



**OPEN JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES**

**Condensed consolidated interim financial statements
for the 6 months ended 30 June 2014**

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JSC AEROFLOT – RUSSIAN AIRLINES

Statement of Management’s Responsibilities for the Preparation and Approval of the Condensed Consolidated Interim Financial Statements as at and for 6 months ended 30 June 2014



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’*.

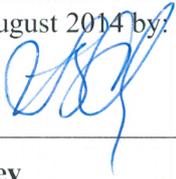
In preparing the Condensed consolidated interim financial statements, management is responsible for:

- 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.

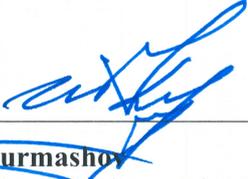
Management is also responsible for:

- 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 6 months ended 30 June 2014 were approved on 27 August 2014 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 2014 and the related condensed consolidated interim statements of profit or loss, 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

27 August 2014

Moscow, Russian Federation

OJSC AEROFLOT – RUSSIAN AIRLINES

Condensed Consolidated Interim Statement of Profit or Loss for 6 months ended 30 June 2014

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



	Notes	6m 2014	6m 2013
Traffic revenue	4	121,796	113,667
Other revenue	5	18,485	14,513
Revenue		140,281	128,180
Operating costs, excluding staff costs and depreciation and amortisation	6	(109,009)	(96,600)
Staff costs	7	(24,304)	(21,357)
Depreciation and amortisation		(5,586)	(5,052)
Other income and expenses, net		(2,766)	10
Operating costs		(141,665)	(122,999)
Operating (loss)/profit		(1,384)	5,181
Finance income	8	2,615	1,979
Finance costs	8	(2,434)	(6,616)
Share of results of associates		(2)	13
(Loss)/profit before income tax		(1,205)	557
Income tax	9	(700)	(512)
(Loss)/profit for the period		(1,905)	45
<i>Attributable to:</i>			
Shareholders of the Company		(1,745)	151
Non-controlling interest		(160)	(106)
(LOSS)/PROFIT FOR THE PERIOD		(1,905)	45
Basic earnings per share (in Roubles per share)		(1,7)	0,1
Diluted earnings per share (in Roubles per share)		(1,7)	0,1
Weighted average number of shares outstanding (millions)		1,056.9	1,052.9
Weighted average number of diluted shares outstanding (millions)		1,056.9	1,056.7

Approved and signed on behalf of management

27 August 2014

V. G. Saveliev
General Director

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

OJSC AEROFLOT – RUSSIAN AIRLINES
 Condensed Consolidated Interim Statement of
 Comprehensive Income for 6 months ended 30 June 2014
 (All amounts are presented in millions of Russian Roubles, unless otherwise stated)



	<u>Note</u>	<u>6m 2014</u>	<u>6m 2013</u>
(Loss)/profit for the period		(1,905)	45
Other comprehensive (loss)/profit:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Translation from the functional currency to the presentation currency		28	2
Loss on the change in fair value of derivative financial instruments	13	(233)	(688)
Deferred tax related to the (loss)/profit on the change in fair value of derivative financial instruments	9	65	(59)
Other comprehensive loss for the period		(140)	(745)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,045)	(700)
<i>Total comprehensive loss attributable to:</i>			
Shareholders of the Company		(1,885)	(594)
Non-controlling interest		(160)	(106)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,045)	(700)

OJSC AEROFLOT – RUSSIAN AIRLINES

 Condensed Consolidated Interim Statement of
 Financial Position as at 30 June 2014

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



	Note	30 June 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents		36,703	18,660
Short-term financial investments		114	273
Accounts receivable and prepayments	10	51,942	55,690
Current income tax prepayment		472	476
Aircraft lease security deposits		219	405
Expendable spare parts and inventories		5,172	4,927
Derivative financial instruments	13	1,531	1,034
Total current assets		96,153	81,465
Non-current assets			
Deferred tax assets		3,214	2,174
Investments in associates		106	123
Long-term financial investments		6,098	6,099
Aircraft lease security deposits		1,132	1,088
Other non-current assets		5,024	5,955
Prepayments for aircraft	11	15,398	12,318
Property, plant and equipment	12	119,152	88,777
Intangible assets		3,096	3,350
Goodwill		6,660	6,660
Derivative financial instruments	13	1,844	1,175
Total non-current assets		161,724	127,719
TOTAL ASSETS		257,877	209,184
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	13	463	214
Accounts payable and accrued liabilities		47,436	36,248
Unearned traffic revenue		29,730	16,334
Deferred revenue related to frequent flyer programme	14	675	577
Provisions		2,100	881
Finance lease liabilities	15	10,911	8,688
Short-term borrowings and current portion of long-term borrowings	16	6,155	5,029
Total current liabilities		97,470	67,971
Non-current liabilities			
Long-term borrowings	16	8,248	8,377
Finance lease liabilities	15	86,397	63,348
Provisions		2,305	1,655
Deferred tax liabilities		1,874	1,647
Deferred revenue related to frequent flyer programme	14	2,098	1,862
Derivative financial instruments	13	5,316	4,546
Other non-current liabilities		4,532	5,298
Total non-current liabilities		110,770	86,733
TOTAL LIABILITIES		208,240	154,704
Equity			
Share capital	17	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		(10)	(10)
Translation from the functional currency to the presentation currency		-	(28)
Hedge reserve	13	(551)	(383)
Retained earnings		59,185	61,122
Equity attributable to shareholders of the Company		58,071	60,146
Non-controlling interest		(8,434)	(5,666)
TOTAL EQUITY		49,637	54,480
TOTAL LIABILITIES AND EQUITY		257,877	209,184

OJSC AEROFLOT – RUSSIAN AIRLINESCondensed Consolidated Interim Statement of
Cash Flows for 6 months ended 30 June 2014*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	6m 2014	6m 2013
Cash flows from operating activities:			
(Loss)/profit before income tax		(1,205)	557
<i>Adjustments for:</i>			
Depreciation and amortisation		5,586	5,052
Change in impairment provision for accounts receivable and prepayments		1,687	(1,090)
Loss on accounts receivable write-off		58	11
Change in impairment provision for obsolete expendable spare parts and inventory		202	53
Change in provision for impairment of property, plant and equipment	12	6	(7)
Non-cash operations, related to assets classified as held for sale		-	(13)
(Gain)/loss on disposal of property, plant and equipment		(932)	61
Gain on accounts payable write-off		(8)	-
Share of financial results of associates		2	(13)
Loss/(gain) on sale of investments and accrual of provision for impairment of investments	8	2	(352)
(Gain)/loss on change in the fair value of derivative financial instruments	8	(472)	443
Change in provisions		1,563	1,003
Interest expense	8	2,244	1,850
Foreign exchange (gain)/loss	8	(1,361)	3,903
Change in other provisions and other assets impairments		(22)	(57)
Other finance (income)/costs, net		(50)	2
Gain on derivative financial instruments, net		(208)	(1,024)
Dividend income		(42)	(46)
Other operating income		(20)	(175)
Total operating cash flows before working capital changes		7,030	10,158
Increase in accounts receivable and prepayments		(381)	(8,703)
Increase in expendable spare parts and inventories		(447)	(450)
Increase in accounts payable and accrued liabilities		22,012	21,185
Total operating cash flows after working capital changes		28,214	22,190
Change in restricted cash		(16)	-
Income tax paid		(1,495)	(1,017)
Net cash flows from operating activities		26,703	21,173

OJSC AEROFLOT – RUSSIAN AIRLINESCondensed Consolidated Interim Statement of
Cash Flows for 6 months ended 30 June 2014*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	6m 2014	6m 2013
<i>Cash flows from investing activities:</i>			
Proceeds from sale of investments		225	123
Purchases of investments		(61)	-
Proceeds from sale of property, plant and equipment		14	43
Purchases of property, plant and equipment and intangible assets		(2,574)	(2,100)
Dividends received		41	23
Prepayments for aircraft		(7,366)	(2,394)
Return of prepayments for aircraft		9,535	5,251
Change in lease security deposits, net		158	187
Net cash flows (used in)/received from investing activities		(28)	1,133
<i>Cash flows from financing activities:</i>			
Proceeds from borrowings		2,700	5,290
Repayment of borrowings		(1,772)	(13,136)
Proceeds from disposal of treasury shares		2	229
Repayment of the principal element of finance lease liabilities		(8,131)	(4,925)
Interest paid		(1,463)	(1,441)
Proceeds from sale of treasury shares to non-controlling shareholders		-	12
Dividends paid		(52)	(8)
Net proceeds from settlement of derivative financial instruments		84	43
Net cash used in financing activities		(8,632)	(13,936)
Effect of exchange rate fluctuations on cash and cash equivalents		-	(2)
Net increase in cash and cash equivalents		18,043	8,368
Cash and cash equivalents at the beginning of the year		18,660	15,070
Cash and cash equivalents at the end of the period		36,703	23,438
<i>Non-cash transactions as part of the investing activities:</i>			
Property, plant and equipment acquired under finance leases		34,460	18,605

OJSC AEROFLOT – RUSSIAN AIRLINES

Condensed Consolidated Interim Statement of Changes in Equity

for 6 months ended 30 June 2014

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



	Note	Equity attributable to shareholders of the Company							Non-controlling interest	Total equity
		Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Accumulated currency translation reserve	Hedge reserve	Share-based payment reserve	Retained earnings		
1 January 2013		1,359	(2,440)	(12)	(54)	517	208	54,339	(4,522)	49,395
Profit/(loss) for the period		-	-	-	-	-	-	151	(106)	45
Translation from the functional currency to the presentation currency		-	-	-	2	-	-	-	-	2
Loss from the change in fair value of derivative financial instruments less related deferred tax	13	-	-	-	-	(747)	-	-	-	(747)
Total other comprehensive profit/(loss)		-	-	-	2	(747)	-	-	-	(745)
Total comprehensive profit/(loss)		-	-	-	2	(747)	-	151	(106)	(700)
Disposal of subsidiary		-	-	-	-	-	-	-	(347)	(347)
Share-based payments		-	-	-	-	-	(109)	-	-	(109)
Disposal of treasury shares		-	337	-	-	-	-	-	-	337
Dividends declared	18	-	-	-	-	-	-	(1,292)	(119)	(1,411)
30 June 2013		1,359	(2,103)	(12)	(52)	(230)	99	53,198	(5,094)	47,165
1 January 2014		1,359	(1,914)	(10)	(28)	(383)	-	61,122	(5,666)	54,480
Loss for the period		-	-	-	-	-	-	(1,745)	(160)	(1,905)
Translation from the functional currency to the presentation currency		-	-	-	28	-	-	-	-	28
Loss from the change in fair value of derivative financial instruments less related deferred tax	13	-	-	-	-	(168)	-	-	-	(168)
Total other comprehensive profit/(loss)		-	-	-	28	(168)	-	-	-	(140)
Total comprehensive profit/(loss)		-	-	-	28	(168)	-	(1,745)	(160)	(2,045)
Disposal of treasury shares		-	2	-	-	-	-	-	-	2
Sale of shares to non-controlling shareholders		-	-	-	-	-	-	2,582	(2,401)	181
Dividends declared	18	-	-	-	-	-	-	(2,774)	(207)	(2,981)
30 June 2014		1,359	(1,912)	(10)	-	(551)	-	59,185	(8,434)	49,637

OJSC AEROFLOT – RUSSIAN AIRLINES

Notes to the Condensed Consolidated Interim Financial Statements
for 6 months ended 30 June 2014

(All amounts are presented 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 open 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 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 30 June 2014 and 31 December 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.

In 2013, following an order of the Russian Government, OJSC Avrora Airlines was founded based on two Far East airlines – OJSC Sakhalinskiye Aviatrassi and OJSC Vladivostok Avia. In January 2014 49% stake in OJSC Avrora Airlines was sold to the regional governments of Far Eastern Federal District for the consideration of RUB 181 million.

OJSC AEROFLOT – RUSSIAN AIRLINES

Notes to the Condensed Consolidated Interim Financial Statements
for 6 months ended 30 June 2014

(All amounts are presented 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 30 June 2014 (number of items):

Type of aircraft	Ownership	OJSC Aeroflot	OJSC Donavia	OJSC AK Rossiya	OJSC Orenair	OJSC Vladivostok Avia	LLC Dobrolet	OJSC Avrora Airlines	Group total (no. of items)
Il-96-300	Owned	6	-	-	-	-	-	-	6
An-24	Owned	-	-	-	-	-	-	1	1
Mi-8	Owned	-	-	-	3	-	-	1	4
Total owned		6	-	-	-	3	-	2	11
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	-	-	-	-	-	-	2	2
Boeing B-777	Finance lease	10	-	-	-	-	-	-	10
An-148	Finance lease	-	-	6	-	-	-	-	6
Tu-204	Finance lease	-	-	-	-	2	-	-	2
Total finance lease		44	-	15	-	2	-	2	63
SSJ 100	Operating lease	9	-	-	-	-	1	-	10
Airbus A-319	Operating lease	4	10	7	-	-	-	5	26
Airbus A-320	Operating lease	63	-	12	-	1	-	-	76
Airbus A-321	Operating lease	5	-	-	-	-	-	-	5
Airbus A-330	Operating lease	14	-	-	-	-	-	-	14
Boeing B-737	Operating lease	5	1	-	22	-	2	3	33
Boeing B-767	Operating lease	2	-	3	-	-	-	-	5
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	-	-	-	-	-	-	3	3
Total operating lease		105	11	22	25	1	3	15	182
Total fleet		155	11	37	25	6	3	19	256

As at 30 June 2014 six aircraft Il-96-300, one aircraft Mi-8, two aircrafts Tu-204, one aircraft Airbus A-320 and one aircraft Boeing B-737 are not operated.

2. BASIS OF PREPARATION

Basis of presentation

The Condensed Consolidated Interim Financial Statements of the Group have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Group for the year ended 31 December 2013, which have been prepared in accordance with IFRS.

Foreign currency translation

The table below presents official US Dollar and Euro to Rouble exchange rates used for the translation of operations, monetary assets and liabilities in foreign currencies:

	Official exchange rates	
	Roubles for 1 US Dollar	Roubles for 1 Euro
As at 30 June 2014	33.6306	45.8251
Average rate for 6 months 2014	34.9796	47.9875
As at 31 December 2013	32.7292	44.9699
Average rate for 6 months 2013	31.0169	40.7444

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 2013 except as described below.

New standards and interpretations effective from 1 January 2014

The following new standards, amendments and interpretations to standards are mandatory for the reporting periods of the Group beginning on 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-financial assets» (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).

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

New standards and interpretations effective from 1 January 2014 (continued)

If not stated otherwise, these standards, amendments to standards and interpretations did not have any material impact on the Group's Condensed Consolidated Interim Financial Statements.

New standards and interpretations

Certain new standards, amendments to standards and interpretations were not yet effective as at 30 June 2014 and have not been early applied in these Condensed Consolidated Interim Financial Statements:

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 condensed consolidated interim financial statements;

Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning on or after 1 July 2014);

IFRS 14 «Regulatory deferral accounts» (issued in January 2014, effective for annual periods beginning on or after 1 January 2016);

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 amendment and its impact on the Group's condensed consolidated interim financial statements;

Improvements to International Financial Reporting Standards (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 «Joint Arrangements» (issued on 6 May 2014 and effective for the annual periods beginning on or after 1 January 2016);

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 «Property, plant and equipment» and IAS 38 «Intangible Assets» (issued in May 2014 and effective for the annual periods beginning on or after 1 January 2016).

If not stated otherwise, these standards, amendments to standards and interpretations are not expected to have material impact on the Group's consolidated financial statements.

Critical accounting estimates and judgments

The management of 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. Fact results may deviate from declared estimates. Judgements regarding accounting policy provisions and methods of valuation applied by management when preparing this condensed consolidated interim financial statements correspond to the ones used when preparing consolidated financial statements for the year ended 31 December 2013, and as at this date, except for changes in accounting estimates with respect to amount of income tax expenses.

OJSC AEROFLOT – RUSSIAN AIRLINESNotes to the Condensed Consolidated Interim Financial Statements
for 6 months ended 30 June 2014*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)***Critical accounting estimates and judgments (continued)*

Income tax expense. 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.

4. TRAFFIC REVENUE

	6m 2014	6m 2013
Scheduled passenger flights	110,823	100,452
Charter passenger flights	7,154	8,076
Cargo flights	3,819	5,139
Total traffic revenue	121,796	113,667

5. OTHER REVENUE

	6m 2014	6m 2013
Airline agreements revenue	9,279	8,161
Refuelling services	1,500	880
Catering services on board	635	461
Ground handling and maintenance	473	409
Sales of duty free goods	-	420
Hotel revenue	234	212
Other revenue	6,364	3,970
Total other revenue	18,485	14,513

6. OPERATING COSTS

	6m 2014	6m 2013
Aircraft servicing	23,786	21,414
Operating lease expenses	11,627	9,053
Aircraft maintenance	9,268	8,675
Sales and marketing	4,586	5,517
Administration and general expenses	4,388	3,522
Communication expenses	3,618	2,702
Passenger services	3,928	2,825
Food cost for flight catering	2,922	2,306
Custom duties	828	681
Insurance expenses	617	574
Cost of duty free goods sold	-	192
Other expenses	3,205	2,197
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	68,773	59,658
Aircraft fuel	40,236	36,942
Total operating costs less staff costs and depreciation and amortisation	109,009	96,600

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for 6 months ended 30 June 2014*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***7. STAFF COSTS**

	6m 2014	6m 2013
Wages and salaries	19,617	17,615
Pension costs	3,830	2,863
Social security costs	857	879
Total staff costs	24,304	21,357

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% for 6 months 2014, 20% for 6 months 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.

	6m 2014	6m 2013
Payments to the Pension Fund of the RF	3,821	2,854
Defined contribution pension plan	7	6
Defined benefit pension plan	2	3
	3,830	2,863

8. FINANCE INCOME AND COSTS

	6m 2014	6m 2013
<i>Finance income:</i>		
Foreign exchange gain, net	1,361	-
Gain on derivative financial instruments (Note 13)	384	1,442
Gain on disposal of investments	-	352
Interest income on bank deposits and security deposits	336	185
Gain on change in fair value of derivative financial instruments (Note 13)	472	-
Other finance income	62	-
Total finance income	2,615	1,979
<i>Finance costs:</i>		
Foreign exchange loss, net	-	(3,903)
Loss on change in fair value of derivative financial instruments (Note 13)	-	(443)
Loss on derivative financial instruments (Note 13)	(176)	(418)
Interest expense	(2,244)	(1,850)
Loss on disposal and impairment of investments, net	(2)	-
Other finance costs	(12)	(2)
Total finance costs	(2,434)	(6,616)

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9. 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.

Expected weighted average annual income tax rate applied to profitable Group companies for the 6 months 2014 equalled to 18-43% (6 months 2013: 21-34%). Changes in expected weighted average annual rate of income tax mainly relate to increase of non-deductible expenses.

Expected weighted average annual income tax rate applied to loss making Group companies for the 6 months 2014 equalled to 19-33% (6 months 2013: 1-3%). Changes in expected annual average weighted rate of income tax are in general related to utilisation a previously unrecognised deferred tax asset on losses for such companies of the Group.

	<u>6m 2014</u>	<u>6m 2013</u>
Income tax charge for the period	1,448	2,119
Deferred income tax gain	(748)	(1,607)
	<u>700</u>	<u>512</u>

In the reporting period the Group has recognised a previously unrecognised tax losses as deferred tax asset of RUB 155 million of subsidiary OJSC AK Rossiya (6 months 2013: nil).

The deferred tax asset of RUB 65 million (6 months 2013: RUB 59 million) arising in the reporting period as a result of changes in the fair value of a hedging instrument was recognised in these consolidated condensed interim financial statements within other comprehensive income.

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>30 June 2014</u>	<u>31 December 2013</u>
Trade accounts receivable	29,296	24,889
Other financial receivables	1,708	1,547
Less impairment provision	(4,127)	(2,440)
Total financial receivables	26,877	23,996
Prepayments to suppliers (excluding aircraft suppliers)	8,667	10,869
VAT and other taxes recoverable	10,325	10,501
Prepayments for aircraft	4,476	8,197
Deferred customs duties related to the imported aircraft under operating leases, current portion	861	935
Other receivables	736	1,192
Accounts receivable and prepayments	51,942	55,690

Deferred customs duties of RUB 861 million as of 30 June 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 of the Group over the term of the operating lease.

As at 30 June 2014 and 31 December 2013, the Group made sufficient impairment provision against accounts receivable and prepayments.

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As at 30 June 2014 and 31 December 2013 prepayments for aircraft were RUB 15,398 million and RUB 12,318 million, respectively. Movements in the non-current portion of prepayments are due to the approaching contractual aircraft delivery dates and payment of new long-term advances to suppliers.

As at 30 June 2014 and 31 December 2013 prepayments for aircraft include advance payments for the acquisition:

Expected lease type	Type of aircraft	30 June 2014		31 December 2013	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Lease type is not determined	Boeing B-787	22	2016-2019	22	2016-2019
Lease type is not determined	Airbus A-350	22	2018-2023	22	2018-2023
Operating lease	SSJ 100	8	2015	12	2015
Finance lease	Boeing B-777	3	2016	6	2015-2016
Lease type is not determined	Airbus A-320	16	2016-2017	10	2016-2017
Lease type is not determined	Airbus A-321	11	2016-2017	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 10).

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 Notes to the Condensed Consolidated Interim Financial Statements
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(All amounts are presented in millions of Russian Roubles, unless otherwise stated)

12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<i>Cost</i>						
As at 1 January 2013	6,175	75,504	10,948	12,233	721	105,581
Additions	465	18,026	96	1,343	906	20,836
Capitalised expenditures	-	383	-	-	-	383
Disposals	(725)	(831)	(1)	(214)	(14)	(1,785)
Transfers	-	-	15	176	(191)	-
As at 30 June 2013	5,915	93,082	11,058	13,538	1,422	125,015
As at 1 January 2014	6,414	94,597	11,088	14,097	1,863	128,059
Additions (i)	220	33,672	69	1,433	929	36,323
Capitalised expenditures	-	538	-	-	15	553
Disposals (ii)	(82)	(2,171)	(3)	(188)	-	(2,444)
Transfers	62	219	78	106	(465)	-
As at 30 June 2014	6,614	126,855	11,232	15,448	2,342	162,491
<i>Accumulated depreciation</i>						
As at 1 January 2013	(4,233)	(17,246)	(3,871)	(6,231)	(15)	(31,596)
Charge for the period (Accrual)/release of impairment provision	(448)	(3,239)	(178)	(808)	-	(4,673)
Disposals	(2)	-	-	8	1	7
As at 30 June 2013	(3,992)	(19,654)	(4,049)	(6,881)	(14)	(34,590)
As at 1 January 2014	(4,629)	(23,080)	(4,237)	(7,322)	(14)	(39,282)
Charge for the period (Accrual)/release of impairment provision	(183)	(4,009)	(199)	(800)	-	(5,191)
Disposals (ii)	(19)	(1)	-	1	13	(6)
As at 30 June 2014	(4,758)	(26,157)	(4,435)	(7,988)	(1)	(43,339)
<i>Carrying amount</i>						
As at 1 January 2014	1,785	71,517	6,851	6,775	1,849	88,777
As at 30 June 2014	1,856	100,698	6,797	7,460	2,341	119,152

- (i) During 6 months 2014 additions mainly relate to the addition of six aircraft Boeing B-777 with a carrying amount of RUB 33,672 million received under finance lease agreements.
- (ii) During 6 months 2014 disposals mainly include the disposal of four aircraft Tu-204 held by OJSC Vladivostok Avia under finance lease agreements with carrying amount of RUB 1,201 million.

Capitalised borrowing costs for 6 months 2014 amounted to RUB 202 million. Capitalisation rate for the period was 2.9%.

As at 30 June 2014 property and land with the total carrying amount of RUB 788 million (31 December 2013: RUB 771 million) were pledged to third and related parties as a security for the Group's borrowings (Note 16).

13. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2014	31 December 2013
Derivative financial instruments within assets		
Representing:		
Current	1,531	1,034
Non-current	1,844	1,175
Total derivative financial instruments within assets	3,375	2,209
Derivative financial instruments within liabilities		
Representing:		
Current	463	214
Non-current	5,316	4,546
Total derivative financial instruments within liabilities	5,779	4,760

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:

	Assets	Liabilities
1 January 2014 – Total derivative financial instruments	2,209	4,760
<i>Level 3 derivative financial instruments that are not subject to special hedge accounting rules</i>		
Change in fair value for the period (Note 8)	633	436
Additions for the period (Note 8)	543	293
Disposals for the period (Note 8)	-	(25)
<i>Level 2 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	(10)	315
30 June 2014 – Total derivative financial instruments	3,375	5,779
<i>Representing:</i>		
Level 3 derivative financial instruments that are not subject to special hedge accounting rules	3,194	4,685
Level 2 derivative financial instruments that are subject to special hedge accounting rules	181	1,094
30 June 2014 – Total derivative financial instruments	3,375	5,779

13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Instruments subject to special hedge accounting rules

Hedging transactions listed below are assessed as effective for the purposes of IAS 39 “Financial Instruments: Recognition and Measurement”.

(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. The loss for 6 months 2014 arising from the change in fair value of this derivative financial instrument of RUB 263 million was recorded in the Condensed Consolidated Interim Statement of Comprehensive Income together with the corresponding deferred tax of RUB 71 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 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 when the gain or loss will be recognised under this transaction.

(b) Interest rate swap with a fixed interest rate

Interest rate swap with a fixed interest rate was closed during the first half of 2014 due to its maturity. The results of closure of the transaction was reported in finance expenses in the amount of RUB 34 million for 6 months of 2014. Decrease of hedge reserve and corresponding deferred tax amounted to RUB 30 million and RUB 6 million respectively.

Instruments that are not subject to special hedge accounting rules

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.

Level 3 market inputs were used to assess the fair value of the instrument that are not subject to special hedge accounting rules and the Monte-Carlo method was applied. The following inputs were used to assess the fair value of the options:

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

13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)*Instruments that are not subject to special hedge accounting rules (continued)**(a) Fuel options*

As of 30 June 2014 the Group was party to a number of option agreements concluded in 2012, 2013 and in the first half of 2014 with Russian banks to hedge a portion of its aircraft fuel costs. Gain recognised from the change in fair value of these derivative financial instruments amounted to RUB 1,363 million for 6 months 2014, which is reported in the condensed consolidated interim statement of profit or loss (6 months 2013: loss of RUB 77 million).

A similar transaction entered into in September 2013 was closed in the first half of 2014 due to its maturity. Gain recognised from the change in fair value of this instrument amounted to RUB 26 million and was recorded within Condensed Consolidated Interim Statement of Profit or Loss for 6 months 2014.

(b) 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 for 6 months 2014 amounted to RUB 917 million and was recorded in the Condensed Consolidated Interim Statement of Profit or Loss (6 months 2013: loss in the amount of RUB 366 million).

For 6 months ended 30 June 2014, the gain on the currency and fuel options was RUB 384 million, the loss was RUB 142 million (6 months 2013: the gain of RUB 461 million and loss of RUB 127 million, respectively).

14. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue and other accrued liabilities related to frequent flyer programme (Aeroflot Bonus programme) as at 30 June 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 accrued liabilities related to frequent flyer programme also include liabilities under the Company's discount programme as at 30 June 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.

	30 June 2014	31 December 2013
Deferred revenue related to frequent flyer programme, current	675	577
Deferred revenue related to frequent flyer programme, non-current	2,098	1,862
Other current liabilities related to frequent flyer programme	1,048	896
Other non-current liabilities related to frequent flyer programme	2,568	2,451
Total deferred revenue and other liabilities related to frequent flyer programme	6,389	5,786

15. FINANCE LEASE LIABILITIES

The Group leases aircraft from third and related parties under finance lease agreements (Note 21). The aircraft that the Group has operated under finance lease agreements as at 30 June 2014 are listed in Note 1.

	30 June 2014	31 December 2013
Total outstanding payments	112,303	86,514
Future finance lease interest expense	(14,995)	(14,478)
Total finance lease liabilities	97,308	72,036
<i>Representing:</i>		
Current finance lease liabilities	10,911	8,688
Non-current finance lease liabilities	86,397	63,348
Total finance lease liabilities	97,308	72,036

Leased aircraft and engines with the carrying amount disclosed in Note 12 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

16. LOANS AND BORROWINGS

	30 June 2014	31 December 2013
<i>Short-term bank loans, bonds and other borrowings:</i>		
Short-term loans in Russian Roubles	1,555	1,000
Current portion of bonds in Russian Roubles	100	101
Current portion of long-term bank loans in US dollars	812	792
Current portion of loans and borrowings in Russian Roubles	3,688	3,136
Total short-term loans and borrowings	6,155	5,029
<i>Long-term bank loans, bonds and other borrowings:</i>		
Long-term loans in Russian Roubles	6,439	5,636
Long-term bonds in Russian Roubles	5,100	5,101
Long-term loans and borrowings in US dollars	1,309	1,669
Less:		
Current portion of bonds in Russian Roubles	(100)	(101)
Current portion of long-term bank loans in US dollars	(812)	(792)
Current portion of loans and borrowings in Russian Roubles	(3,688)	(3,136)
Total long-term loans and borrowings	8,248	8,377

During 6 months 2014 the Group has opened long-term credit lines with OJSC Gazprombank and OJSC ALFA-BANK in the amount of RUB 1,500 million and RUB 2,000 million, respectively. As at 30 June 2014 the outstanding amount of these credit lines was RUB 2,200 million. Both loans are unsecured.

As at 30 June 2014 the Group was able to attract RUB 19,817 million of cash (31 December 2013: RUB 16,229 million) available under lines of credit granted to the Group by various lending institutions.

As at 30 June 2014 and 31 December 2013, the fair value of loans and borrowings, including bonds was not materially different from their carrying amounts.

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**17. SHARE CAPITAL**

As at 30 June 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
30 June 2014	1,110,616,299	(53,716,189)	1,056,900,110

All issued shares are fully paid. In addition to the shares that have been placed the Company is entitled to place 250,000,000 ordinary registered shares (31 December 2013: 250,000,000 shares) with par value of RUB 1 per share (31 December 2013: RUB 1 per share).

Ordinary shareholders are entitled to one vote per share.

During 6 months 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 21).

As at 30 June 2014, treasury shares were held by wholly owned subsidiaries of the Group and the Company:

	30 June 2014 (shares)	31 December 2013 (shares)
JSC Aeroflot	227,696	227,696
LLC Aeroflot Finance	53,486,402	53,527,652
LLC Partner Aeroflot	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 and as at 30 June 2014 and 31 December 2013 were traded at RUB 56.0 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 30 June 2014 GDRs were traded on the Frankfurt stock exchange at RUB 289 per GDR. As at 31 December 2013 the ratio of ordinary shares to GDR was 100:1 and GDRs were traded on the Frankfurt stock exchange at RUB 8,005 per GDR.

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**18. DIVIDENDS**

At the annual shareholders' meeting held on 27 June 2014 the shareholders approved dividends in respect of 2013 in the amount of RUB 2.4984 per share totaling to RUB 2,774 million for the Company's total declared and placed shares.

At the annual shareholders' meeting held on 24 June 2013 the shareholders approved dividends in respect of 2012 in the amount of RUB 1.1636 per share totaling to RUB 1,292 million for the Company's total declared and placed shares.

All dividends are declared and paid in Russian Roubles.

19. 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
6m 2014				
External sales	139,465	816	-	140,281
Inter-segment sales	-	5,329	(5,329)	-
Total revenue	139,465	6,145	(5,329)	140,281
Operating (loss)/profit	(1,291)	92	(185)	(1,384)
Finance income				2,615
Finance costs				(2,434)
Share of financial results of associates				(2)
Loss before income tax				(1,205)
Income tax expense				(700)
Loss for the period				(1,905)

OJSC AEROFLOT – RUSSIAN AIRLINESNotes to the Condensed Consolidated Interim Financial Statements
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	<u>Passenger traffic</u>	<u>Other</u>	<u>Inter-segment sales elimination</u>	<u>Total Group</u>
6m 2013				
External sales	126,999	1,181	-	128,180
Inter-segment sales	10	4,216	(4,226)	-
Total revenue	127,009	5,397	(4,226)	128,180
Operating profit/(loss)	5,015	393	(227)	5,181
Finance income				1,979
Finance costs				(6,616)
Share of financial results of associates				13
Profit before income tax				557
Income tax expense				(512)
Profit for the period				45

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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, judgment 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 13.

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 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 30 June 2014 and 31 December 2013, the fair values of financial payables, finance lease liabilities (Note 15), loans and borrowings, including bonds (Note 16) 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.

21. RELATED PARTY 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 30 June 2014 and 31 December 2013, the outstanding balances with related parties and income and expense items with related parties for 6 months 2014 and 6 months 2013 were as follows:

Associates

As at 30 June 2014 and 31 December 2013, the outstanding balances with associates and income and expense items with associates for 6 months 2014 and 6 months 2013 were as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Assets		
Accounts receivable	43	38
Liabilities		
Accounts payable and accrued liabilities	<u>82</u>	<u>75</u>

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

	<u>6m 2014</u>	<u>6m 2013</u>
Transactions		
Sales to associates	17	12
Purchase from associates	<u>660</u>	<u>624</u>

Purchases from associates consist primarily of aviation security services.

Government-related entities

As at 30 June 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, affiliations and other organizations (hereinafter - the “government-related entities”).

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

21. RELATED PARTY TRANSACTIONS (CONTINUED)

Government-related entities (continued)

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

- banking services,
- transactions, assets and liabilities 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 settlement and currency accounts in the government-related banks:

	30 June 2014	31 December 2013
Assets		
Cash and cash equivalents	12,894	6,821
Derivative financial instruments	2,082	1,358
Liabilities		
Derivative financial instruments	3,754	2,941

The amounts of the Group's finance and operating lease liabilities are disclosed in Notes 15 and 22. The share of liabilities to the government-related entities is approximately 13% for finance lease and 8% for operating lease (31 December 2013: 20% and 8% respectively).

For 6 months 2014 the aggregate amount of Group's transactions with government-related entities is less than 15% of operating costs, and approximately 3% of revenue (6 months 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 motor fuels by government-related entities.

As at 30 June 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).

Transactions with the state also include taxes, levies and customs duties settlements and charges which are detailed in Notes 6, 7, 9 and 10.

21. RELATED PARTY TRANSACTIONS (CONTINUED)

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 short-term and mid-term compensation, amounted to RUB 493 million (6 months 2013: RUB 406 million).

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 unified social tax 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. The 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 period. The fair value of the liabilities under the bonus programmes was determined based on consensus forecast for the Company's capitalisation growth until 2015.

Expenses related to the bonus programmes for 6 months 2014 were RUB 574 million. The expenses are recorded within staff costs in the Group's condensed consolidated interim statement of profit or loss. As at 30 June 2014, outstanding liability under these plans was RUB 919 million (31 December 2013: RUB 345 million).

Cross shareholding

As at 30 June 2014 LLC Aeroflot-Finance and LLC Partner Aeroflot, 100%-owned subsidiaries of the Group, owned 53,486,402 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 17).

22. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 21) are as follows:

	30 June 2014	31 December 2013
On demand or within 1 year	24,049	20,132
Later than 1 year and not later than 5 years	107,185	95,087
Later than 5 years	132,049	137,072
Total operating lease commitments	263,283	252,291

As at 30 June 2014, 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.

23. CAPITAL COMMITMENTS

As at 30 June 2014, the Group entered into agreements on future acquisition of property, plant and equipment with third parties for the total of RUB 19,911 million (31 December 2013: RUB 40,179 million). These commitments mainly relate to six (31 December 2013: twelve) Boeing B-777 aircraft which are expected to be used under finance lease agreements.

24. CONTINGENCIES

Operating Environment of the Group

The political and economic turmoil witnessed in the region, including the situation in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of additional sanctions against Russian Federation and some companies incorporated in Russia, and their officials. The financial markets are uncertain and volatile. These and other events may have an impact on the Group's operations and financial position. Effect of these sanctions is not significant by management's assessment. The Group continues to monitor the situation and executes set of measures to minimize influence of possible risks on operating activity of the Group and its 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. These condensed consolidated interim 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 environment may differ from management's assessment.

Seasonality

Business activities of the Group with respect to international and domestic passenger and cargo flights are subject to season fluctuations, peak of demand occurs in the second and third quarters of a year.

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 condensed consolidated interim 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 condensed consolidated interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

24. 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.

The Group's management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as of 30 June 2014 the Group has no other possible obligations from exposure to other than remote tax risks other than mentioned above. As of 31 December 2013 management estimated the other possible obligations from exposure to other than remote tax risks 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.

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.