



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

**Condensed Consolidated Interim Financial Statements
for the 9 months ended 30 September 2014**

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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'*.

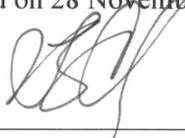
In preparing the Condensed Consolidated Interim Financial Statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether International Financial Reporting Standards (hereinafter IFRS) have been complied with, subject to any material departures being disclosed and explained in the Notes of 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.

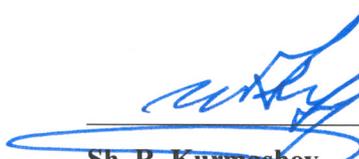
Management is also responsible for:

- 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 9 months ended 30 September 2014 were approved on 28 November 2014 by:



V. G. Savelyev
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 Open Joint Stock Company 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 September 2014 and the related condensed consolidated statements of profit or loss and comprehensive income for the three and nine months then ended, and cash flows and changes in equity for the nine-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

28 November 2014
Moscow, Russian Federation

OJSC AEROFLOT

 Condensed Consolidated Interim Statement of
 Profit or Loss for the three and nine months ended 30 September 2014

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



	Notes	Three months ended		Nine months ended	
		30 September 2014	30 September 2013	30 September 2014	30 September 2013
Traffic revenue	4	86,346	84,222	208,142	197,890
Other revenue	5	10,071	9,950	28,556	24,463
Revenue		96,417	94,172	236,698	222,353
Operating costs, excluding staff costs and depreciation and amortisation	6	(65,717)	(58,473)	(174,726)	(155,072)
Staff costs	7	(13,921)	(10,384)	(38,225)	(31,741)
Depreciation and amortisation		(3,175)	(2,813)	(8,761)	(7,865)
Other operating expenses and income, net		1,442	(814)	(1,324)	(805)
Operating costs		(81,371)	(72,484)	(223,036)	(195,483)
Operating profit		15,046	21,688	13,662	26,870
Finance income	8	911	862	1,684	2,321
Finance costs	8	(18,017)	(1,203)	(18,609)	(7,300)
Share of results of associates		24	23	22	36
(Loss)/profit before income tax		(2,036)	21,370	(3,241)	21,927
Income tax	9	378	(4,178)	(322)	(4,690)
(Loss)/profit for the period		(1,658)	17,192	(3,563)	17,237
<i>Attributable to:</i>					
Shareholders of the Company		(2,193)	16,520	(3,938)	16,671
Non-controlling interest		535	672	375	566
(LOSS)/PROFIT FOR THE PERIOD		(1,658)	17,192	(3,563)	17,237
(Loss)/profit per share - basic (in Roubles per share)		(2.1)	15.7	(3.7)	15.8
(Loss)/profit per share - diluted (in Roubles per share)		(2.1)	15.6	(3.7)	15.8
Weighted average number of shares outstanding (millions)		1,056.9	1,055.3	1,056.9	1,053.6
Weighted average number of diluted shares outstanding (millions)		1,056.9	1,057.7	1,056.9	1,057.0

Approved and signed on behalf of management

28 November 2014

V. G. Savelyev
 General Director

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

	Note	Three months ended		Nine months ended	
		30 September 2014	30 September 2013	30 September 2014	30 September 2013
(Loss)/profit for the period		(1,658)	17,192	(3,563)	17,237
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		-	(2)	28	(2)
Loss on the change in fair value of derivative financial instruments	13	(477)	(55)	(710)	(744)
Deferred tax related to the loss on the change in fair value of derivative financial instruments	9	114	28	179	(30)
Other comprehensive loss for the period		(363)	(29)	(503)	(776)
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD		(2,021)	17,163	(4,066)	16,461
<i>Total comprehensive (loss)/profit attributable to:</i>					
Shareholders of the Company		(2,556)	16,492	(4,441)	15,897
Non-controlling interest		535	671	375	564
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD		(2,021)	17,163	(4,066)	16,461

OJSC AEROFLOT

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

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



	Note	30 September 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents		29,307	18,660
Short-term financial investments		1,386	273
Accounts receivable and prepayments	10	48,463	55,690
Current income tax prepayment		338	476
Aircraft lease security deposits		186	405
Expendable spare parts and inventories		5,943	4,927
Derivative financial instruments	13	1,437	1,034
Total current assets		87,060	81,465
Non-current assets			
Deferred tax assets		5,693	2,174
Investments in associates		131	123
Long-term financial investments		6,101	6,099
Aircraft lease security deposits		1,441	1,088
Other non-current assets		4,828	5,955
Prepayments for aircraft	11	17,827	12,318
Property, plant and equipment	12	116,930	88,777
Intangible assets		2,928	3,350
Goodwill		6,660	6,660
Derivative financial instruments	13	1,667	1,175
Total non-current assets		164,206	127,719
TOTAL ASSETS		251,266	209,184
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	13	2,332	214
Accounts payable and accrued liabilities		42,358	36,248
Unearned traffic revenue		20,427	16,334
Deferred revenue related to frequent flyer programme	14	714	577
Provisions		1,152	881
Finance lease liabilities	15	12,375	8,688
Short-term loans and borrowings and current portion of long-term loans and borrowings	16	6,927	5,029
Total current liabilities		86,285	67,971
Non-current liabilities			
Long-term loans and borrowings	16	5,965	8,377
Finance lease liabilities	15	96,280	63,348
Provisions		2,949	1,655
Deferred tax liabilities		181	1,647
Deferred revenue related to frequent flyer programme	14	2,307	1,862
Derivative financial instruments	13	5,064	4,546
Other non-current liabilities		4,498	5,298
Total non-current liabilities		117,244	86,733
TOTAL LIABILITIES		203,529	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	(914)	(383)
Retained earnings		57,112	61,122
Equity attributable to shareholders of the Company		55,635	60,146
Non-controlling interest		(7,898)	(5,666)
TOTAL EQUITY		47,737	54,480
TOTAL LIABILITIES AND EQUITY		251,266	209,184

OJSC AEROFLOT

Condensed Consolidated Interim Statement of
Cash Flows for 9 months ended 30 September 2014

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



	<u>Note</u>	<u>9m 2014</u>	<u>9m 2013</u>
Cash flows from operating activities:			
(Loss)/profit before income tax		(3,241)	21,927
<i>Adjustments for:</i>			
Depreciation and amortisation		8,761	7,865
Change in impairment provision for accounts receivable and prepayments		1,980	(798)
Loss on accounts receivable write-off		60	54
Change in impairment provision for obsolete expendable spare parts and inventory		211	25
Change in provision for impairment of property, plant and equipment	12	(31)	(12)
Non-cash operations, related to assets classified as held for sale		-	(13)
(Gain)/loss on disposal of property, plant and equipment		(1,583)	82
Gain on accounts payable write-off		(9)	(35)
Share of financial results of associates		(22)	(37)
Loss/(gain) on sale of investments and accrual of provision for impairment of investments	8	20	(350)
Gain on change in the fair value of derivative financial instruments	8	845	547
Change in provisions		600	1,154
Interest expense	8	3,360	2,845
Foreign exchange loss	8	16,249	3,461
Write-off VAT		-	20
Change in other provisions and other assets impairments		(27)	(114)
Other finance (income)/costs, net		(447)	2
Gain on derivative financial instruments, net		(300)	(1,078)
Dividend income		(43)	(110)
Other operating income		(44)	(171)
Total operating cash flows before working capital changes		26,339	35,264
Decrease/(increase) in accounts receivable and prepayments		7,890	(8,204)
Increase in expendable spare parts and inventories		(1,227)	(333)
Increase in accounts payable and accrued liabilities		5,905	4,637
Total operating cash flows after working capital changes		38,907	31,364
Change in restricted cash		(31)	(58)
Income tax paid		(4,397)	(2,741)
Income tax refunded		-	9
Net cash flows from operating activities		34,479	28,574

OJSC AEROFLOT

Condensed Consolidated Interim Statement of
Cash Flows for 9 months ended 30 September 2014

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



	<u>Note</u>	<u>9m 2014</u>	<u>9m 2013</u>
<i>Cash flows from investing activities:</i>			
Proceeds from sale of investments and deposits return		360	127
Purchases of investments and deposits placement		(1,469)	(220)
Proceeds from sale of property, plant and equipment		23	54
Purchases of property, plant and equipment and intangible assets		(3,630)	(3,187)
Dividends received		55	58
Prepayments for aircraft		(9,880)	(3,477)
Return of prepayments for aircraft		9,535	6,275
Change in lease security deposits, net		73	231
Net cash flows used in investing activities		(4,933)	(139)
<i>Cash flows from financing activities:</i>			
Proceeds from loans and borrowings		4,500	5,460
Repayment of loans and borrowings		(5,375)	(14,056)
Proceeds from disposal of treasury shares		2	298
Repayment of the principal element of finance lease liabilities		(11,238)	(7,520)
Interest paid		(2,256)	(2,083)
Proceeds from sale of treasury shares to non-controlling shareholders		-	12
Dividends paid		(2,727)	(1,178)
Net proceeds from settlement of derivative financial instruments		353	183
Net cash used in financing activities		(16,741)	(18,884)
Effect of exchange rate fluctuations on cash and cash equivalents		(2,158)	(75)
Net increase in cash and cash equivalents		10,647	9,476
Cash and cash equivalents at the beginning of the year		18,660	15,070
Cash and cash equivalents at the end of the period		29,307	24,546
<i>Non-cash transactions as part of the investing activities:</i>			
Property, plant and equipment acquired under finance leases		34,469	18,605

OJSC AEROFLOT

 Condensed Consolidated Interim Statement of Changes in Equity
 for 9 months ended 30 September 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			Total
1 January 2013		1,359	(2,440)	(12)	(54)	517	207	54,339	53,916	(4,522)	49,394
Profit for the period		-	-	-	-	-	-	16,671	16,671	566	17,237
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	-	-	-	-	(774)	-	-	(774)	-	(774)
Total other comprehensive loss		-	-	-	-	-	-	-	(774)	(2)	(776)
Total comprehensive profit		-	-	-	-	-	-	15,897	15,897	564	16,461
Disposal of subsidiary		-	-	-	-	-	-	-	-	(347)	(347)
Share-based payments		-	-	-	-	-	(141)	-	(141)	-	(141)
Additions of treasury shares		-	-	-	-	-	-	-	-	-	-
Disposal of treasury shares		-	439	-	-	-	-	-	439	-	439
Sale of shares to non-controlling shareholders		-	-	-	-	-	-	-	-	12	12
Dividends declared		-	-	-	-	-	-	(1,292)	(1,292)	(128)	(1,420)
30 September 2013		1,359	(2,001)	(12)	(54)	(257)	66	69,718	68,819	(4,421)	64,398
1 January 2014		1,359	(1,914)	(10)	(28)	(383)	-	61,122	60,146	(5,666)	54,480
(Loss)/profit for the period		-	-	-	-	-	-	(3,938)	(3,938)	375	(3,563)
Translation from the functional currency to the presentation currency		-	-	-	28	-	-	-	28	-	28
Loss from the change in fair value of derivative financial instruments less related deferred tax	13	-	-	-	-	(531)	-	-	(531)	-	(531)
Total other comprehensive loss		-	-	-	-	-	-	-	(503)	-	(503)
Total comprehensive (loss)/profit		-	-	-	-	-	-	(4,441)	(4,441)	375	(4,066)
Disposal of treasury shares		-	2	-	-	-	-	-	2	-	2
Sale of shares to non-controlling shareholders		-	-	-	-	-	-	2,580	2,580	(2,400)	180
Dividends declared		-	-	-	-	-	-	(2,652)	(2,652)	(207)	(2,859)
30 September 2014		1,359	(1,912)	(10)	-	(914)	-	57,112	55,635	(7,898)	47,737

1. NATURE OF THE BUSINESS

Open 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 September 2014 and 31 December 2013, the Government of the Russian Federation 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, Russian Federation.

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

On 16 September 2014 the Company registered legal entity LLC Low Cost Carrier. It was agreed to use brand “Pobeda”.

OJSC AEROFLOT

 Notes to the Condensed Consolidated Interim Financial Statements
 for 9 months ended 30 September 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 September 2014 (number of items):

Type of aircraft	Ownership	OJSC Aeroflot	OJSC Donavia	OJSC Vladivostok Avia	OJSC Rossiya Airlines	OJSC Orenburgskie Avialinii	OJSC Aurora Airlines	Group total
								(no. of items)
Il-96-300	Owned	5	-	-	-	-	-	5
An-24	Owned	-	-	-	-	-	1	1
Mi-8	Owned	-	-	3	-	-	1	4
Total owned		5	-	3	-	-	2	10
Airbus A319	Finance lease	4	-	-	9	-	-	13
Airbus A320	Finance lease	1	-	-	-	-	-	1
Airbus A321	Finance lease	21	-	-	-	-	-	21
Airbus A330	Finance lease	8	-	-	-	-	-	8
Boeing B737	Finance lease	-	-	-	-	-	2	2
Boeing B777	Finance lease	10	-	-	-	-	-	10
An-148	Finance lease	-	-	-	6	-	-	6
Total finance lease		44	-	-	15	-	2	61
SSJ 100	Operating lease	10	-	-	-	-	-	10
Airbus A319	Operating lease	3	10	-	7	-	6	26
Airbus A320	Operating lease	62	-	1	13	-	-	76
Airbus A321	Operating lease	5	-	-	-	-	-	5
Airbus A330	Operating lease	14	-	-	-	-	-	14
Boeing B737	Operating lease	6	1	-	-	25	3	35
Boeing B767	Operating lease	-	-	-	3	-	-	3
Boeing B777	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		103	11	1	23	28	16	182
Total fleet		152	11	4	38	28	20	253

As at 30 September 2014 5 aircraft Il-96-300, 1 aircraft Mi-8, 1 aircraft Airbus A320 and 3 aircraft MD-11 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, cash and liabilities in foreign currencies:

	Official exchange rates	
	Roubles for 1 US Dollar	Roubles for 1 Euro
As at 30 September 2014	39.3866	49.9540
Average rate for 9 months 2014	35.3878	47.9894
As at 31 December 2013	32.7292	44.9699
Average rate for 9 months 2013	31.6170	41.6507

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 01 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).

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.

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

New standards and interpretations

Certain new Standards, amendments to Standards and Interpretations were not yet effective as at September 30, 2014, and have not been early applied in these consolidated interim condensed financial statements:

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

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

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 on or after 1 January 2017). The Group is considering the implications of the amendment and its impact on the Group’s consolidated financial statements;

Improvements to International Financial Reporting Standards (issued in December 2013 and effective 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 on or after 1 January 2016).

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

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

Improvements to International Financial Reporting Standards IFRS 5, IFRS 7, IAS 19, IAS 34 (issued on 25 September 2014 and effective for the periods beginning on or after 1 January 2016).

If not stated otherwise, these Standards, amendments to Standards and Interpretations are not expected to have any material impact on condensed consolidated interim financial statements.

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

Critical accounting estimates and judgments

When preparing condensed consolidated interim financial statements the management of the Group 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.

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

4. TRAFFIC REVENUE

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Scheduled passenger flights	78,011	77,081	188,834	177,534
Charter passenger flights	6,186	5,011	13,340	13,087
Cargo flights	2,149	2,130	5,968	7,269
Total traffic revenue	86,346	84,222	208,142	197,890

5. OTHER REVENUE

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Airline agreements revenue	4,715	4,650	13,994	12,811
Refuelling services	696	702	2,196	1,582
Catering services on board	188	273	823	734
Ground handling and maintenance	291	222	764	631
Sales of duty free goods	208	-	342	420
Hotel revenue	110	91	344	303
Other revenue	3,863	4,012	10,093	7,982
Total other revenue	10,071	9,950	28,556	24,463

6. OPERATING COSTS

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Aircraft servicing	14,894	13,354	38,680	34,768
Operating lease expenses	4,994	4,993	16,621	14,046
Aircraft maintenance	7,162	5,299	16,430	13,974
Sales and marketing	3,004	3,443	7,590	8,960
Administration and general expenses	2,325	1,661	6,713	5,183
Passenger services	2,753	2,014	6,681	4,838
Communication expenses	1,834	1,646	5,452	4,348
Food cost for flight catering	1,832	1,360	4,670	3,665
Custom duties	308	348	1,136	1,029
Insurance expenses	346	324	963	898
Cost of duty free goods sold	129	-	213	192
Other expenses	1,634	1,613	4,839	3,811
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	41,215	36,055	109,988	95,712
Aircraft fuel	24,502	22,418	64,738	59,360
Total operating costs less staff costs and depreciation and amortisation	65,717	58,473	174,726	155,072

7. STAFF COSTS

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Wages and salaries	11,299	8,585	30,916	26,201
Pension costs	2,213	1,520	6,043	4,383
Social security costs	409	279	1,266	1,157
Total staff costs	13,921	10,384	38,225	31,741

Pension costs include:

- compulsory payments to the Pension Fund of the Russian Federation,
- 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 9 months 2014, 20% for 9 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.

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Payments to the Pension Fund of the Russian Federation	2,198	1,506	6,019	4,360
Defined benefit pension plan	11	9	18	15
Defined contribution pension plan	4	5	6	8
	2,213	1,520	6,043	4,383

8. FINANCE INCOME AND COSTS

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
<i>Finance income:</i>				
Gain on derivative financial instruments (Note 13)	206	156	590	1,598
Interest income on bank deposits and security deposits	308	188	644	372
Gain on disposal of investments	-	-	-	351
Foreign exchange gain, net	-	518	-	-
Other finance income	397	-	450	-
Total finance income	911	862	1,684	2,321
<i>Finance costs:</i>				
Foreign exchange loss, net	(15,452)	-	(14,091)	(3,386)
Loss on change in fair value of derivative financial instruments (Note 13)	(1,317)	(104)	(845)	(547)
Loss on derivative financial instruments (Note 13)	(114)	(102)	(290)	(520)
Interest expense	(1,116)	(995)	(3,360)	(2,845)
Loss on disposal and impairment of investments, net	(18)	-	(20)	-
Other finance costs	-	(2)	(3)	(2)
Total finance costs	(18,017)	(1,203)	(18,609)	(7,300)

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 9 months 2014 equalled to 17-112% (9 months 2013: 2-26%). Changes in expected annual average weighted 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 9 months 2014 equalled to 12-43% (9 months 2013: 10-35%). Changes in expected annual average weighted rate of income tax are in general related to utilisation of unused tax losses which was not recognised as a deferred tax asset for such companies of the Group.

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Income tax charge for the period	3,681	3,785	5,129	5,904
Deferred income tax loss/(gain)	(4,059)	393	(4,807)	(1,214)
	(378)	4,178	322	4,690

In the reporting period the Group has utilised unused tax losses previously unrecognised as a deferred tax assets of RUB 447 million of subsidiary OJSC AK Rossiya (9 months 2013: none).

The deferred tax asset of RUB 179 million (9 months 2013: deferred tax liability of RUB 30 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

	30 September 2014	31 December 2013
Trade accounts receivable	27,720	24,889
Other financial receivables	1,700	1,547
Less impairment provision	(4,420)	(2,440)
Total financial receivables	25,000	23,996
Prepayments to suppliers (excluding aircraft suppliers)	7,527	10,869
VAT and other taxes recoverable	9,868	10,501
Prepayments for aircraft	4,516	8,197
Deferred customs duties related to the imported aircraft under operating leases, current portion	844	935
Other receivables	708	1,192
Accounts receivable and prepayments	48,463	55,690

Deferred customs duties of RUB 844 million as at 30 September 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 September 2014 and 31 December 2013 the Group made sufficient impairment provision against accounts receivable and prepayments.

11. PREPAYMENTS FOR AIRCRAFT

As at 30 September 2014 and 31 December 2013 prepayments for aircraft were RUB 17,827 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 September 2014 and 31 December 2013 prepayments for aircraft include advance payments for the acquisition:

Expected lease type	Type of aircraft	30 September 2014		31 December 2013	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Lease type is not determined	Boeing B787	22	2016-2019	22	2016-2019
Lease type is not determined	Airbus A350	22	2018-2023	22	2018-2023
Operating lease	SSJ 100	5	2015	12	2015
Finance lease	Boeing B777	3	2016	6	2015-2016
Lease type is not determined	Airbus A320	16	2016-2017	10	2016-2017
Lease type is not determined	Airbus A321	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).

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>						
1 January 2013	6,175	75,504	10,948	12,233	721	105,581
Additions	715	18,024	107	1,778	1,072	21,696
Capitalised expenditures	-	495	-	-	-	495
Disposals	(728)	(1,032)	(5)	(369)	-	(2,134)
Transfers	-	-	16	221	(237)	-
30 September 2013	6,162	92,991	11,066	13,863	1,556	125,638
1 January 2014	6,414	94,597	11,088	14,097	1,863	128,059
Additions (i)	467	33,672	186	1,784	1,291	37,400
Capitalised expenditures	-	677	-	-	92	769
Disposals (ii)	(623)	(3,130)	(8)	(425)	-	(4,186)
Transfers	71	214	305	148	(738)	-
30 September 2014	6,329	126,030	11,571	15,604	2,508	162,042
<i>Accumulated depreciation</i>						
1 January 2013	(4,233)	(17,246)	(3,871)	(6,231)	(15)	(31,596)
Charge for the period (Accrual)/Release of impairment provision	(687)	(5,013)	(275)	(1,262)	-	(7,237)
Disposals	(1)	-	-	14	1	14
Disposals	691	1,033	-	275	-	1,999
30 September 2013	(4,230)	(21,226)	(4,146)	(7,204)	(14)	(36,820)
1 January 2014	(4,629)	(23,080)	(4,237)	(7,322)	(14)	(39,282)
Charge for the period	(279)	(6,369)	(301)	(1,225)	-	(8,174)
Release of impairment provision	14	-	-	4	13	31
Disposals (ii)	609	1,372	3	329	-	2,313
30 September 2014	(4,285)	(28,077)	(4,535)	(8,214)	(1)	(45,112)
<i>Carrying amount</i>						
1 January 2014	1,785	71,517	6,851	6,775	1,849	88,777
30 September 2014	2,044	97,953	7,036	7,390	2,507	116,930

(i) During 9 months 2014 additions mainly relate to the addition of 6 aircraft Boeing B777 with a carrying amount of RUB 33,672 million received under finance lease agreements.

(ii) During 9 months 2014 disposals mainly include the disposal of 6 aircraft Tu-204 of subsidiary company OJSC Vladivostok Avia held under finance lease with carrying value of RUB 1,723 million.

Capitalised interest expense for 9 months 2014 amounted to RUB 282 million. Capitalisation rate for the period was 2.9% p.a.

As at 30 September 2014 property and land with the total carrying amount of RUB 806 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

	<u>30 September 2014</u>	<u>31 December 2013</u>
Derivative financial instruments within assets		
Representing:		
Current	1,437	1,034
Non-current	1,667	1,175
Total derivative financial instruments within assets	<u>3,104</u>	<u>2,209</u>
Derivative financial instruments within liabilities		
Representing:		
Current	2,332	214
Non-current	5,064	4,546
Total derivative financial instruments within liabilities	<u>7,396</u>	<u>4,760</u>

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:

	<u>Assets</u>	<u>Liabilities</u>
1 January 2014 – Total derivative financial instruments	<u>2,209</u>	<u>4,760</u>
<i>Level 3 derivative financial instruments</i>		
Change in fair value for the period (Note 8)	294	155
Initial valuation of derivative financial instruments obtained during the period (Note 8)	638	1,648
Disposals for the period (Note 8)	-	(26)
<i>Level 2 derivative financial instruments</i>		
Change in fair value for the period	(37)	859
30 September 2014 – Total derivative financial instruments	<u>3,104</u>	<u>7,396</u>
<i>Representing:</i>		
Level 3 derivative financial instruments	2,950	5,758
Level 2 derivative financial instruments	154	1,638
30 September 2014 – Total derivative financial instruments	<u>3,104</u>	<u>7,396</u>

The Group uses following financial instruments for risk management purposes:

(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 EUR/RUB exchange rate fluctuations. As a result of efficiency test performed for this instrument as hedge the loss for 9 months 2014 arising from the change in fair value of this derivative financial instrument of RUB 740 million was recorded within the other comprehensive income together with the corresponding deferred tax of RUB 185 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.

13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Instruments subject to special hedge accounting rules (continued)

(b) Interest rate swap with a fixed interest rate

During 9 months ended 30 September 2014, interest rate swap with a fixed interest rate was closed due to the contractual term expiration. The results of closure of the transaction were reported in finance expenses in amount of RUB 34 million for 9 months of 2014. Decrease of hedge reserve and corresponding deferred tax amounted to RUB 30 million and RUB 6 million respectively and was recorded within the other comprehensive income.

(c) Fuel options

As of 30 September 2014 the Group was party to a number of option agreements concluded in 2012, 2013 and in the 9 months of 2014 with Russian banks to hedge a portion of its aircraft fuel costs. The change in fair value of these derivative financial instruments amounted to a loss of RUB 764 million for 9 months 2014, which is reported in the condensed consolidated interim statement of profit or loss (9 months 2013: a loss of RUB 263 million).

A similar transaction entered into in September 2013 was closed in the first half of 2014 due to the contractual term expiration. The change in fair value of this instrument on the closure of this transaction amounted to a gain of RUB 26 million and was recorded within condensed consolidated interim statement of profit or loss for 9 months 2014.

(d) Currency options

The Group entered into currency option agreements with a number of Russian banks to hedge the currency risk. The loss from the change in fair value of these derivative financial instruments for 9 months 2014 amounted to RUB 107 million and was recorded in the condensed consolidated interim statement of profit or loss (9 months 2013: a loss in the amount of RUB 285 million).

For 9 months ended 30 September 2014, the gain on the currency and fuel options was RUB 590 million, the loss was RUB 256 million (9 months 2013: a gain of RUB 617 million and a loss of RUB 211 million). These amounts were recorded within finance income and finance costs respectively.

Valuation principles for currency and fuel options

The derivative financial instruments listed below are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the reporting period.

Level 3 market inputs were used to assess the fair value of fuel and currency options 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.).

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 September 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 September 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 September	31 December
	2014	2013
Deferred revenue related to frequent flyer programme, current	714	577
Deferred revenue related to frequent flyer programme, non-current	2,307	1,862
Other current liabilities related to frequent flyer programme	1,230	896
Other non-current liabilities related to frequent flyer programme	3,004	2,451
Total deferred revenue and other liabilities related to frequent flyer programme	7,255	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 September 2014 are listed in Note 1.

	30 September	31 December
	2014	2013
Total outstanding payments	124,764	86,514
Future finance lease interest expense	(16,109)	(14,478)
Total finance lease liabilities	108,655	72,036
<i>Representing:</i>		
Current finance lease liabilities	12,375	8,688
Non-current finance lease liabilities	96,280	63,348
Total finance lease liabilities	108,655	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 September	31 December
	2014	2013
<i>Short-term bank loans, bonds and other borrowings:</i>		
Short-term loans in Russian Roubles	3,557	1,000
Current portion of bonds in Russian Roubles	205	101
Current portion of long-term bank loans in US dollars	950	792
Current portion of loans and borrowings in Russian Roubles	2,215	3,136
Total short-term loans and borrowings	6,927	5,029
<i>Long-term bank loans, bonds and other borrowings:</i>		
Long-term loans in Russian Roubles	2,834	5,636
Long-term bonds in Russian Roubles	5,205	5,101
Long-term loans and borrowings in US dollars	1,296	1,669
Less:		
Current portion of bonds in Russian Roubles	(205)	(101)
Current portion of long-term bank loans in US dollars	(950)	(792)
Current portion of loans and borrowings in Russian Roubles	(2,215)	(3,136)
Total long-term loans and borrowings	5,965	8,377

16. LOANS AND BORROWINGS (CONTINUED)

The Group has opened long-term credit line with OJSC Gazprombank in the amount of RUB 1,500 million with interest rate 10.3% p.a. As at 30 September 2014 the outstanding amount of the credit lines is RUB 750 million. The loan is unsecured.

The Group has opened long-term credit line with OJSC ALFA-BANK in the amount of RUB 2,000 million with interest rate 14.8% p.a. As at 30 September 2014 the outstanding amount of the credit lines is RUB 1,200 million. The loan is unsecured.

As at 30 September 2014 the Group was able to attract RUB 26,480 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 September 2014 bank loans in amount of RUB 1,119 million (31 December 2013: RUB 1,600 million) were secured by property and land (Note 12).

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

17. SHARE CAPITAL

As at 30 September 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 September 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 9 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 September 2014, treasury shares were held by wholly owned subsidiaries of the Group and the Company:

	30 September 2014 (shares)	31 December 2013 (shares)
OJSC 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 on 30 September 2014 and 31 December 2013 were traded at RUB 43.4 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 September 2014 the GDRs were traded on the Frankfurt stock exchange at RUB 220 per GDR. As at 31 December 2013 the ratio of ordinary shares to GDR was 100:1 and the GDRs were traded on the Frankfurt stock exchange at RUB 8,005 per GDR.

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
9m 2014				
External sales	235,431	1,267	-	236,698
Inter-segment sales	1	8,785	(8,786)	-
Total revenue	235,432	10,052	(8,786)	236,698
Operating profit/(loss)	13,004	914	(256)	13,662
Finance income				1,684
Finance costs				(18,609)
Share of financial results of associates				22
Loss before income tax				(3,241)
Income tax				(322)
Loss for the period				(3,563)
	Passenger traffic	Other	Inter-segment sales elimination	Total Group
9m 2013				
External sales	220,785	1,568	-	222,353
Inter-segment sales	10	7,027	(7,037)	-
Total revenue	220,795	8,595	(7,037)	222,353
Operating profit/(loss)	25,949	1,114	(193)	26,870
Finance income				2,321
Finance costs				(7,300)
Share of financial results of associates				36
Profit before income tax				21,927
Income tax				(4,690)
Profit for the period				17,237

19. OPERATING SEGMENTS (CONTINUED)

	<u>Passenger traffic</u>	<u>Other</u>	<u>Inter-segment sales elimination</u>	<u>Total Group</u>
Three months ended 30 September 2014				
External sales	95,966	451	-	96,417
Inter-segment sales	1	3,456	(3,457)	-
Total revenue	95,967	3,907	(3,457)	96,417
Operating profit/(loss)	14,295	822	(71)	15,046
Finance income				911
Finance costs				(18,017)
Share of financial results of associates				24
Loss before income tax				(2,036)
Income tax				378
Loss for the period				(1,658)

	<u>Passenger traffic</u>	<u>Other</u>	<u>Inter-segment sales elimination</u>	<u>Total Group</u>
Three months ended 30 September 2013				
External sales	93,785	387	-	94,172
Inter-segment sales	-	2,810	(2,810)	-
Total revenue	93,785	3,197	(2,810)	94,172
Operating profit	20,934	721	33	21,688
Finance income				862
Finance costs				(1,203)
Share of financial results of associates				23
Profit before income tax				21,370
Income tax				(4,178)
Profit for the period				17,192

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.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 September 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 September 2014 and 31 December 2013, the outstanding balances with related parties and income and expense items with related parties for 9 months 2014 and 9 months 2013 were as follows:

Associates

As at 30 September 2014 and 31 December 2013, the outstanding balances with associates and income and expense items with associates for 9 months 2014 and 9 months 2013 were as follows:

	<u>30 September 2014</u>	<u>31 December 2013</u>
Assets		
Accounts receivable	20	38
Liabilities		
Accounts payable and accrued liabilities	<u>100</u>	<u>75</u>

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>30 September 2014</u>	<u>30 September 2013</u>	<u>30 September 2014</u>	<u>30 September 2013</u>
Transactions				
Sales to associates	1	2	18	13
Purchase from associates	<u>372</u>	<u>364</u>	<u>1,032</u>	<u>987</u>

Purchases from associates consist primarily of aviation security services.

Government-related entities

As at 30 September 2014 and 31 December 2013, the Government of the Russian Federation 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 Russian Federation through its government authorities, agencies, affiliations and other organizations, collectively referred to as government-related entities.

21 RELATED PARTY TRANSACTIONS (CONTINUED)*Government-related entities (continued)*

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.

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 September 2014	31 December 2013
Assets		
<i>Cash and cash equivalents</i>	11,811	6,821
<i>Derivative financial instruments</i>	2,411	1,358
Liabilities		
<i>Derivative financial instruments</i>	3,940	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 9 months 2014 the aggregate amount of Group's transactions with government-related entities is less than 12% of operating costs, and approximately 3% of revenue (9 months 2013: less than 12% and approximately 1% respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the airports and also supplies of motor fuels by government-related entities.

As at 30 September 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.

Compensation of key management personnel

The remuneration of 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 807 million (9 months 2013: RUB 557 million).

21 RELATED PARTY TRANSACTIONS (CONTINUED)*Compensation of key management personnel (continued)*

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 9 months 2014 were RUB 562 million. The expenses are recorded within staff costs in the Group's condensed consolidated interim statement of profit or loss. As at 30 September 2014, outstanding liability under these plans was RUB 241 million (31 December 2013: RUB 345 million).

Cross shareholding

As at 30 September 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 September 2014	31 December 2013
On demand or within 1 year	28,357	20,132
Later than 1 year and not later than 5 years	121,682	95,087
Later than 5 years	142,074	137,072
Total operating lease commitments	292,113	252,291

As at 30 September 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 September 2014, the Group entered into agreements on future acquisition of property, plant and equipment with third parties for the total of RUB 460,958 million (31 December 2013: RUB 289,682 million). These commitments mainly relate to 6 Boeing B777 (31 December 2013: 12), 22 Boeing B787, 22 Airbus A350 and 40 Airbus A320/321 aircraft. The Group plans to use the mentioned aircraft under operating or finance lease agreements, thus does not expect cash outflow under the corresponding agreements.

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 Russian Federation. Consequently, the Group is exposed to the risk of the economic and financial markets of the Russian Federation 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 Russian Federation. 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 Russian Federation 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 Russian Federation 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.

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.

24. CONTINGENCIES (CONTINUED)***Tax contingencies (continued)***

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 September 2014 the Group has no other possible obligations from exposure to other than remote tax risks. 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.