213.3)**	**(70.9)**

10. INCOME TAX

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate for each company of the Group separately.

The estimated average annual effective income tax rate used for the six months ended 30 June 2013 for profitable companies of the Group was 21% - 34% (6 months of 2012: 2 - 34%). Change in estimated average annual effective income tax rate was primarily due to recognition of earlier non-recognised deferred tax assets of these companies.

The estimated average annual effective income tax rate used for the six months ended 30 June 2013 for loss-making companies of the Group was 1% - 3% (6 months of 2012: 19%). Change in estimated average annual effective income tax rate was primarily due to non-recognition of deferred tax assets of these companies.

	6m 2013	6m 2012
Current income tax charge	68.3	64.2
Deferred income tax benefit	(51.8)	(37.8)
	16.5	**26.4**

During the reporting period the Group has not recorded deferred tax assets of USD 5.4 million against tax losses of OJSC AK Rossiya (6 months of 2012: nil).

During the reporting period changes in deferred tax assets amounted USD 1.9 million (6m2012: USD 0.2 million) and related to change in fair value of hedging instruments were recognised in these consolidated condensed interim financial statement within other comprehensive income.

(All amounts are presented in millions of US dollars, unless otherwise stated)

11. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2013	31 December 2012
Trade accounts receivable	826.0	630.4
VAT and other taxes recoverable	380.9	276.3
Prepayments to suppliers	311.2	365.1
Prepayments for aircraft	307.0	233.7
Deferred customs duties related to aircraft operating leases	31.8	36.7
Other receivables	89.4	119.0
Accounts receivable and prepayments, gross	**1,946.3**	**1,661.2**
Impairment allowance for bad and doubtful accounts	(66.8)	(107.8)
	1,879.5	**1,553.4**

Changes in the 'Prepayments for aircraft' line item reflect 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 USD 31.8 million (31 December 2012: USD 36.7 million) relate to the current portion of customs duties incurred on importation of aircraft under operating leases. These customs duties are expensed in the condensed consolidated interim statement of income over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 12.

As at 30 June 2013 and 31 December 2012 sufficient impairment allowance has been made by Group against accounts receivable and prepayments. Gains from recovery of impairment allowance for bad and doubtful accounts were recognised within other income/(expenses).

12. OTHER NON-CURRENT ASSETS

	30 June 2013	31 December 2012
VAT recoverable on acquisition of aircraft	102.7	106.3
Deferred customs duties related to aircraft operating leases	98.8	122.6
Other	42.4	41.5
	243.9	**270.4**

13. PREPAYMENTS FOR AIRCRAFT

Prepayments for aircraft relate to cash advances made in relation to twenty-two Boeing B-787 (delivery: 2016 – 2019), twenty-two Airbus A-350 (delivery: 2018 – 2019), seventeen Sukhoi Superjet SSJ-100 (delivery: 2014 – 2015) aircraft which are expected to be used under operating lease agreements and six Boeing B-777 (delivery: 2015 – 2016) aircraft which are expected to be used under finance lease agreements.

Prepayment for aircraft, which are expected to be delivered within twelve months after the reporting date, is disclosed as part of accounts receivable. Changes in non-current part of prepayments reflect expected dates of delivery of aircraft, as well as new long-term prepayments issued to suppliers.

(All amounts are presented in millions of US dollars, unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Construction in progress	Total
Cost:						
1 January 2012	**191.3**	**1,700.8**	**361.5**	**334.6**	**179.6**	**2,767.8**
Additions	14.6	670.2	4.2	58.6	81.0	828.6
Capitalised overhaul	0.1	15.6	-	-	-	15.7
Disposals	(14.2)	(18.7)	(14.6)	(19.2)	(228.0)	(294.7)
Transfers	-	-	3.0	13.0	(16.0)	-
Transfers to assets held for sale	-	-	(14.8)	(4.9)	-	(19.7)
Foreign currency translation	11.5	118.0	21.2	20.7	7.1	178.5
31 December 2012	**203.3**	**2,485.9**	**360.5**	**402.8**	**23.7**	**3,476.2**
Additions (i)	15.0	581.2	3.1	43.3	29.2	671.8
Capitalised overhaul costs	-	12.3	-	-	-	12.3
Disposals (ii)	(23.4)	(26.8)	-	(6.9)	(0.5)	(57.6)
Transfers	-	-	0.5	5.6	(6.1)	-
Foreign currency translation	(14.1)	(206.9)	(26.0)	(30.9)	(2.8)	(280.7)
30 June 2013	**180.8**	**2,845.7**	**338.1**	**413.9**	**43.5**	**3,822.0**
Accumulated depreciation and impairment:						
1 January 2012	**(119.9)**	**(394.0)**	**(115.8)**	**(167.4)**	**(0.5)**	**(797.6)**
Charge for the year	(23.4)	(165.5)	(12.9)	(43.5)	-	(245.3)
Impairment	(0.1)	-	-	0.4	-	0.3
Disposals	11.6	18.7	6.7	14.1	-	51.1
Transfers to assets held for sale	-	-	1.5	1.7	-	3.2
Foreign currency translation	(7.5)	(27.0)	(6.9)	(10.6)	-	(52.0)
31 December 2012	**(139.3)**	**(567.8)**	**(127.4)**	**(205.3)**	**(0.5)**	**(1,040.3)**
Charge for the period	(14.4)	(104.4)	(5.8)	(26.1)	-	(150.7)
Impairment	(0.1)	-	-	0.3	-	0.2
Disposals (ii)	22.3	26.8	-	4.8	-	53.9
Foreign currency translation	9.5	44.5	9.4	15.9	0.1	79.4
30 June 2013	**(122.0)**	**(600.9)**	**(123.8)**	**(210.4)**	**(0.4)**	**(1,057.5)**
Net book value:						
31 December 2012	**64.0**	**1,918.1**	**233.1**	**197.5**	**23.2**	**2,435.9**
30 June 2013	**58.8**	**2,244.8**	**214.3**	**203.5**	**43.1**	**2,764.5**

(i) The 2013 additions mainly relate to addition of four Boeing B-777 with a carrying value of USD 581.1 million received under finance lease agreements;

(ii) The 2013 disposals mainly relate to disposal of one Boeing B-767 and two Boeing B-737-500.

Total amount of acquired property, plant and equipment for the 6 months of 2013 was USD 671.8 million (6 months 2012: USD 195.5 million).

(All amounts are presented in millions of US dollars, unless otherwise stated)

15. INTANGIBLE ASSETS

	Software	Licences	Development in progress	Trademarks and client base	Other	Total
Cost						
1 January 2012	**49.3**	**4.1**	**12.1**	**52.3**	**0,1**	**117.9**
Additions	13.1	-	13.1	-	-	26.2
Disposal	-	-	-	-	-	-
Transfers	4.9	-	(4.9)	-	-	-
Foreign currency translation	3.1	0.3	0.9	3.2	-	7.5
31 December 2012	**70.4**	**4.4**	**21.2**	**55.5**	**0.1**	**151.6**
Additions (i)	2.0	-	6.9	-	-	8.9
Disposal	(0.1)	-	(0.5)	-	-	(0.6)
Foreign currency translation	(5.0)	(0.3)	(1.7)	(4.1)	-	(11.1)
30 June 2013	**67.3**	**4.1**	**25.9**	**51.4**	**0,1**	**148.8**
Accumulated amortisation						
1 January 2012	**(14.8)**	**(1.6)**	-	**(1.1)**	**-**	**(17.5)**
Charge year	(14.0)	(0.6)	-	(9.2)	-	(23.8)
Disposal	-	-	-	-	-	-
Foreign currency translation	(1.2)	(0.1)	-	(0.3)	-	(1.6)
31 December 2012	**(30.0)**	**(2.3)**	**-**	**(10.6)**	**-**	**(42.9)**
Charge year	(7.4)	(0.3)	-	(4.5)	-	(12.2)
Disposal	0.1	-	-	-	-	0.1
Foreign currency translation	2.5	0.2	-	0.9	-	3.6
30 June 2013	**(34.8)**	**(2.4)**	**-**	**(14.2)**	**-**	**(51.4)**
Net book value						
31 December 2012	**40.4**	**2.1**	**21.2**	**44.9**	**0.1**	**108.7**
30 June 2013	**32.5**	**1.7**	**25.9**	**37.2**	**0,1**	**97.4**

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

Total amount of acquired intangible assets for the 6 months of 2013 was USD 8.8 million (6 months 2012: USD 15.3 million).

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Group makes an assessment and analysis of financial instruments' fair value regularly for preparation of the consolidated financial statements or upon request.

Financial instruments accounted as hedging instruments

The following instruments have been assessed as being effective hedging instruments for IAS 39 purposes.

a) *Cross-currency interest rate swap*

In April and May 2013 the Group has entered into two cross-currency interest rate swap agreements with one of the major banks operating in Russia to hedge some of its Euro denominated revenues from potential future RUB/EUR exchange rate fluctuations. The fair value of the derivative instrument amounted to a loss of USD 7.6 million with corresponding deferred tax asset of USD 1.5 million have been reported as comprehensive income.

Similar deals entering into in 2010 were closed in the first half-year period of 2013 due to expiry of contracts. Decrease in the hedge reserve due to termination of these deals of USD 15.6 million is accounted through profit and loss for the period ended 30 June 2013. A corresponding deferred tax liability as a result of a change in deferred tax for the reported period of USD 3.2 million has been reported in the accompanying condensed consolidated interim statement of income. Gain generated due to termination of previous deals amounted to USD 31.6 million and loss amounted to USD 8.1 million.

The fair value of financial instruments has been determined using observable parameters (level 2). Assessment was made based on discounted cash flows determined in agreements MOSPRIME rate was used as a discount factor for cash flows in Russian roubles and EURIBOR rate used as a discount factor for cash flows in Euro.

b) *Interest rate swap*

In June 2011 the Group entered into an agreement with a Russian bank to hedge a risk related to increase of LIBOR rate which is mainly used for finance lease agreements. In accordance with the terms of the agreement the Group fixes interest payment related to 21 ongoing financial lease contracts. Income as the result of change in fair value of the hedge of USD 1.0 million has been reported in comprehensive income. A corresponding deferred tax liability of USD 0.2 million has been recognised in these condensed consolidated interim financial statements and reported within comprehensive income. Loss from this deal that occurred during the period ended 30 June 2013 amounted to USD 1.3 million.

The fair value of financial instruments has been determined using market observable parameters (level 2) and based on discounted cash flows determined in agreements. MOSPRIME rate was used as a discount factor and forward rates were based on comparable deals on active market at the valuation date. Management estimates that the related cash flows will occur through the period up to June 2014 at which time net gain/(loss) will affect profit and loss of the Group.

Financial instruments have not been accounted as hedging instruments

The derivative 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 instruments are included in profit or loss for the reporting period.

a) *Fuel options*

In September and October 2012, the Group entered into agreements with three Russian banks to hedge a portion of its fuel costs. The fair value of hedging instruments at 30 June 2013 amounted to USD 2.5 million losses and is reflected in the profit and loss account. One fuel option deal concluded in December 2010 was terminated in the beginning of 2013. Income from this deal is insignificant.

(All amounts are presented in millions of US dollars, unless otherwise stated)

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of financial instruments has been determined using the Monte-Carlo valuation model with market observable parameters (level 3). The following basic data was used to estimate fair value:

- spot price of Brent oil based on comparable deals on active market at the valuation date;
- forecast for Brent oil price based on analysts expectations for the option's duration period;
- volatility based on comparable deals in historical period;
- MOSPRIME rate.

b) Currency options

In November and December 2012, the Group entered into agreements with three Russian banks to hedge the risk of negative changes in the exchange rates. Change in fair value of the hedging instrument reflected in the profit and loss account amounted to a loss of USD 11.8 million.

The fair value of financial instruments has been determined using the Monte-Carlo and Black-Scholes models with market observable parameters (level 3). Following basic data was used for fair value determination:

- spot rate based on comparable deals on active market at the valuation date;
- forward foreign currency rates based on analysts expectations for the option's duration period;
- volatility based on comparable deals in historical period;
- USD LIBOR rate.

The gain on fuel and currency options occurred during the period ended 30 June 2013 amounted to USD 14.9 million and the loss amounted to USD 4.1 million.

Change in fair value of derivative instruments determined with market level 3 observable parameters:

	6m 2013
As at 1 January 2013	**33.7**
Change in fair value of financial instruments included in profit and loss (Note 9)	14.3
Foreign currency translation for the period	(3.1)
As at 30 June 2013	**44.9**

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2013	31 December 2012
Trade accounts payable	949.6	464.8
Staff related liabilities	201.8	182.6
VAT payable on leased aircraft	127.1	104.0
Advances received (other than unearned transportation revenue)	46.7	52.1
Other taxes payable	43.8	23.0
Dividends payable	43.6	0.7
Other liabilities related to frequent flyer programme (Note 18)	34.8	31.7
Customs duties payable on leased aircraft	7.7	10.3
Income tax payable	0.9	18.1
Other payables	48.0	101.8
	1,504.0	**989.1**

As at 30 June 2013 accounts payable and accrued liabilities include the short-term portion of VAT of USD 127.1 million (31 December 2012: USD 104.0 million) and customs duties of USD 7.7 million (31 December 2012: USD 10.3 million) relating to imported aircraft under finance and operating leases, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs. The long-term portion of VAT payable and customs duties have been included in other non-current liabilities (Note 22).

(All amounts are presented in millions of US dollars, unless otherwise stated)

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)

Staff related payables include salaries and social contribution liabilities of USD 101.8 million (31 December 2012: USD 86.1 million) and the unused vacation accrual of USD 62.1 million (31 December 2012: USD 55.4 million).

18. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue related to Aeroflot Bonus loyalty program as at 30 June 2013 and 31 December 2012 represents the number of points earned but not used by the Aeroflot Bonus programme members estimated at fair value.

	30 June 2013	**31 December 2012**
Non-current liabilities related to frequent flyer programme (Note 22)	101.9	93.0
Deferred revenue related to frequent flyer programme, non-current part	55.1	45.2
Current liabilities related to frequent flyer programme (Note 17)	34.8	31.7
Deferred revenue related to frequent flyer programme, current part	14.3	11.8
	206.1	**181.7**

19. FINANCE LEASE LIABILITIES

The Group leases aircraft under finance lease agreements. Leased assets are listed in Note 1.

	30 June 2013	**31 December 2012**
Total outstanding payments under finance lease	2,822.2	2,233.0
Finance charges under finance lease	(486.8)	(351.3)
Principal outstanding under finance lease	**2,335.4**	**1,881.7**
Representing:		
Current lease liabilities under finance lease	278.9	246.3
Non-current lease liabilities under finance lease	2,056.5	1,635.4
	2,335.4	**1,881.7**

	30 June 2013			**31 December 2012**		
Due for repayment:	**Principal**	**Finance charges**	**Total payments**	**Principal**	**Finance charges**	**Total payments**
On demand or within one year	278.9	85.7	364.6	246.3	65.4	311.7
In two to five years	910.5	255.7	1,166.2	771.8	191.7	963.5
After five years	1,146.0	145.4	1,291.4	863.6	94.2	957.8
	2,335.4	**486.8**	**2,822.2**	**1,881.7**	**351.3**	**2,233.0**

Interest unpaid as at 30 June 2013 amounted to approximately USD 6.5 million (31 December 2012: USD 3.6 million) and is disclosed in accounts payable and accrued expenses. As at 30 June 2013 the effective interest rate on these leases was approximately 3.5% per annum (31 December 2012: 3.7% per annum).

(All amounts are presented in millions of US dollars, unless otherwise stated)

20. SHORT-TERM LOANS AND BORROWINGS

	30 June 2013	31 December 2012
Loans denominated in US dollars:		
Citibank International PLC, short term portion (Note 21)	24.3	24.3
	24.3	**24.3**
Bonds denominated in Russian roubles:		
Bonds denominated in Russian roubles, short term portion (Note 21)	3.0	402.1
Loans denominated in Russian roubles:		
Sberbank of the Russian Federation, short term portion (Note 21)	22.3	23.5
Bank BFA, short term portion (Note 21)	16.2	-
Iturup Bank (i)	3.8	3.9
Bank FORSHTADT	-	9.9
Other short term bank loans	-	1.0
	42.3	**38.3**
Loans denominated in other currencies:		
Sberbank of the Russian Federation (ii)	0.2	0.5
Eurasia Investment Promotion Co., short term portion (Note 21)	0.2	0.8
	0.4	**1.3**
	70.0	**466.0**

(i) The balance as at 30 June 2013 represents loans of USD 3.8 million issued at 9.9% per annum. The loans are secured by property and fuel stock with a value of USD 0.7 million;

(ii) The balance as at 30 June 2013 represents a loan of USD 0.2 million issued at 9.6% per annum. The loan is secured by property with a carrying value of USD 4.9 million and land rent rights.

21. LONG-TERM LOANS AND BORROWINGS

	30 June 2013	31 December 2012
Loans denominated in US dollars:		
Citibank International PLC, long-term portion (i)	32.5	44.5
Accor	2.9	2.9
Other long-term loans	3.5	3.4
	38.9	**50.8**
Bonds denominated in Russian roubles		
Bonds denominated in Russian roubles, long-term portion (ii)	152.8	-
Loans denominated in Russian roubles:		
Bank BFA (iii)	76.4	98.8
AB Rossiya (iv)	45.9	49.4
Sberbank of the Russian Federation, long-term portion (v)	32.1	40.2
	154.4	**188.4**
Loans denominated in other currency:		
Eurasia Investment Promotion Co., long-term portion (vi)	0.8	0.8
	0.8	**0.8**
	346.9	**240.0**

(All amounts are presented in millions of US dollars, unless otherwise stated)

21. LONG-TERM LOANS AND BORROWINGS (CONTINUED)

(i) The balance as at 30 June 2013 represents a loan of USD 32.5 million issued at an interest rate of LIBOR plus 3.5% per annum representing a commercial loan facility for the purposes of partially funding its leasing agreement;

(ii) During the six months of 2013 the Group repaid bonds with nominal value of RUB 12,000 million and issued new bonds with nominal value of RUB 5,000 million. The balance as at 30 June 2013 relating to these bonds amounted to USD 152.8 million borrowed at an interest rate of 8.3% per annum. Yield to maturity as at the end of the reporting period is 8.25%. The bonds are unsecured;

(iii) The balance as at 30 June 2013 represents loans of USD 76.4 million issued at interest rates ranging from 11.9% to 12.4% per annum. The loans are secured by property with a carrying value of USD 17.7 million and lend rent rights;

(iv) The balance as at 30 June 2013 represents a loan of USD 45.9 million issued at an interest rate of 10.6% per annum. The loan is unsecured;

(v) The balance as at 30 June 2013 represents loans of USD 32.1 million issued at interest rates ranging from 10.0% to 13.75% per annum. The loans are secured by a property and land with a carrying value of USD 8.2 million;

(vi) The balance as at 30 June 2013 represents a loan of USD 0.8 million issued at an interest rate of 7.4% per annum. The loan is secured by a property with a carrying value of USD 0.1 million.

The borrowings are repayable as follows:

	30 June 2013	31 December 2012
On demand or within one year	66.0	451.2
In two to five years	340.5	233.7
After five years	6.4	6.3
	412.9	**691.2**
Less: amounts due for settlement within 12 months	(66.0)	(451.2)
Amounts due for settlement after 12 months	**346.9**	**240.0**

As at 30 June 2013 and 31 December 2012, the carrying value of short-term bank loans and loans with floating interest rates approximately represented their fair value.

As at 30 June 2013, the fair value of long-term loans with fixed interest rates exceeded their carrying value by about USD 11.1 million.

22. OTHER NON-CURRENT LIABILITIES

	30 June 2013	31 December 2012
Non-current liabilities related to frequent flyer programme (Note 18)	101.9	93.0
VAT payable on leased aircraft	102.7	105.2
Defined benefit pension obligation – non-current portion	22.1	14.9
Custom duties payable on leased aircraft	4.6	8.4
Other non-current liabilities	8.6	9.4
	239.9	**230.9**

As at 30 June 2013 other non-current liabilities included the long-term portion of VAT of USD 102.7 million (31 December 2012: USD 105.2 million) and customs duties of USD 4.6 million (31 December 2012: USD 8.4 million) relating to imported aircraft under finance and operating leases, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets are cleared through customs.

Customs duties payable on leased aircraft have been discounted using a discount rate between 9.0% and 17.0% per annum. The short-term portion of the VAT payable and the customs duties as at 30 June 2013 have been included in the Group's accounts payable (Note 17).

(All amounts are presented in millions of US dollars, unless otherwise stated)

23. SHARE CAPITAL

	Number of shares authorised and issued	**Number of treasury shares**	**Number of shares outstanding**
Ordinary shares of one Russian rouble each:			
As at 31 December 2012	1,110,616,299	(62 814 444)	1 047 801 855
As at 30 June 2013	1,110,616,299	(56 994 294)	1 053 622 005

Ordinary shareholders are entitled to one vote per share.

During the six months of 2013 the number of treasury shares held by the Group decreased by 5 820 150 shares due to execution of share option programme. The Company's shares are listed on the Moscow Exchange and on 30 June 2013 were traded at USD 1.72 per share. On 3 October 2013 shares were traded at USD 1.71 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR's) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group, allowing the Company's shareholders to swap their shares for GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR. In accordance with the depositary agreement the total volume of the GDR's of the Company cannot exceed 20% of the Company's share capital. In 2001 the Company's GDR's were listed on the New Europe Exchange ("NEWEX") in Vienna and after closing of this stock exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. On 30 June 2013 and 3 October 2013 the GDR's were trading at USD 171.09 and USD 160.94 each, respectively.

24. DIVIDENDS

At the annual shareholders' meeting held on 24 June 2013 the shareholders approved dividends in respect of 2012, in the amount of 1.1636 Russian roubles per share (3.7 US cents at the average exchange rate of the year 2012) totalling 1,292,375 thousand Russian roubles (USD 41.6 million at the average exchange rate of the year 2012).

25. OPERATING SEGMENTS

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

- Airline – domestic and international passenger and cargo air transport and other airline services;
- Catering – includes preparation of food and beverages for air travel;
- Hotels – includes operating a hotel;

There are also other operating segments. However, none of these segments meet any of the quantitative thresholds for determining reportable segments during the first six months of 2013 and 2012.

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

(All amounts are presented in millions of US dollars, unless otherwise stated)

25. OPERATING SEGMENTS (CONTINUED)

	Airline	Catering	Hotels	Other	Elimi-nations	Total Group
6m 2013						
External sales	4,094.5	15.4	9.2	13.5	-	4,132.6
Inter-segment sales	0.3	120.3	10.9	4.7	(136.2)	-
Total revenue	**4,094.8**	**135.7**	**20.1**	**18.2**	**(136.2)**	**4,132.6**
Operating profit/(loss)	161.6	8.0	4.3	0.4	(7.3)	167.0
Finance income						63.9
Finance costs						(213.3)
Share of result in associates						0.4
Profit before income tax						**18.0**
Income tax						(16.5)
Profit for the period						**1.5**

6m 2012	Airline	Catering	Hotels	Other	Elimi-nations	Total Group
External sales	3,511.7	14.2	10.2	78.3	-	3,614.4
Inter-segment sales	1.5	93.4	6.7	-	(101.6)	-
Total revenue	**3,513.2**	**107.6**	**16.9**	**78.3**	**(101.6)**	**3,614.4**
Operating profit/(loss)	84.9	13.7	3.1	0.3	(3.9)	98.1
Finance income						5.8
Finance costs						(70.9)
Share of result in associates						0.5
Profit before income tax						**33.5**
Income tax						(26.4)
Profit for the period						**7.1**

26. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

Since IAS 34 *Interim Financial Reporting* does not require explicitly the inclusion of information that would be presented in annual financial statements under IFRS 7 *Financial Instruments: Disclosures*, and the Group's financial risk management objectives and policies have not been significantly changed since 31 December 2012, the Group decided to disclose selective items that are exposed to different types of risks in the condensed consolidated interim financial statements.

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

26. RISK CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

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

As at 30 June 2013 the Group had USD 529.5 million (31 December 2012: USD 959.6 million) available as credit lines granted to the Group by various banks.

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

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

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

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

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

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

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

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

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

Fair value of finance instruments disclosed at amortised cost. As at 30 June 2013 and 31 December 2012 fair value of the following financial assets and liabilities nearly equal to their balance value, as they are, basically, short-term:

- Cash and cash equivalents;
- Trade accounts receivable;
- Accounts payable, accrued liabilities and short-term loans.

Fair value of non-current loans with fixed interest rate and bonds is disclosed in Note 21.

(All amounts are presented in millions of US dollars, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS

The condensed consolidated interim financial statements of the Group include the following balances and transaction with related parties, in general represented by associated companies and companies under the control of the Group's shareholders:

	30 June 2013	31 December 2012
Assets		
Cash and cash equivalents	1.3	0.2
Trade accounts receivable	0.7	0.4
	2.0	**0.6**
Liabilities		
Trade and other accounts payable	2.7	2.4
	2.7	**2.4**

	6m 2013	6m 2012
Sales to associates	0.4	1.4
Purchases from associates	20.1	16.6

Purchases consist primarily of aviation security services provided by associated companies of the Group. The amounts outstanding between the Group and its related parties will be settled generally in cash.

During the first six months 2013 and 2012 total amounts of guarantees given and received relationg to associates are nil.

Government-related entities

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

Information on main loans obtained from the banks controlled by Russian government are disclosed in Notes 20, 21.

Liabilities on financial and operating leases are disclosed in Notes 19 and 28. The share of amount due to state-owned companies for financial leases is about 23%, for operating leases it accounts for about 14%.

Compensation of key management personnel

The remuneration of directors and other members of key management (the members of the Board of Directors and Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) consist of salary and bonuses as well as mid-term compensations, for the first six months of 2013 amounted to approximately USD 13.1 million (6 months 2012: USD 14.1 million).

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

(All amounts are presented in millions of US dollars, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

During 2010, the Group initiated a share option programme for its key executives. The program will run for three years and will be exercised in three tranches granted over the three-year period from 1 January 2011 through to 31 December 2013. The vesting requirement of the share option programme is the continuous employment of participants during the vesting period. The fair value of services received in return for the share option granted is measured by reference to the fair value of the share option granted, which is determined using the Black-Scholes model. The following variables have been used in the model: the market share price at the grant date of USD 1.9, the expected volatility of 40% and a risk free interest rate of 5%. The outstanding amount at the end of the reporting period is USD 3.0 million (31 December 2012: USD 6.8 million).

Compensation to key management personnel is mostly short-term, except for future retirement benefits under defined pension plans. For key management personnel payments under the above pension plans are calculated based on general rules.

28. COMMITMENTS UNDER OPERATING LEASES

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

	30 June 2013	31 December 2012
On demand or within one year	560.5	538.3
In two to five years	1,940.7	1,832.7
After five years	1,464.8	1,294.2
Total minimum payments	**3,966.0**	**3,665.2**

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

For details of the fleet subject to operating leases refer to Note 1.

29. CAPITAL COMMITMENTS

As at 30 June 2013 the Group's capital commitments in relation to the acquisition of property, plant and equipment and other services as at 30 June 2013 amounted to approximately USD 1,445.8 million (31 December 2012: USD 1,921.2 million). These commitments mainly relate to five (31 December 2012: five) Airbus A-321-200, twelve (31 December 2012: sixteen) Boeing B-777 which are expected to be used under finance lease agreements.

30. CONTINGENCIES

Political environment – The Government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities.

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

Business activity of the Group on provision of domestic or international passenger and cargo air transportation services is subject to seasonal fluctuations with peak on second and third quarters of the year.

30. CONTINGENCIES (CONTINUED)

Taxation – The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest 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 Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of 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.

In 2012 – 2013 the tax authorities challenged the approach of some of the Group's subsidiaries on the application of VAT rules to one type of operations. It is possible that such approach could be challenged by tax authorities for other Group companies. The impact of any such challenge cannot be reliably estimated by the management, however it may be significant.

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

As at 30 June 2013 the Group recognised provisions amounting to USD 30.4 million for the claim for payments to employees for flying at night and working in harmful conditions. These expenses were recognised within other operating expenses.

31. SUBSEQUENT EVENTS

One Boeing B-737 and two Airbus A-321 were delivered to the Group under operating lease agreements during the period from July to October 2013.

In September 2013 OJSC AK Sahalinskiye aviatrassi was renamed to OJSC Avrora.