Public Joint-Stock Company UTair Aviation

Consolidated financial statements

for the year ended 31 December 2014

Public Joint-Stock Company UTair Aviation

Consolidated financial statements

for the year ended 31 December 2014

Contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2014

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 4 and 6, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of UTair Aviation and its subsidiaries (the "Group").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2014 were approved by management on 30 October 2015 and were signed on their behalf by:

A.Z. Martirosov
General Director

O.V. Grabarovskaya
Chief Accountant

Ernst & Young LLC
Ekaterinburg Branch
Khokhryakova Street, 10
Ekaterinburg, 620014, Russia
Tel: +7 (343) 378 4900
Fax: +7 (343) 378 4901
www.ey.com/ru

ООО «Эрнст энд Янг»
Филиал в г. Екатеринбурге
Россия, 620014, Екатеринбург
ул. Хохрякова, 10
Тел.: +7 (343) 378 4900
Факс: +7 (343) 378 4901
ОКПО: 73626821

Independent auditor's report

To the shareholders of Public Joint-Stock Company UTair Aviation

We have audited the accompanying consolidated financial statements of Public Joint-Stock Company UTair Aviation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of financial result, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

Basis for qualified opinion

Our audit opinion on the consolidated financial statements for the year 2013 was qualified in respect of the below mentioned matter affecting the comparability of the financial information for the previous year. As described in Note 27 to consolidated financial statements, the Public Joint-Stock Company UTair Aviation recognized revenue from consulting services in "other revenue" in its consolidated statement of comprehensive financial result for the year ended 31 December 2013. We were unable to obtain sufficient appropriate audit evidence about the amount of this revenue to be recognized in the consolidated statement of comprehensive financial result for the year ended 31 December 2013. Consequently, we were unable to determine whether any adjustment to "other revenue" in the consolidated financial statements was necessary.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Public Joint-Stock Company UTair Aviation and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Совершенствуя бизнес,
улучшаем мир

Emphasis of matters

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of 61 659 371 thousand rubles/1 392 201 thousand dollars US during the year ended 31 December 2014, and, as of that date, the Group's current liabilities exceeded its current assets by 86 736 120 thousand rubles/1 541 744 thousand dollars US. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Without qualifying our opinion, we further draw attention to Note 1 to the consolidated financial statements, which describes that in April 2015 Public Joint-Stock Company UTair Aviation changed its legal form from OJSC to Public Joint-Stock Company.

Ernst & Young LLC

30 October 2015

	Note	31 December 2014 '000 RUB	31 December 2013 '000 RUB	31 December 2014 '000 USD	31 December 2013 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	8	66,800,484	54,498,569	1,187,387	1,665,136
Advances for property, plant and equipment		2,030,158	482,475	36,086	14,743
Goodwill	9	–	673,806	–	20,587
Other intangible assets	9	–	328,559	–	10,038
Investments in equity accounted investees	10	13,191	25,450	234	778
Investments available for sale		111,169	143,233	1,976	4,376
Loans issued	11	91,087	342,436	1,619	10,463
Net investment in finance leases	12	680,583	702,868	12,097	21,475
Other advances issued	13	1,723,682	2,883,489	30,639	88,101
Deferred tax assets	15	–	166,729	–	5,094
Total non-current assets		**71,450,354**	**60,247,614**	**1,270,038**	**1,840,791**
Current assets					
Inventories	16	2,110,368	4,094,055	37,512	125,089
Trade and other receivables	14	9,792,586	23,159,528	174,064	707,611
Other advances issued	13	2,030,703	3,786,414	36,096	115,689
Income tax receivable		390,352	242,439	6,939	7,407
Net investment in finance leases	12	509,499	568,078	9,056	17,357
Loans issued	11	1,490,601	6,720,120	26,496	205,325
Security deposits	17	3,839,550	14,297,720	68,248	436,849
Cash and cash equivalents	18	1,324,419	571,449	23,542	17,460
Restricted cash	18	1,689,131	–	30,025	–
Total current assets		**23,177,209**	**53,439,803**	**411,978**	**1,632,787**
Assets classified as held for sale		27,624	49,975	491	1,527
Total assets		**94,655,187**	**113,737,392**	**1,682,507**	**3,475,105**

The consolidated statement of financial position is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements

	Note	31 December 2014 '000 RUB	31 December 2013 '000 RUB	31 December 2014 '000 USD	31 December 2013 '000 USD
EQUITY AND LIABILITIES					
Equity					
Share capital	19	577,208	577,208	20,871	20,871
Treasury shares	19	(1,374,234)	(1,320,907)	(24,427)	(40,359)
Foreign currency translation reserve		(312,314)	131,859	(16,970)	794
Revaluation reserve		16,868,883	18,815,973	299,844	574,899
Investment revaluation reserve		36,446	68,772	648	2,101
Result of the assessment of the actuarial obligations		90,270	14,264	2,414	436
Retained earnings		(60,459,774)	(3,062,260)	(1,074,680)	(93,564)
Total equity attributable to equity holders of the Company		**(44,573,515)**	**15,224,909**	**(792,300)**	**465,178**
Non-controlling interests		1,017,424	1,532,134	18,085	46,812
Total equity		**(43,556,091)**	**16,757,043**	**(774,215)**	**511,990**
Non-current liabilities					
Loans and borrowings	20	394,902	21,434,381	7,019	654,901
Finance lease liabilities	20	22,875,032	8,569,478	406,607	261,830
Trade and other payables	22	904,459	359,505	16,077	10,984
Deferred income	23	1,506,431	760,641	26,777	23,240
Employee benefits	24	95,355	233,607	1,695	7,138
Deferred tax liabilities	15	2,494,146	5,333,781	44,334	162,967
Total non-current liabilities		**28,270,325**	**36,691,393**	**502,509**	**1,121,060**
Current liabilities					
Loans and borrowings	20	76,887,432	41,382,235	1,366,684	1,264,383
Finance lease liabilities	20	8,514,323	2,842,726	151,344	86,856
Derivatives	21	172,772	40,018	3,071	1,223
Trade and other payables	22	21,127,958	12,582,152	375,550	384,432
Deferred income	23	391,349	334,514	6,956	10,221
Income tax payable		113,801	15,016	2,023	459
Other taxes payable	25	1,305,258	446,565	23,201	13,644
Advances received	26	1,420,373	2,626,897	25,247	80,262
Employee benefits	24	7,687	18,833	137	575
Total current liabilities		**109,940,953**	**60,288,956**	**1,954,213**	**1,842,055**
Total liabilities		**138,211,278**	**96,980,349**	**2,456,722**	**2,963,115**
Total equity and liabilities		**94,655,187**	**113,737,392**	**1,682,507**	**3,475,105**

The consolidated statement of financial position is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements

	Note	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Passenger traffic and helicopter services revenue	27	74,689,864	72,295,654	1,943,950	2,269,943
Other revenue	27	1,899,936	10,586,434	49,450	332,394
		76,589,800	**82,882,088**	**1,993,400**	**2,602,337**
Operating expenses					
Direct operating expenses	28	(52,633,815)	(48,114,640)	(1,369,898)	(1,510,706)
Personnel expenses	29	(17,448,257)	(16,249,310)	(454,125)	(510,197)
Depreciation and amortisation		(6,571,067)	(6,213,738)	(171,025)	(195,099)
Repair expenses		(5,183,379)	(5,848,781)	(134,908)	(183,640)
Commissions		(1,927,845)	(2,387,574)	(50,175)	(74,965)
Gain on disposal of assets held for sale		(20,831)	179,344	(542)	5,632
Sale-leaseback transactions	30	254,109	32,909	6,614	1,033
Other income	31	1,045,081	680,345	27,200	21,362
Other expenses	31	(4,957,162)	(3,108,060)	(129,020)	(97,587)
		(87,443,166)	**(81,029,505)**	**(2,275,879)**	**(2,544,167)**
Results from operating activities		**(10,853,366)**	**1,852,583**	**(282,479)**	**58,170**
Net foreign exchange gain		2,064,205	67,890	53,725	2,131
Impairment of doubtful debts	11, 13, 14	(1,158,403)	(264,036)	(30,150)	(8,290)
Share in profit of equity accounted investees (net of income tax)	10	38,840	25,134	1,011	789
Loss from exchange transactions	7	(8,719,161)	–	(167,566)	–
Allowance for the spare parts at service organizations	16	(1,152,330)	–	(20,483)	–
Result of disposal of fixed assets		(1,574 952)	(1,336,895)	(40 992)	(41,976)
Result of the assets revaluation and impairment	33	(15,965,483)	–	(283 788)	–
Result of the termination/amendment of contracts	34	(17,646,443)	118,986	(447 300)	3,736
Other finance income	32	1,849,047	1,642,768	48,125	51,580
Other finance costs	32	(11,107,074)	(7,060,144)	(289,083)	(221,675)
Loss before income tax		**(64,225,120)**	**(4,953,714)**	**(1,458,980)**	**(155,535)**
Income tax expense	35	2,565,749	446,728	66,779	14,024
Loss for the year		**(61,659,371)**	**(4,506,986)**	**(1,392,201)**	**(141,511)**

The consolidated statement of comprehensive financial result is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements

	Note	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Other comprehensive income					
To be reclassified to profit or loss in subsequent periods:					
Revaluation of investments available-for-sale (no income tax effect)		(32,326)	–	(841)	–
Exchange differences on translation of foreign operations (net of tax effect)		1,984,611	142,284	116,265	(43,217)
Not to be reclassified to profit or loss in subsequent periods:					
Result of the assessment of the actuarial obligations (no income tax effect)	24	76,006	14,264	1,978	436
Revaluation of fixed assets	8	(768,974)	5,591	(13,668)	176
Income tax on revaluation of fixed assets	15	143,272	(1,118)	3,729	(35)
Other comprehensive income for the year, net of income tax		**1,402,589**	**161,021**	**107,463**	**(42,640)**
Total comprehensive loss for the year		**(60,256,782)**	**(4,345,965)**	**(1,284,738)**	**(184,151)**
Loss attributable to:					
Shareholders of the Company		(60,709,127)	(4,131,779)	(1,367,469)	(129,730)
Non-controlling interests		(950,244)	(375,207)	(24,732)	(11,781)
Loss for the year		**(61,659,371)**	**(4,506,986)**	**(1,392,201)**	**(141,511)**
Total comprehensive loss attributable to:					
Shareholders of the Company		(59,774,397)	(3,921,661)	(1,256,850)	(166,355)
Non-controlling interests		(482,385)	(424,304)	(27,888)	(17,796)
Total comprehensive loss for the year		**(60,256,782)**	**(4,345,965)**	**(1,284,738)**	**(184,151)**
Loss per share					
Basic and diluted loss per share	36	(113.39) руб.	(7.51) руб.	(2.55) долл.	(0.24) долл.

The consolidated statement of comprehensive financial result is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements

'000 RUB			**Attributable to equity holders of the Company**							
	Share capital	**Treasury shares**	**Result of the assessment of the actuarial obligations**	**Investment revaluation reserve**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	**577,208**	**(576,468)**	**–**	**68,772**	**93,129**	**20,689,432**	**(954,554)**	**19,897,519**	**2,083,944**	**21,981,463**
Total comprehensive loss for the year										
Loss for the year	–	–	–	–	–	–	(4,131,779)	**(4,131,779)**	(375,207)	**(4,506,986)**
Other comprehensive income										
Foreign currency translation differences	–	–	–	–	38,730	–	152,651	**191,381**	(49,097)	**142,284**
Result of the assessment of actuarial obligations	–	–	14,264	–	–	–	–	**14,264**	–	**14,264**
Revaluation of property, plant and equipment	–	–	–	–	–	5,591	–	**5,591**	–	**5,591**
Income tax on revaluation of property, plant and equipment	–	–	–	–	–	(1,118)	–	**(1,118)**	–	**(1,118)**
Total other comprehensive income	**–**	**–**	**14,264**	**–**	**38,730**	**4,473**	**152,651**	**210,118**	**(49,097)**	**161,021**
Total comprehensive loss for the year	**–**	**–**	**14,264**	**–**	**38,730**	**4,473**	**(3,979,128)**	**(3,921,661)**	**(424,304)**	**(4,345,965)**
Transactions recorded directly in equity										
Realisation of property, plant and equipment revaluation reserve	–	–	–	–	–	(2,031,560)	2,031,560	**–**	–	**–**
Own shares acquired (Note 19)	–	(744,439)	–	–	–	–	–	**(744,439)**	–	**(744,439)**
Dividends to equity holders (Note 19)	–	–	–	–	–	–	(115,442)	**(115,442)**	–	**(115,442)**
Total transactions recorded directly in equity	**–**	**(744,439)**	**–**	**–**	**–**	**(2,031,560)**	**1,916,118**	**(859,881)**	**–**	**(859,881)**
Changes in ownership interests in subsidiaries										
Acquisition of a subsidiary	–	–	–	–	–	–	–	**–**	(8,297)	**(8,297)**
Changes in non-controlling interests without loss of control	–	–	–	–	–	153,628	(44,696)	**108,932**	(119,209)	**(10,277)**
Total changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**153,628**	**(44,696)**	**108,932**	**(127,506)**	**(18,574)**
Balance at 31 December 2013	**577,208**	**(1,320,907)**	**14,264**	**68,772**	**131,859**	**18,815,973**	**(3,062,260)**	**15,224,909**	**1,532,134**	**16,757,043**

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements.

’000 RUB			**Attributable to equity holders of the Company**							
	Share capital	**Treasury shares**	**Result of the assessment of the actuarial obligations**	**Investment revaluation reserve**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2014	**577,208**	**(1,320,907)**	**14,264**	**68,772**	**131,859**	**18,815,973**	**(3,062,260)**	**15,224,909**	**1,532,134**	**16,757,043**
Total comprehensive loss for the year										
Loss for the year	–	–	–	–	–	–	(60,709,127)	(60,709,127)	(950,244)	(61,659,371)
Other comprehensive income										
Foreign currency translation differences	–	–	–	–	(444,173)	–	1,828,512	1,384,339	600,272	1,984,611
Result of the assessment of the actuarial obligations	–	–	76,006	–	–	–	–	76,006	–	76,006
Revaluation of property, plant and equipment	–	–	–	–	–	(601,980)	–	(601,980)	(166,994)	(768,974)
Revaluation of investments	–	–	–	(32,326)	–	–	–	(32,326)		(32,326)
Income tax on revaluation of property, plant and equipment	–	–	–	–	–	108,691	–	108,691	34,581	143,272
Total other comprehensive income	**–**	**–**	**76,006**	**(32,326)**	**(444,173)**	**(493,289)**	**1,828,512**	**934,730**	**467,859**	**1,402,589**
Total comprehensive loss for the year	**–**	**–**	**76,006**	**(32,326)**	**(444,173)**	**(493,289)**	**(58,880,615)**	**(59,774,397)**	**(482,385)**	**(60,256,782)**
Transactions recorded directly in equity										
Realisation of property, plant and equipment revaluation reserve	–	–	–	–	–	(1,365,334)	1,365,334	–	–	–
Own shares acquired (Note 19)	–	(53,327)	–	–	–	–	–	(53,327)	–	(53,327)
Total transactions recorded directly in equity	**–**	**(53,327)**	**–**	**–**	**–**	**(1,365,334)**	**1,365,334**	**(53,327)**	**–**	**(53,327)**
Changes in ownership interests in subsidiaries										
Change in non-controlling interests without loss of control	–	–	–	–	–	(88,467)	117,767	29,300	(32,325)	(3,025)
Total changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**(88,467)**	**117,767**	**29,300**	**(32,325)**	**(3,025)**
Balance at 31 December 2014	**577,208**	**(1,374,234)**	**90,270**	**36,446**	**(312,314)**	**16,868,883**	**(60,459,774)**	**(44,573,515)**	**1,017,424**	**(43,556,091)**

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements.

’000 USD			**Attributable to equity holders of the Company**							
	Share capital	**Treasury shares**	**Result of the assessment of the actuarial obligations**	**Investment revaluation reserve**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	**20,871**	**(19,609)**	**–**	**2,264**	**1,829**	**681,185**	**(31,428)**	**655,112**	**68,612**	**723,724**
Total comprehensive loss for the year										
Loss for the year	–	–	–	–	–	–	(129,730)	**(129,730)**	(11,781)	**(141,511)**
Other comprehensive income										
Foreign currency translation differences	–	2,624	–	(163)	(1,035)	(47,463)	8,835	**(37,202)**	(6,015)	**(43,217)**
Result of the assessment of actuarial obligations	–	–	436	–	–	–	–	**436**	–	**436**
Revaluation of property, plant and equipment	–	–	–	–	–	176	–	**176**	–	**176**
Income tax on revaluation of property, plant and equipment	–	–	–	–	–	(35)	–	**(35)**	–	**(35)**
Total other comprehensive income	**–**	**2,624**	**436**	**(163)**	**(1,035)**	**(47,322)**	**8,835**	**(36,625)**	**(6,015)**	**(42,640)**
Total comprehensive loss for the year	**–**	**2,624**	**436**	**(163)**	**(1,035)**	**(47,322)**	**(120,895)**	**(166,355)**	**(17,796)**	**(184,151)**
Transactions recorded directly in equity										
Realisation of property, plant and equipment revaluation reserve	–	–	–	–	–	(63,787)	63,787	**–**	–	**–**
Own shares acquired (Note 19)	–	(23,374)	–	–	–	–	–	**(23,374)**	–	**(23,374)**
Dividends to equity holders (Note 19)	–	–	–	–	–	–	(3,625)	**(3,625)**	–	**(3,625)**
Total transactions recorded directly in equity	**–**	**(23,374)**	**–**	**–**	**–**	**(63,787)**	**60,162**	**(26,999)**	**–**	**(26,999)**
Changes in ownership interests in subsidiaries										
Acquisition of a subsidiary	–	–	–	–	–	–	–	**–**	(261)	**(261)**
Changes in non-controlling interests without loss of control	–	–	–	–	–	4,823	(1,403)	**3,420**	(3,743)	**(323)**
Total changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**4,823**	**(1,403)**	**3,420**	**(4,004)**	**(584)**
Balance at 31 December 2013	**20,871**	**(40,359)**	**436**	**2,101**	**794**	**574,899**	**(93,564)**	**465,178**	**46,812**	**511,990**

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements.

’000 USD			**Attributable to equity holders of the Company**							
	Share capital	**Treasury shares**	**Result of the assessment of the actuarial obligations**	**Investment revaluation reserve**	**Translation reserve**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2014	**20,871**	**(40,359)**	**436**	**2 101**	**794**	**574,899**	**(93,564)**	**465,178**	**46,812**	**511,990**
Total comprehensive loss for the year										
Loss for the year	–	–	–	–	–	–	(1,367,469)	**(1,367,469)**	(24,732)	**(1,392,201)**
Other comprehensive income										
Foreign currency translation differences	–	17,320	–	(612)	(17,764)	(229,343)	347,752	**117,353**	(1,088)	**116,265**
Result of the assessment of the actuarial obligations	–	–	1,978	–	–	–	–	**1,978**	–	**1,978**
Revaluation of property, plant and equipment	–	–	–	–	–	(10,700)	–	**(10,700)**	(2,968)	**(13,668)**
Revaluation of investments	–	–	–	(841)	–	–	–	**(841)**	–	**(841)**
Income tax on reavaluation of property, plant and equipment	–	–	–	–	–	2,829	–	**2,829**	900	**3,729**
Total other comprehensive income	**–**	**17,320**	**1,978**	**(1,453)**	**(17,764)**	**(237,214)**	**347,752**	**110,619**	**(3,156)**	**107,463**
Total comprehensive loss for the year	**–**	**17,320**	**1,978**	**(1,453)**	**(17,764)**	**(237,214)**	**(1,019,717)**	**(1,256,850)**	**(27,888)**	**(1,284,738)**
Transactions recorded directly in equity										
Realisation of property, plant and equipment revaluation reserve	–	–	–	–	–	(35,536)	35,536	**–**	–	**–**
Own shares acquired (Note 19)	–	(1,388)	–	–	–	–	–	**(1,388)**	–	**(1,388)**
Total transactions recorded directly in equity	**–**	**(1,388)**	**–**	**–**	**–**	**(35,536)**	**35,536**	**(1,388)**	**–**	**(1,388)**
Changes in ownership interests in subsidiaries										
Changes in non-controlling interests without loss of control	–	–	–	–	–	(2,305)	3,065	**760**	(839)	**(79)**
Total changes in ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**(2,305)**	**3,065**	**760**	**(839)**	**(79)**
Balance at 31 December 2014	**20,871**	**(24,427)**	**2,414**	**648**	**(16,970)**	**299,844**	**(1,074,680)**	**(792,300)**	**18,085**	**(774,215)**

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements.

	Note	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before income tax		(64,225,120)	(4,953,714)	(1,458,980)	(155,535)
Adjustments for:					
Depreciation and amortisation		6,571,067	6,213,738	171,025	195,099
Loss on disposal of property, plant and equipment		1,595,783	1,157,363	41,533	36,338
Sales-leaseback transactions	30	(254,109)	(32,909)	(6,614)	(1,033)
Result of the assets revaluation and impairment	33	15,965,483	–	283,788	–
Other accruals, allowances and pension obligations		309,409	–	8,053	–
Result of the termination amendment of contracts	34	17,646,443	–	447,300	–
Finance costs, net	32	9,258,027	5,417,376	240,958	170,095
Impairment of doubtful debts	11,13, 14	1,158,403	264,036	30,150	8,290
Allowance for the spare parts at service organizations	16	1,152,330	–	20,483	–
Share in profit of equity accounted investees (net of income tax)	10	(38,840)	(25,134)	(1,011)	(789)
Loss from exchange transactions	7	8,719,161	–	167,566	–
Unrealised foreign exchange differences		2,014,152	(1,613,471)	52,422	(50,661)
Cash from operating activities before changes in working capital and provisions		**(127,811)**	**6,427,285**	**(3,327)**	**201,804**
Change in inventories		440,273	(816,096)	11,459	(25,624)
Change in trade and other receivables and net investment in finance leases		1,414,837	(2,829,614)	36,824	(88,844)
Change in other advances		1,733,314	(1,538,280)	45,113	(48,299)
Change in trade and other payables		7,408,630	(936,168)	192,824	(29,394)
Decrease in advances received and deferred income		(667,710)	(1,406,956)	(17,378)	(44,176)
Change in other taxes payable		858,693	(252,956)	22,349	(7,942)
Increase of assets classified as held for resale		(118,451)	(70,601)	(3,083)	(2,217)
Cash flows from operations before income taxes and interest paid		**10,941,775**	**(1,423,386)**	**284,781**	**(44,692)**
Income tax paid		(134,976)	(170,718)	(3,513)	(5,360)
Interest paid		(8,220,562)	(6,893,638)	(213,956)	(216,447)
Net cash from / (uses in) operating activities		**2,586,237**	**(8,487,742)**	**67,312**	**(266,499)**

The consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements.

	Note	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(6,566,451)	(5,605,306)	(170,905)	(175,996)
Proceeds from sale of property, plant and equipment		561,214	138,236	14,606	4,340
Acquisition of intangible assets		(55,106)	(85,460)	(1,434)	(2,683)
Interest received from deposits		57,911	382,960	1,507	12,024
Interest received from promissory notes		110,914	273,736	2,887	8,595
Acquisition of promissory notes		–	(4,082,299)	–	(128,176)
Proceeds from sale of promissory notes		(3,024)	5,134,579	(79)	161,216
Loans provided to third parties		(1,131,904)	(32,998,220)	(29,460)	(1,036,080)
Loans repaid by third parties		3,106,108	30,562,477	80,843	959,603
Security deposits		(4,980,275)	(4,882,245)	(129,621)	(153,293)
Dividends received from the associates		50,792	–	1,323	–
Acquisition of subsidiaries	7b	–	(79,052)	–	(2,482)
Net cash used in investing activities		**(8,849,821)**	**(11,240,594)**	**(230,333)**	**(352,932)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		101,154,583	98,739,015	2,632,746	3,100,214
Repayment of borrowings		(92,043,336)	(79,242,055)	(2,395,608)	(2,488,047)
Proceeds from sale-leaseback transactions		899,370	3,808,110	23,408	119,567
Dividends paid to equity holders of the Company		–	(105,230)	–	(3,304)
Repayment of liability under finance lease agreements		(1,251,605)	(3,344,721)	(32,575)	(105,018)
Acquisition of treasury shares		(53,327)	(744,439)	(1,388)	(23,374)
Net cash from financing activities		**8,705,685**	**19,110,680**	**226,583**	**600,038**
Net increase/(decrease) in cash and cash equivalents		**2,442,101**	**(617,656)**	**63,562**	**(19,393)**
Effect of movements in exchange rates		–	–	(27,455)	(2,297)
Cash and cash equivalents at 1 January	18	571,449	1,189,105	17,460	39,150
Cash and cash equivalents at 31 December	18	**1,324,419**	**571,449**	**23,542**	**17,460**
Restricted cash at 31 December	18	**1,689,131**	**–**	**30,025**	**–**

The consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 17-86 which forming part of the consolidated financial statements.

1 Background

(a) Organisation and operations

The core businesses of Public Joint-Stock Company UTair Aviation (the “Company” or “UTair”) and its subsidiaries (collectively referred to as the “Group”) are passenger and cargo transportation using airplanes and helicopters, helicopter services. The Group operates more than 420 aircraft. Cargo and passenger aircraft transportation is performed in Russia, CIS and non-CIS countries. The main customers of helicopter services are Russian oil and gas companies, and the United Nations Organisation (UN) outside Russia. The main aviation services are: provision of passenger and cargo air transportation, catering, airport services, aircraft repairs and maintenance services and aeronautical personnel training.

UTair Aviation PJSC, the parent company, was incorporated as an open joint-stock company in the Russian Federation on 28 October 1992. The company has made amendments to constitutive documents, and changed its legal form from Open Joint-Stock Company (JSC) to Public Joint-Stock Company. Amendments are effective since April 2, 2015.

The registered office of the Company is: 628012, Russia, Tyumen oblast, Khanty-Mansiysk, Airport. In accordance with the Federal Law No. 99-FL dated May 5, 2014.

As at 31 December 2014 and 2013 years Non-State Pension Fund Surgutneftegaz (Russia) owned 60.67% of the Company’s shares.

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

Entity	Activity	2014 % share	2013 % share
Tsentr realizatsii perevozok i uslug LLC	Ticket sales agency	100,00	100,00
UTair-Leasing LLC	Leasing company	100,00	100,00
NP Tsentr podgotovki personala	Staff training and assessment	100,00	100,00
UTair CJSC (until 22.11.2013 – UTair-Cargo CJSC)	Aviation services	100,00	100,00
UTair-Finance LLC	Finance services	100,00	100,00
Technique LLC (until 27.11.2013 – UTair-Technique LLC)	Repair and maintenance of aircraft fleet	100,00	100,00
UTair-Ufa LLC	Regional office of UTair	100,00	100,00
UTair-Express LLC	Aviation services	100,00	100,00
UTair-Kapital LLC (until 12.11.2013 – UTair Development LLC)	Finance agency, sale/purchase of real estate	100,00	100,00
UTair South Africa (Pty) Ltd (SAR)	Aviation services and maintenance of aircraft fleet	100,00	100,00
UT Project Services Ltd. (India)	Regional office of UTair, agency services	100,00	100,00
WestSib-Capital Limited (Cyprus)	Investing activities	100,00	100,00
Polar-Aero LLC (until 11.08.2015 – UTair-Murmansk LLC)	Regional office of UTair	100,00	100,00
UTair-Ukraine Aviation Company LLC	Aviation services	100,00	100,00
Tyumensky nauchno-proizvodstvenniy tsentr aviatsii obschego naznachenia LLC	Research and development	100,00	100,00
UTair India Private Limited (India)	Aviation services	100,00	100,00
NP Organization for Professional Educational Tyumen Aviation Training Centre	Educational activities	100,00	100,00
UTair Africa (Pty) Ltd. (SAR)	Aviation services	100,00	100,00
UTair Jug LLC	Regional office of UTair	100,00	100,00
Ukrainian Handling Company LLC (Ukraine)	Trade in fuel, organisation of cargo transportation	100,00	100,00
Forumavia LLC (Ukraine)	Freight forwarding	100,00	100,00
UTair Leasing Ireland Ltd (Ireland)	Leasing company	100,00	100,00
UTair Investments Ltd (Bermuda)	Investing activity	100,00	100,00
UTair Engineering AL S.A.C. (Peru)	Repair and maintenance of aircraft fleet	100,00	100,00
TS Technik LLC	Repair and maintenance of aircraft fleet	100,00	100,00
Ural Aviation services LLC	Repair and maintenance of aircraft fleet	100,00	100,00
Matrix International Services (BVI)	Management Company	100,00	100,00

Entity	Activity	2014 % share	2013 % share
UTair-Helicopter Services LLC (until 08.08.2013 - Nefteyugansk United Airline Transportation Company OJSC)	Aviation services	100,00	96,95
PKF KATEKAVIA LLC (AzurAir)	Passenger and cargo air transportation	100,00	75,00
Yugra Hotel Balabanovo LLC	Hotel Services	100,00	0,00
PL Panorama Leasing Ltd (Cyprus)	Leasing company	100,00	0,00
UTair Sierra Leone Limited (Sierra Leone)	Aviation services and maintenance of aircraft	99,00	99,00
Utstar LLC	Advertising services	99,00	99,00
Helicopteros del Sur S.A. (Peru)	Aviation services	91,08	86,04
Airport Ust-Kut OJSC	Airport services	85,57	85,57
UTair-Engineering OJSC	Repair and maintenance of aircraft	85,49	83,13
Turukhan Aviation Company LLC	Aviation services	75,00	100,00
Vostok Aviation Company OJSC	Aviation services	52,99	52,99
Zapadno-sibirskoe agentstvo vozdushnykh soobscheniy LLC	Ticket sales	51,00	51,00
UTG CJSC	Ground services	50,00	50,00
HeliExpress LLC	Aviation services, agent services	50,00	50,00
UTair Europe s.r.o. (Slovakia)	Aviation services	20,00	20,00
UTair-Irkutsk LLC (liquidated on 17.11.2014)	Regional office of UTair	–	100,00
Tobolskavia LLC (liquidated on 11.08.2014)	Airport services	–	100,00
UTair-Samara LLC (sold in October 2014)	Regional office of UTair	–	100,00
UTair Armenia LLC (Armenia) (sold in October 2014)	Regional office of UTair	–	100,00

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

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%.The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

2 Going concern

The Group incurred a net loss of RUB 61,659,371 thousand / USD 1,392,201 thousand in 2014 and RUB 4,506,986 thousand / USD 141,511 thousand in 2013; and as at 31 December 2014, the Group’s equity was negative, amounting to RUB 43,556,091 thousand / USD 774,215 thousand (as at 31 December 2013, its equity was positive and amounted to RUB 16,757,043 thousand / USD 511,990 thousand), and the Group’s current liabilities exceeded its current assets by RUB 86,736,120 thousand / USD 1,541,744 thousand (31 December 2013: by RUB 6,799,178 thousand / USD 207,741 thousand). In 2014, the Group’s net cash from operating activities amounted to RUB 2,586,237 thousand / USD 67,312 thousand (2013: net cash used in operating activities RUB 8,487,742 thousand / USD 266,499 thousand).

As at 31 December 2014, the Group was not in compliance with certain restrictive covenants contained in its loan and lease agreements. In addition, the Group was in default of both principal and interest repayments to its lenders and lessors. At the balance sheet date, the Group's overdue loans totaled to RUB 15.262 billion, including interest of RUB 0.242 billion. The Group's overdue finance lease payments at that date totaled to RUB 5.372 billion.

These factors indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Public Joint-Stock Company UTair Aviation to continue as a going concern.

The Group has developed a debt restructuring scheme whereby it plans to issue syndicated loans and new corporate bonds for 7-12 years term.

To date, UTair Aviation PJSC (the "Company") has obtained credit approvals from all lending banks for their participation in the Company's debt restructuring project.

On 17 September 2015, the Interdepartmental Commission on the Monitoring of the Financial and Economic Performance of the Systemically important enterprises held a meeting and approved a provision of the Russian Federation state guarantee in amount of RUB 9.46 billion to the Company.

In addition, on 13 October 2015, the Government Commission on Economic Development and Integration chaired by Mr. I.I. Shuvalov, First Deputy Chairman of the Russian Government, issued a favorable decision on the selection of UTair Aviation PJSC to be provided with a state guarantee.

In August 2015, the General Meeting of Bondholders of UTair-Finance bonds approved the restructuring of 9 issues out of 10. A vote on the remaining issue is to be held in November 2015.

The Group has taken a number of steps to prepare for the raising of funds from potential investors. In particular, UTair Aviation PJSC has registered an SPO prospectus for the issue of 3,125,000,000 shares, par value RUB 1 per share, and now the Company is ready to proceed directly to the issue of shares to potential investors and shareholders of the Group. The Group plans to raise RUB 25 billion through an additional issue of shares.

In the second half of 2014, the Company's management started to implement anti-crisis measures, including the Impulse Program. The Impulse Program has been approved by the Management Board of UTair Aviation PJSC and is aimed at improving the efficiency of the UTair Group and optimizing the corporate structure and 2014-2015 costs in order to ensure the smooth operation of the airline in the face of the increasingly negative impact of external economic factors. As part of this project, during 2015, the Group has optimized its aircraft fleet, having reduced the number of aircraft from 115 to 66, and its route network, having cut down 37 routes and over 4 million return flights, and has reduced its costs for all activities. The Group managed to achieve a partial cost-saving effect in 2014 and plans an annual cost reduction rate of 6% between 2015 and 2017.

The Group is negotiating changes to contractual terms, primarily those relating to payment schedules, with trade creditors and lessors and has managed to reach debt refinancing agreements with many of them.

The Group's management believes that the implementation of the plans mentioned in this Note will enable the Group to raise the necessary funding to continue in operation for the foreseeable future. The consolidated financial statements have been prepared on the going concern basis.

3 Basis of preparation

(a) Basis of preparation the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Comparative data

To ensure compliance with the data presentation format in the consolidated statement of financial position as well as the consolidated statement of financial result in 2014, comparative information for 2013 has been appropriately reclassified; and the changes were not significant for the financial statements as a whole. Thus, some of the amounts presented as comparatives in these consolidated financial statements do not correspond to the amounts presented in financial statements for the year ended on 31 December 2013.

(c) Basis of measurement

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

- derivative financial instruments and financial assets classified as available-for-sale are stated at fair value;
- certain groups of property, plant and equipment accounted at fair value and revalued regularly.

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the Company's functional currency and the presentation currency of these consolidated financial statements.

In addition, these consolidated financial statements are presented in US dollars ("USD") for the convenience of foreign users. The assets and liabilities, both monetary and non-monetary, have been translated at the exchange rates at the date of each balance sheet presented in accordance with International Accounting Standard ("IAS") 21 *The Effect of Changes in Foreign Exchange Rates*.

Income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or at a rate that approximates the actual exchange rates.

Foreign currency translation differences are recognised in other comprehensive income, and presented in the translation reserve within equity.

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

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

	Exchange rate
As at 31 December 2014	56.2584
Average rate in 2014	38.4217
As at 31 December 2013	32.7292
Average rate in 2013	31.8491
As at 1 January 2013	30.3727

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

(e) Use of estimates and judgments

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates and judgements were based on the historical information, current economic environment and forecasts, and other available information. Actual results may differ from such estimates.

(i) Judgments

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

Consolidation of entities, in which the Group owns less than a majority

The Group determined that the substance of the relationship between the Group and below listed companies indicates these entities are controlled by the Group. The control is exercised though the majority in the Supervisory Council or Board of Directors. As a result, these entities have been included in the Group's consolidated financial statements as at 31 December 2014 and 2013:

- UTG CJSC - 50% ownership;
- UTair Europe s.r.o. (Slovakia) – 20% ownership;
- HeliExpress LLC - 50% ownership.

Contracts Leases – Group as lessee

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

(ii) Estimation uncertainty

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

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

Revaluation of property, plant and equipment

The Group accounts for the major fixed assets at the revalued amount. The most recent revaluation was carried out as at 31 December 2014. The Group attracted an independent valuer to determine the fair value of fixed assets. Valuation was made based on the following principles:

- If an asset has a market price, such price is the best evidence of the fair value of an asset. If an asset has no market price, the fair value is estimated on the basis of the available evidence of the price at which the asset could be exchanged in the transaction between willing and informed parties on the market conditions.
- If there is an absence of comparable market data due to the nature of the asset, the fair value is determined based on the current or existing use of the asset (i.e., depreciated replacement cost).
- The fair value of specialized assets depends on the assessment method and essence of indices used for calculating replacement cost. Besides the comparative market data, the valuer used the valuation method based on the discounted cash flow model. The calculated amounts are the most exposed to the influence of the discount rate, and projected macroeconomic indicators.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives, the residual values and methods of depreciation of items of property, plant and equipment at least at each financial year end. If current expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss for the period. The Group reassessed the remaining useful lives of its property, plant and equipment at the revaluation date.

Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

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

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

Fair value of financial instruments

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

Revenue recognition – bonus miles for frequent flyer programme

The group measures fair value of bonus miles provided within the frequent flyer programme "Status", by applying statistical methods. Inputs to the models include making assumptions about expected redemptions rates, the mix of products that will be available for miles redemption in the future and customer preferences. Such estimates are subject to significant uncertainty. More details are provided in Note 4 (o).

Post-employment benefits

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

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, post-employment benefit obligations are highly sensitive to changes in these assumptions.

More details are provided in note 24.

Legal claims

The Group exercises considerable judgment in measuring and recognising provisions and disclosing the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision.

Current taxes

There is uncertainty in relation to interpretation of complex tax legislation, changes in tax legislation as well as amounts and terms of the future taxable income. Taking into account diversity of the Group's operations as well as features and complexity of the existing contractual arrangement, the difference between the actual results and adopted assumptions or future changes of such assumptions may result in future adjustments of tax income or expense recognized in the financial statements. The evaluation of possible tax inspection results depends on various factors, such as the results of previous checks and differing interpretations of tax regulations by the taxpaying company and the relevant tax authority.

Deferred tax assets and liabilities

The management judgment is also required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. The evaluation of management is also required for determining the amount of deferred tax assets for unpaid losses, which can be accounted for on the basis of the probable timing and the level of future taxable profits together with the future tax planning strategies. If in the result of the whatsoever event the estimation of the amount of deferred tax assets that can be realized in the future is changed, this change is reflected in the consolidated statement of comprehensive income.

4 Significant accounting policies

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

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

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

(i) Subsidiaries

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

(ii) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

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

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

(iii) Put option on non-controlling interest

Where the acquisition of controlling interest by the Group triggers a legally binding requirement to make an offer to all other shareholders, the put option liability on the non-controlling interest is recognized. Any put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount.

If the option is then exercised, the liability existing at that date is extinguished by the payment of the exercise price. If the option expires unexercised, the position is unwound such that non-controlling interest is recognised at the amount it would have been, as if the put option was not granted.

Non-controlling interest in the acquiree's financial results for the period of the option is recorded in retained earnings as well as the difference between the value of the option and the corresponding non-controlling interests.

(iv) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates are accounted for using the equity method and are recognised initially at cost. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

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

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the statement of profit or loss.

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

(b) Foreign currency

(i) Foreign currency transactions

The Group's functional currency is Russian rouble, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions or at the average rate of the ruble for the period, if there were no significant volatility of the ruble.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

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

(c) The classification of assets and liabilities at current/non-current and short-term/long-term

The Group presents assets and liabilities in statement of financial position based on current/non-current and short-term/long-term classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period;
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period;
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Financial instruments

(i) Non-derivative financial instruments

Initial recognition

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, financial assets available for sale.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

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

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 14 and loans issued as presented in note 11.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the investment revaluation reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (for assets at amortised cost) or fair value (for available-for-sale investments). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Accrual of interest on the reduced carrying amount of the asset is continuing of interest rate used to discount future cash flows for the purpose of measuring the impairment loss.

(ii) Non-derivative financial liabilities

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent to initial recognition, trade and other payables, loans and borrowings, including bank overdrafts are measured at depreciation cost using the effective interest method. Amortisation of the effective interest rate is included in costs financing in the statement of income and loss.

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

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments

Group has derivative instruments which are not designated as effective hedge instruments and which are evaluated at fair value and recognized as an asset or liability based on the valuation result. Derivatives are classified as either long-term or short-term or divided into current and non-current parts based on the assessment of existing facts and circumstances (i.e. contractual cash flows under basic instruments). Change in the fair value of such instruments is recognised in profit and loss statement within finance expense (finance income).

More information about derivative instruments is disclosed in Note 21.

(e) Share capital

(i) Ordinary shares

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

(ii) Treasury shares

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

(iii) Non-controlling interests

Non-controlling interest represents the share of other shareholders in the fair value of the identifiable assets and liabilities of a Group’s subsidiary at the acquisition date and their share of movements in equity since the date of the acquisition. Non-controlling interests are presented within shareholders' equity.

(f) Property, plant and equipment

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

Aircrafts, helicopters, engines, land and buildings are initially recognised in the accounting at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the expected dismantling or removing costs and related site restoration costs, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Following initial recognition, they are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group involved independent Valier to determine the fair value of aircraft, helicopters, engines, land and buildings. The most recent valuation was performed as of 31 December 2014.

A revaluation increase is recognised in other comprehensive income except to the extent that it reverses a previous revaluation deficit recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised as the loss in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

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

(ii) Rotables

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

(iii) Construction in progress

Construction in progress is recorded at purchase or construction cost.

(iv) Impairment

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

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

(v) Depreciation

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

Depreciation for aircraft, helicopters and engines is calculated using the straight-line method over the estimated remaining useful lives defined by independent valuer for each specific aircraft, helicopter and engine, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The remaining useful lives for the current and comparative periods vary from 1 to 36 years.

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

- buildings 20-57 years;
- retables 5 years;
- other 3-8 years

Land is not depreciated.

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

(vi) Accounting for major overhauls

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

(vii) Repair and maintenance

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

(viii) Borrowing costs

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

(g) Intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination are their fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalized, and expenditure is recognised in the income statement when incurred.

An intangible asset could have either indefinite or finite useful live. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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

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

- licences and certificates 2-3 years;
- customer relationship 25 years.

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

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

(h) Leases

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

(i) Group as a lessor - finance leases

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

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

The sales revenue recognised at the commencement of the lease term is the fair value of the asset, or, if lower, the present value of the minimum lease payments, discounted at a market rate. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the income recognised in accordance with the Group's policy for revenues (see Note 4(o)).

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

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

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

(ii) Group as a lessor - operating lease

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

(iii) Group as a lessee - finance leases

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

The asset received under the finance lease agreement is depreciated over its useful life. However if it is uncertain that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term or its useful life.

(iv) Group as a lessee - operating lease

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

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

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of invenrories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition corresponding to its intended use.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Subsequent measurement of inventories is based on FIFO method (first in - first out).

(j) Assets held for sale

The Group classifies non-current assets or disposal groups as assets held for sale if their carrying amount is expected to be recovered primarily through sale rather than through continuing use. The assets, or components of a disposal group, classified as held-for-sale are remeasured at the lower of their carrying amount and fair value less cost to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal is available for immediate sale in its present condition and management must be committed to the sale.

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

(k) Discontinued operations

The Group presents information of discontinued operations in the event that any portion of the Group's assets were sold in the reporting period, or is classified as held for sale at the balance sheet date. This condition is met if there is a high probability of asset disposals within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. The prior year financial information presented in the consolidated statement of financial result as a comparative is adjusted accordingly.

Assets and liabilities classified as held for distribution are presented in the statement of financial position separately.

(l) Cash and cash equivalents

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

(m) Employee benefits

Defined benefit plans

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

Obligations on payments to the employees after retirement, recognised in the balance sheet, are equal to the current value of the obligations under the defined benefit plan at the balance sheet date.

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

Actuarial gains and losses are recognised immediately in the statement of other comprehensive income and not reclassified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss on the earlier of: the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

(n) Provisions

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

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

(o) Revenue

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

(i) Advances from passengers

Revenue from sales of tickets for regular flights is recognised in the period in which the service is provided. Unearned revenue represents tickets sold but not yet flown and is included in deferred income (advances from passengers). It is released to profit or loss as related flights occur. Unused are recognised as revenue upon expiration of the period of refund/return.

(ii) Other services

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

(iii) Commissions

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

(iv) Government grants

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

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

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

(v) Customer loyalty programme

Customer loyalty award credits (bonus miles) earned but unused under frequent flyer programme “Status” (see note 23) are accounted for as a separate component of the sales transaction in which they are granted, and therefore part of the fair value of the consideration received is allocated to the bonus miles and deferred taking into account the probability of its utilisation.

The fair value of miles accumulated in the Group’s own flights is recognised as deferred income (see note 23) and the miles collected from partners as well as promotional miles are recognised as other liabilities.

(p) Finance income and costs

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

Finance costs comprise loan interest costs, amounts reflecting unwinding of discount, exchange rate losses, changes of financial assets fair value as well as recognized losses from financial assets devaluation. Costs related to loan raising that has no direct relation to the acquisition, building or manufacturing of the qualified asset, shall be recognized in income or costs for the period and the method of effective interest rate shall be used.

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

(q) Income tax

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

(i) Current income tax

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

(ii) Deferred income tax

Deferred tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

(r) Earnings per share

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

(s) New and amended standards and interpretations

The accounting principles adopted in the preparation of annual consolidated financial statements, in line with the principles applied in the preparation of the annual consolidated financial statements for the year ended 31 December 2013, except adopted new standards and interpretations effective on 1 January 2014.

The first group uses certain new standards and amendments to existing standards and interpretations. The nature and impact of each the new standards amendments are described below:

- IFRIC 21 *Levies* clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. This interpretation has no impact on the Group as it would not result in recognition of amounts that differ from those recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* applied by the Group.
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period.
- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27. These amendments provide an exception to the consolidation requirements that requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*. Amendments specify some definitions and describe application of the offseting criteria in relation to accounting systems (such as clearing systems) with non-simultaneous gross payments. This amendment had no effect on the financial position or financial results of the Group.
- *Annual Improvements 2010-2012 Cycle*. In the 2010-2012 annual improvements cycle, the IASB issued amendments to standards, including an amendment to IFRS 13 *Fair Value Measurement*.

The amendment to IFRS 13 is effective immediately and clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.. This amendment to IFRS 13 has no impact on the Group.

- *Annual Improvements 2011-2013 Cycle*. In the 2011-2013 annual improvements cycle, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and clarifies that an entity may choose either a current standard or a new standard provided that a standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

(t) New and Amended Standards and Interpretations

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018) reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments*: *Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is currently assessing the impact of IFRS 9 on its consolidated financial statements.

- IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods beginning on or after 1 January 2016). Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard is optional and relates to selection of accounting policies during the first-time adoption of IFRS. Since the Group is an existing IFRS preparer, this standard would not apply.

- IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2017). The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after 1 July 2014). IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. It is not expected that this amendment would be relevant to the Group, since its defined benefit plan does not include contributions from employees or third parties.

- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests* (effective for annual periods beginning on or after 1 January 2016). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. These amendments are not expected to have any impact to the Group as the Group is not a party to a joint arrangement.

- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation* (prospectively effective for annual periods beginning on or after 1 January 2016). The amendments clarify the principle in IAS 16 and IAS 38 and state that a revenue-based method cannot be used to depreciate property, plant and equipment. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- Amendments to IAS 27: *Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.
- *Annual improvements 2010-2012 Cycle.* These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:
  - IFRS 2 *Share-based Payment*;
  - IFRS 3 *Business Combinations*;
  - IFRS 8 *Operating Segments;*
  - IAS 16 *Property, plant and equipment* and IAS 38 I*ntangible assets*;
  - IAS 24 *Related Party Disclosures.*
- *Annual Improvements 2011-2013 Cycle.* These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:
  - IFRS 3 *Business Combinations*;
  - IFRS 13 *Fair Value Measurement*;
  - IAS 40 *Investment Property.*

5 Fair value measurement

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

All assets and liabilities evaluated in financial statements at fair value or fair value of which is disclosed in financial statements are classified as described below under fair value sources hierarchy based on initial data of the lowest level, which are significant for valuation at fair value as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable Level 1 – Market quoted prices in active markets for identical assets or liabilities (without any adjustments).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(a) Property, plant and equipment

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

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

(b) Intangible assets

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

(c) Inventories

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

(d) Investments in equity and debt securities

Fair value of financial assets available for sale is determined on the basis of the stock exchange bid price at the reporting date. In the absence of quoted market prices, fair value is determined by the method of comparison with similar instruments or using valuation models.

(e) Trade and other receivables

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

(f) Derivatives

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

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values correspond to the credit risk of the instrument and include adjustments for the credit risk of the Group and counterparty when appropriate.

(g) Non-derivative financial liabilities

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

6 Operating segments (strategic business units)

During the year ended 31 December 2014, the head in charge of operational decisions received financial information for the Group’s two operating segments (strategic business units): passenger traffic and helicopter services, on a quarterly basis.

Passenger traffic includes aircraft regular and charter flights, cargo services. The Group provides aircraft and cargo services on the domestic and international routes using various types of aircraft. The major part of these transportation services is represented by regular flights. Helicopter services include installation works, forestry surveillance and aerial-chemical services, search and rescue works, urgent medical evacuation, aerial-visual works, monitoring of oil and gas pipelines, as well as passenger transportation services. The main helicopter service provided by the Group abroad is an air-transportation support of peacemaking missions of the UN in a number of countries.

Below is information about resulted activities of each operating segment.

Information about operating segments

	Passenger traffic		Helicopter services		Total	
’000 RUB	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
External revenue	56,427,895	53,346,376	19,224,896	20,114,463	**75,652,791**	**73,460,839**
Inter-segment revenue	790,853	50,873	480,195	411,445	**1,271,048**	**462,318**
Interest income	2,078	716	3,252	13,840	**5,330**	**14,556**
Interest expense	(7,145,182)	(5,318,968)	(1,839,008)	(1,590,281)	**(8,984,190)**	**(6,909,249)**
Depreciation and amortisation	(954,682)	(1,476,017)	(5,616,336)	(4,737,300)	**(6,571,018)**	**(6,213,317)**
Loss on revaluation of fixed assets	(1,734,222)	–	(2,489,952)	–	**(4,224,174)**	–
Share in profit of equity accounted investees	38,840	25,134	–	–	**38,840**	**25,134**
Loss before income tax	(46,992,928)	(15,263,104)	(20,051,781)	(2,211,645)	**(67,044,709)**	**(17,474,749)**
Assets	44,128,171	19,149,403	44,053,148	54,378,284	**88,181,319**	**73,527,687**
Capital expenditure	27,813,383	413,489	5,339,759	12,376,994	**33,153,142**	**12,790,483**
Liabilities	(99,323,988)	(73,503,085)	(21,331,822)	(16,770,918)	**(120,655,810)**	**(90,274,003)**

	Passenger traffic		Helicopter services		Total	
’000 USD	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
External revenue	1,468,647	1,674,973	500,366	631,555	**1,969,013**	**2,306,528**
Inter-segment revenue	20,583	1,597	12,498	12,919	**33,081**	**14,516**
Interest income	54	22	85	435	**139**	**457**
Interest expense	(185,967)	(167,005)	(47,864)	(49,932)	**(233,831)**	**(216,937)**
Depreciation and amortisation	(24,847)	(46,344)	(146,175)	(148,742)	**(171,022)**	**(195,086)**
Loss on revaluation of fixed assets	(30,826)	–	(44,260)	–	**(75,086)**	–
Share in profit of equity accounted investees	1,011	789	–	–	**1,011**	**789**
Loss before income tax	(1,121,549)	(479,232)	(410,817)	(69,441)	**(1,532,366)**	**(548,673)**
Assets	784,384	585,086	783,050	1,661,461	**1,567,434**	**2,246,547**
Capital expenditure	723,898	12,983	138,977	388,614	**862,875**	**401,597**
Liabilities	(1,765,496)	(2,245,795)	(379,176)	(512,415)	**(2,144,672)**	**(2,758,210)**

Major customers and geographical areas

The breakdown of revenue by types of customers and geographical areas is presented in the note 27.

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

	2014	2013	2014	2013
	’000 RUB	’000 RUB	’000 USD	’000 USD
Revenues				
Total revenue for operating segments	76,923,839	73,923,157	2,002,094	2,321,044
Other revenue	937,009	9,421,249	24,387	295,809
Elimination of inter-segment revenues	(1,271,048)	(462,318)	(33,081)	(14,516)
	76,589,800	**82,882,088**	**1,993,400**	**2,602,337**
Loss before income tax				
Total loss before income tax for operating segments	(67,044,709)	(17,474,749)	(1,532,366)	(548,673)
Other (loss)/profit	(4,671,036)	9,721,781	(121,573)	305,245
Elimination of inter-segment profits	(60,526)	(22,015)	(1,575)	(691)
Unallocated amounts, including:	7,551,151	2,821,269	196,534	88,584
Depreciation and amortisation	(49)	(421)	(3)	(13)
Interest income	1,288,233	1,549,309	33,529	48,645
Interest expense	–	–	–	–
Net foreign exchange gain	8,335,923	563,096	216,959	17,680
Other	(2,072,956)	709,285	(53,951)	22,270
	(64,225,120)	**(4,953,714)**	**(1,458,980)**	**(155,535)**
Assets				
Total assets of operating segments	88,181,319	73,527,687	1,567,434	2,246,547
Cash placed in trust management	–	7,038	–	215
Investments available for sale	111,169	143,233	1,976	4,376
Loans issued	1,581,689	7,062,556	28,115	215,788
Receivables for operations with securities	–	674,446	–	20,607
Other assets	1,746,446	31,239,052	31,043	954,471
Other unallocated amounts	3,034,564	1,083,380	53,939	33,101
	94,655,187	**113,737,392**	**1,682,507**	**3,475,105**
Liabilities				
Total liabilities of operating segments	(120,655,810)	(90,274,003)	**(2,144,672)**	(2,758,211)
Other unallocated amounts (mainly loans and borrowings)	(17,555,468)	(6,706,346)	**(312,050)**	(204,904)
	(138,211,278)	**(96,980,349)**	**(2,456,722)**	**(2,963,115)**

Other material items in 2014

	Total for operating segments	Adjustments	Consolidated totals	Total for operating segments	Adjustments	Consolidated totals
	’000 RUB	**’000 RUB**	**’000 RUB**	**’000 USD**	**’000 USD**	**’000 USD**
Interest income	5,330	945,585	**950,915**	139	24,610	**24,749**
Interest expense	(8,984,190)	–	**(8,984,190)**	(233,831)	–	**(233,831)**
Capital expenditure	33,153,142	2,561,877	**35,715,019**	862,875	66,678	**929,553**
Depreciation and amortisation	(6,571,018)	(49)	**(6,571,067)**	(171,022)	(3)	**(171,025)**

Other material items in 2013

	Total for operating segments	Adjustments	Consolidated totals	Total for operating segments	Adjustments	Consolidated totals
	’000 RUB	**’000 RUB**	**’000 RUB**	**’000 USD**	**’000 USD**	**’000 USD**
Interest income	14,556	735,745	**750,301**	457	23,101	**23,558**
Interest expense	(6,909,249)	–	**(6,909,249)**	(216,937)	–	**(216,937)**
Capital expenditure	12,790,483	2,434,919	**15,225,402**	401,596	76,452	**478,048**
Depreciation and amortisation	(6,213,317)	(421)	**(6,213,738)**	(195,086)	(13)	**(195,099)**

7 Acquisition of subsidiaries, changes in ownership interests and exchange transactions

(a) Exchange transactions

In 2014 the Group concluded a number of agreements and as a result received a number of assets and transferred accounts receivable for the consulting services, which arose in 2013, in amount of RUB 11,578,245 thousand / USD 282,623 thousand (Note 27) and advance payments in amount of RUB 4,211,084 thousand / USD 80,929 thousand. The acquired assets included fixed assets and purchase options for the certain aircraft, which modified the existing operating lease arrangements and led to the recognition of a financial lease. Assets and related liabilities were recognised at fair value on the date of exchange in the net amount of RUB 7,168,070 thousand / USD 135,875 thousand, and the difference between the fair value of received assets and the carrying value of transferred assets in amount of RUB 8,719,161 thousand / USD 167,566 thousand was recognised in the consolidated statement of financial result as a loss for the period.

(b) PKF KATEKAVIA LLC

In September 2013, the Group acquired a 42.10% share in the capital of PKF KATEKAVIA LLC and obtained control of the company (the share before transaction was 32.90%). This acquisition allowed the Group to access the passenger and cargo transportation market in Krasnoyarsk region.

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

	As at the date of acquisition	
	’000 RUB	**’000 USD**
Property, plant and equipment	123,856	3,889
Intangible assets	41	1
Inventories	7,596	239
Financial investments	13,270	417
Trade and other receivables	58,124	1,825
Cash and cash equivalents	3,278	103
Deferred tax liability	3,141	99
Loans and borrowings	(21,198)	(666)
Trade account payable	(154,919)	(4,864)
Fair value of net assets acquired	**33,189**	**1,042**
Non-controlling interest, calculated as the share in net assets	(8,297)	(261)
Fair value of the previously held equity interest in associate (32.90%)	(30,756)	(966)
Consideration paid in the second stage of acquisition	82,330	2,585
Goodwill	**76,466**	**2,400**
Cash outflow on acquisition:		
Net cash acquired with the subsidiary	(3,278)	(103)
Cash paid	82,330	2,585
Net cash outflow	**79,052**	**2,482**

The excess of consideration paid over the acquired share in the fair value of net assets was recognized as goodwill in the statement of financial position.

After the acquisition, PKF KATEKAVIA LLC has contributed into the Group’s revenue RUB 390,742 thousand / USD 12,269 thousand, and into the net profit RUB 1,742 / loss of USD 55,000 thousand. If the business had been combined at the beginning of the year, the revenue from passenger operations and helicopter services would be higher by RUB 928,509 thousand / USD 29,153 thousand and financial result of the Group would increase by RUB 31,696 thousand / USD 995 thousand.

In 2014, in result of the exchange transaction, the Group received 25.00% share in the capital of PKF KATEKAVIA LLC and thus increased its share in the company to 100.00%. In exchange the Group has transferred 25.00% share in the capital of Turukhan Aviation Company LLC and thus decreased its share to 75.00%. The effect of the change in the ownership interests without loss of control was recognized directly in equity in the amount of RUB 107,985 thousand / USD 2,810 thousand.

In 2014, the Group decided to sell a 100.00% share in PKF KATEKAVIA LLC, however a company did not satisfy the criteria for recognition as an asset held for sale or a disposal group on December 31, 2014, as it was not ready for immediate sale. The criteria for recognition as an asset held for sale were met after the balance sheet date (see note 43).

(c) The acquisition of Yugra Hotel Balabanovo LLC

In June 2014 the Group acquired a 100.00% share in the capital of Yugra Hotel Balabanovo LLC, this transaction has been accounted by the Group as a purchase of assets. The consideration transferred amounted to RUB 10 thousand / USD 0.3 thousand, the cost of the acquired assets (mainly fixed assets) amounted to RUB 432 034 thousand / USD 11 245 thousand, and the amount of acquired liabilities (under finance lease of the mentioned assets) amounted to RUB 432 024 thousand / USD 11 245 thousand.

(d) Non-controlling interests

The following table summarizes the financial information of subsidiaries with material non-controlling interests ((1) – voting shares; (2) – effective ownership interest):

		2014		2013	
		(1)	(2)	(1)	(2)
Entity	**Country of registration**	**Non-controlling interest, %**			
Helicopteros del Sur S.A.	Peru	36.55	8.92	36.55	14.00
UTair-Engineering OJSC	Russia	14.51	14.51	16.87	16.87
Vostok Aviation Company OJSC	Russia	47.01	47.01	47.00	47.00

Summarized financial information on the Group companies with substantial non-controlling interests (before elimination of transactions within the Group) is listed below:

	2014 '000 RUB			2014 '000 USD		
	Helicopteros del Sur S.A.	**UTair-Engineering OJSC**	**Vostok Aviation Company OJSC**	**Helicopteros del Sur S.A.**	**UTair-Engineering OJSC**	**Vostok Aviation Company OJSC**
Current assets	2,172,658	2,080,973	649,958	38,620	36,990	11,553
Non-current assets	5,163,544	993,366	1,996,123	91,783	17,657	35,481
Current liabilities	(2,643,544)	(10,119,234)	(317,044)	(46,989)	(179,871)	(5,635)
Non-current liabilities	(1,952,180)	(5,470)	(368,881)	(34,700)	(97)	(6,557)
Revenue	2,221,656	3,927,273	1,849,343	57,823	102,215	48,133
Loss for the year	(592,187)	(5,440,938)	(164,596)	(15,413)	(141,611)	(4,284)
Loss attributable to non-controlling interest	(9,440)	(789,780)	(77,021)	(246)	(20,548)	(2,005)
The accumulated non-controlling interests at the end of the reporting period	1,114,042	(1,026,251)	932,400	19,802	(18,242)	16,574

	2013 '000 RUB			2013 '000 USD		
	Helicopteros del Sur S.A.	**UTair-Engineering OJSC**	**Vostok Aviation Company OJSC**	**Helicopteros del Sur S.A.**	**UTair-Engineering OJSC**	**Vostok Aviation Company OJSC**
Current assets	1,145,742	1,991,166	317,172	35,007	60,838	9,691
Non-current assets	3,675,558	4,391,008	2,817,231	112,302	134,162	86,077
Current liabilities	(2,511,488)	(7,014,221)	(248,794)	(76,735)	(214,311)	(7,602)
Non-current liabilities	(684,231)	(1,000,576)	(540,599)	(20,906)	(30,571)	(16,517)
Revenue	2,330,590	3,985,925	1,438,884	73,176	125,150	45,178
Loss for the year	(244,167)	(1,370,988)	(131,191)	(7,666)	(43,046)	(4,119)
Loss attributable to non-controlling interest	(45,567)	(231,286)	(79,689)	(1,395)	(7,262)	(2,502)
The accumulated non-controlling interests at the end of the reporting period	658,988	(277,952)	1,112,516	20,135	(8,727)	34,931
Dividends paid to non-controlling interest	35,341	–	–	1,110	–	–

8 Property, plant and equipment

'000 RUB	Land and buildings	Rotables, aircraft, helicopter and engines	Other	Construction in progress	Total
Cost					
Balance at 1 January 2013	**7,769,093**	**55,700,880**	**3,226,030**	**680,838**	**67,376,841**
Acquisition of a subsidiary (Note 7)	56,148	51,572	15,836	300	123,856
Additions	88,729	14,355,624	1,334,057	(203,832)	15,574,578
Disposals	(18,497)	(6,467,679)	(179,171)	(51,438)	(6,716,785)
Effect of movements in exchange rates	14,354	493,869	12,850	114	521,187
Balance at 31 December 2013	**7,909,827**	**64,134,266**	**4,409,602**	**425,982**	**76,879,677**
Depreciation and impairment losses					
Balance at 1 January 2013	**(1,233,101)**	**(15,128,250)**	**(1,424,441)**	**–**	**(17,785,792)**
Depreciation for the year	(316,031)	(5,361,840)	(442,793)	–	(6,120,664)
Disposals	4,052	1,676,961	122,292	–	1,803,305
Effect of movements in exchange rates	(405)	(277,717)	165	–	(277,957)
Balance at 31 December 2013	**(1,545,485)**	**(19,090,846)**	**(1,744,777)**	**–**	**(22,381,108)**
Cost					
Balance at 1 January 2014	**7,909,827**	**64,134,266**	**4,409,602**	**425,982**	**76,879,677**
Additions	406,908	33,616,053	478,474	89,554	34,590,989
Disposals	(28,098)	(4,480,142)	(672,828)	18,788	(5,162,280)
Disposal of a subsidiary	–	–	(6,246)	–	(6,246)
Revaluation	(3,086,163)	(20,379,506)	–	(1,670)	(23,467,339)
Effect of movements in exchange rates	151,413	3,441,287	130,863	(69)	3,723,494
Balance at 31 December 2014	**5,353,887**	**76,331,958**	**4,339,865**	**532,585**	**86,558,295**
Depreciation and impairment losses					
Balance at 1 January 2014	**(1,545,485)**	**(19,090,846)**	**(1,744,777)**	**–**	**(22,381,108)**
Depreciation for the year	(365,324)	(5,700,921)	(499,261)	–	(6,565,506)
Disposals	12,355	2,053,233	364,718	–	2,430,306
Disposal of a subsidiary	–	–	3,586	–	3,586
Revaluation	803,076	10,153,980	–	–	10,957,056
Impairment loss	–	–	(2,413,361)	(532,585)	(2,945,946)
Effect of movements in exchange rates	(3,999)	(1,202,030)	(50,770)	–	(1,256,199)
Balance at 31 December 2014	**(1,098,777)**	**(13,786,584)**	**(4,339,865)**	**(532,585)**	**(19,757,811)**
Carrying amounts					
At 1 January 2013	**6,535,992**	**40,572,630**	**1,801,589**	**680,838**	**49,591,049**
At 31 December 2013	**6,364,342**	**45,043,420**	**2,664,825**	**425,982**	**54,498,569**
At 31 December 2014	**4,255,110**	**62,545,374**	**–**	**–**	**66,800,484**

'000 USD	**Land and buildings**	**Rotables, aircraft, helicopter and engines**	**Other**	**Construction in progress**	**Total**
Cost					
Balance at 1 January 2013	**255,792**	**1,833,913**	**106,215**	**22,416**	**2,218,336**
Acquisition of a subsidiary (Note 7)	1,763	1,619	497	9	3,888
Additions	2,786	450,739	41,887	(6,400)	489,012
Disposals	(581)	(203,073)	(5,626)	(1,615)	(210,895)
Effect of movements in exchange rates	(18,085)	(123,655)	(8,243)	(1,395)	(151,378)
Balance at 31 December 2013	**241,675**	**1,959,543**	**134,730**	**13,015**	**2,348,963**
Depreciation and impairment losses					
Balance at 1 January 2013	**(40,599)**	**(498,087)**	**(46,899)**	–	**(585,585)**
Depreciation for the year	(9,923)	(168,351)	(13,903)	–	(192,177)
Disposals	127	52,653	3,840	–	56,620
Effect of movements in exchange rates	3,174	30,488	3,653	–	37,315
Balance at 31 December 2013	**(47,221)**	**(583,297)**	**(53,309)**	–	**(683,827)**
Cost					
Balance at 1 January 2014	**241,675**	**1,959,543**	**134,730**	**13,015**	**2,348,963**
Additions	10,591	874,924	12,453	2,331	900,299
Disposals	(731)	(116,604)	(17,513)	489	(134,359)
Disposal of a subsidiary	–	–	(111)	–	(111)
Revaluation	(54,857)	(362,248)	–	(29)	(417,134)
Effect of movements in exchange rates	(101,512)	(998,804)	(52,417)	(6,340)	(1,159,073)
Balance at 31 December 2014	**95,166**	**1,356,811**	**77,142**	**9,466**	**1,538,585**
Depreciation and impairment losses					
Balance at 1 January 2014	**(47,221)**	**(583,297)**	**(53,309)**	–	**(683,827)**
Depreciation for the year	(9,508)	(148,378)	(12,994)	–	(170,880)
Disposals	322	53,439	9,492	–	(63,253)
Disposal of a subsidiary	–	–	63	–	63
Revaluation	14,276	180,488	–	–	194,764
Impairment loss	–	–	(42,899)	(9,466)	(52,365)
Effect of movements in exchange rates	22,600	252,689	22,505	–	297,794
Balance at 31 December 2014	**(19,531)**	**(245,059)**	**(77,142)**	**(9,466)**	**(351,198)**
Carrying amounts					
At 1 January 2013	**215,193**	**1,335, 826**	**59,316**	**22,416**	**1,632,751**
At 31 December 2013	**194,454**	**1,376,246**	**81,421**	**13,015**	**1,665,136**
At 31 December 2014	**75,635**	**1,111,752**	–	–	**1,187,387**

As at 31 December 2014 the cost of fully depreciated property, plant and equipment was RUB 768,609 thousand/USD 13,662 thousand (2013: RUB 1,219,391 thousand/USD 37,257 thousand).

The cost of overhauls capitalised in 2014 amounted to RUB 1,128,962 thousand / USD 20,067 thousand (2013: RUB 1,446,702 thousand/USD 44,202 thousand).

(a) Pledges

At 31 December 2014 non-current assets with a carrying amount of RUB 6,464,551 thousand/USD 114,908 thousand (2013: RUB 7,047,440 thousand/USD 215,326 thousand) were pledged to secure bank loans (see note 20).

(b) Operating leases

The Group concluded operating lease contracts for a number of fixed assets: buildings and aircraft (airframes and engines). The lease term varies from 1 to 7 years, and the contracts have no renewal option or restriction imposed on the lessee. Operating lease obligations are disclosed in the note 38.

(c) Finance leases

In 2008-2014 the Group entered into the aircraft and real estate lease agreements with a bargain option to acquire the leased assets at the end of lease term of 1 to 9 years. The estimated average remaining useful life of leased assets varies from 4 to 36 years. As at 31 December 2014 the carrying value of the aircraft used by the Group under finance leases was RUB 38,231,966 thousand/USD 679,580 thousand (2013: RUB 19,272,590 thousand/USD 588,850 thousand). The fair value of real estate under finance leases amounted to RUB 4,497 thousand/USD 80 thousand. Finance lease obligations are disclosed in the note 41.

(d) Revaluation of fixed assets

As at 31 December 2014 the Group engaged an independent valuer to perform the revaluation of the following groups of fixed assets: the land and buildings, rotables, aircraft, helicopter and engines. Fair value of these assets was determined using the market comparable method (the comparison with market transactions). This means that valuations were based on active market prices in sales of similar objects:

- sold at the secondary market (for similar objects);
- sold at the secondary market, taking into account the value adjustments;
- price for a brand new analog adjusted for amortization, if there was no secondary market.

The fair value of the remaining part of revalued objects was determined on the basis of depreciated replacement cost. This means that the estimated cost to replace the asset was adjusted for physical, functional or economic obsolescence. The resulted value was tested for an adequate profitability at the level of an operating segment.
As a result of the revaluation as at 31 December 2014 the Group recognised a decrease of the carrying amount of fixed assets by RUB 12 510 283 thousand / USD 222 370 thousand, including RUB 768 974 thousand / USD 13 668 thousand recorded in comprehensive income and debited to the revaluation reserve. The revaluation deficit of RUB 11 741 309 thousand / USD 208 702 thousand was recognised as a loss for the period, when the deficit was beyond the existing surplus on the same asset recognised in the revaluation reserve (see note 33). The carrying value of the mentioned groups of fixed assets before revaluation was RUB 79 309 097 thousand / USD 1 409 728 thousand.

(e) Impairment of assets

In accordance with the International Accounting Standard (IAS) 36 "Impairment of Assets", the Group performed the impairment test for its non-current assets due to existence of the certain indicators of impairment (loss for the period, fleet reduction) as of 31 December 2014, implying that the carrying value of fixed assets, totaled RUB 69,746,430 thousand / USD 1,239,752 thousand, exceeded the recoverable amount.

The recoverable amount of analysed assets was determined based on its value in use calculated by discounting of future cash flows. The key assumptions used in calculating the value of assets in use, are presented in Note 9 (a).

According to the results of the impairment test performed at 31 December 2014 the value in use (or recoverable amount) exceeded the carrying value of assets by RUB 4,224,174 thousand / USD 75,086 thousand, and the Group recorded it as impairment of goodwill (Note 9), intangible assets (Note 9) and fixed assets accounted for at historical cost (‘Other fixed assets’ and ‘Construction in progress’). The impairment of fixed assets totaled to RUB 2,945,946 thousand / USD 52,365 thousand and was recognised in the consolidated statement of financial result (see Note 33).

Due to the difficult macroeconomic situation occurred in Russia in 2014, the aviation industry faced with a number of simultaneously arising external negative factors which led to the destabilization of the situation, the deployment of the crisis, and a significant deterioration of the financial situation of airlines:

- a significant devaluation of the ruble led to a decline in purchasing power and a fall in demand for air transportation in Russia;
- the reduction of the mobility of the population resulted in the series of bankruptcies of tour operators and a significant reduction in charter programs of airlines;
- the Russian aviation market has changed significantly due to the falling demand for international transportatin;
- due to the rouble devaluation the cost of the transportation increased substantially following the expenses with the currency component: the leasing, fuel and the aircraft servicing at foreign airports;
- excessive growth of the transportation capacities with receipt of significant number of aircraft by Russian airlines according to the previously agreed schedules within the industry investment cycle.

The management believes that no reasonable possible change in the key assumptions used in calculation of the recoverable amount, could lead to a different amount of the impairment loss allocated to the property, plant and equipment.

9 Goodwill and intangible assets

	Customer relationships	Licences and certificates	Goodwill	Total
	’000 RUB	’000 RUB	’000 RUB	’000 RUB
**Cost**				
Balance at 1 January 2013	**271,102**	**424,618**	**576,381**	**1,272,101**
Acquisition of a subsidiary (Note 7)	–	41	76,466	**76,507**
Additions	–	85,588	–	**85,588**
Disposals	–	(292)	–	**(292)**
Effect of movements in exchange rates	6,448	1,121	20,959	**28,528**
Balance at 31 December 2013	**277,550**	**511,076**	**673,806**	**1,462,432**
**Depreciation and impairment losses**				
Balance at 1 January 2013	**(42,548)**	**(323,397)**	–	**(365,945)**
Depreciation for the year	(10,699)	(83,377)	–	**(94 076)**
Disposals	–	289	–	**289**
Effect of movements in exchange rates	3,912	(4,247)	–	**(335)**
Balance at 31 December 2013	**(49,335)**	**(410,732)**	–	**(460,067)**
**Cost**				
Balance at 1 January 2014	**277,550**	**511,076**	**673,806**	**1,462,432**
Acquisition of a subsidiary (Note 6)	–	–	–	–
Additions	–	55,106	–	**55,106**
Disposals	–	(254,114)	–	**(254,114)**
Effect of movements in exchange rates	201,822	12,804	100,651	**315,277**
Balance at 31 December 2014	**479,372**	**324,872**	**774,457**	**1,578,701**
**Depreciation and impairment losses**				
Balance at 1 January 2014	(49,335)	(410,732)	–	**(460,067)**
Depreciation for the year	(12,709)	(27,319)	–	**(40,028)**
Disposals	–	253,768	–	**253,768**
Effect of movements in exchange rates	(54,462)	266	–	**(54,196)**
Impairment loss (Note 33)	(362,866)	(140,855)	(774,457)	**(1,278,178)**
Balance at 31 December 2014	**(479,372)**	**(324,872)**	**(774,457)**	**(1,578,701)**
**Carrying amounts**				
At 1 January 2013	**228,554**	**101,221**	**576,381**	**906,156**
At 31 December 2013	**228,215**	**100,344**	**673,806**	**1,002,365**
At 31 December 2014	–	–	–	–

	Customer relationships '000 USD	Licences and certificates '000 USD	Goodwill '000 USD	Total '000 USD
Cost				
Balance at 1 January 2013	**8,926**	**13,980**	**18,977**	**41,883**
Acquisitions of a subsidiary (see note 7)	–	1	2,400	**2,401**
Additions	–	2,687	–	**2,687**
Disposals	–	(9)	–	**(9)**
Effect of movements in exchange rates	(446)	(1,044)	(790)	**(2,280)**
Balance at 31 December 2013	**8,480**	**15,615**	**20,587**	**44,682**
Depreciation and impairment losses				
Balance at 1 January 2013	**(1,400)**	**(10,647)**	–	**(12,047)**
Depreciation for the year	(336)	(2,618)	–	**(2,954)**
Disposals	–	9	–	**9**
Effect of movements in exchange rates	229	706	–	**935**
Balance at 31 December 2013	**(1,507)**	**(12,550)**	–	**(14,057)**
Cost				
Balance at 1 January 2014	**8,480**	**15,615**	**20,587**	**44,682**
Additions	–	1,434	–	**1,434**
Disposals	–	(6,614)	–	**(6,614)**
Effect of movements in exchange rates	–	(4,689)	(6,821)	**(11,510)**
Balance at 31 December 2014	**8,480**	**5,746**	**13,766**	**27,992**
Depreciation and impairment losses				
Balance at 1 January 2014	**(1,507)**	**(12,550)**	–	**(14,057)**
Depreciation for the year	(331)	(711)	–	**(1,042)**
Disposals	–	6,605	–	**6,605**
Effect of movements in exchange rates	(178)	3,400	–	**3,222**
Impairment loss (Note 33)	(6,464)	(2,490)	(13,766)	**(22,720)**
Balance at 31 December 2014	**(8,480)**	**(5,746)**	**(13,766)**	**(27,992)**
Carrying amounts				
At 1 January 2013	**7,526**	**3,333**	**18,977**	**29,836**
At 31 December 2013	**6,973**	**3,065**	**20,587**	**30,625**
At 31 December 2014	–	–	–	–

(a) Goodwill

Goodwill arose in 2008, 2011 and 2013 on the acquisition of subsidiaries (Note 7). Goodwill was allocated to the segments as follows:

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Helicopter services	–	585 612	–	17 892
Passenger traffic	–	88 194	–	2 695
	–	**673 806**	–	**20 587**

The recoverable amount of a cash-generating unit (CGU) was determined by calculating its value in use based on estimated future cash flows and financial plans approved by the management for the following year. The cash flows beyond the one-year period were extrapolated using a zero growth rate that is the same as the long-term average growth rate for the airline industry according to the published researches. As a result of this analysis performed at 31 December 2014 the Group recognized an impairment loss of RUB 774,457 thousand / USD 13,766 thousand.

Key assumptions used for calculation of asset value in use

Calculation of asset value in use depends mainly on the following inputs:

- Cost of flight hour, passenger tariff;
- Scope of work and passenger traffic;
- Discount rate;

- Estimated inflation of income and expenses.

Cost of flight hour

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

Scope of work

The scope of work assumed for the goodwill impairment testing was based on the size of own and leased fleet and the historic workload.

Discount rates

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

Pre-tax discount rate applied to predictable cash flow amounted to 18.2% for passenger segment and to 20.1% for helicopter segment (2013: 11.8% and 12.6%), the projection period - until 2022.

Operating expenses and gross profit

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

(b) Other intangible assets

Other intangible assets include customer relationships identified as a result of acquisition of a foreign subsidiary in 2008. Based on the results of the impairment test for all Group's assets performed at 31 December 2014 (Note 8e), the impairment loss for other intangible assets amounted to RUB 503,721 thousand / USD 8,954 thousand and was recognised in the consolidated statement of financial result. Impairment loss allocated to the segment of Helicopter operations amounted to RUB 362,866 thousand / USD 6,419 thousand, to the segment of Passenger transportation – RUB 140,855 thousand / USD 2,535 thousand.

10 Investments accounted for using the equity method

Changes in the equity accounted investments between 1 January and 31 December 2014 were as follow:

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Balance at 1January	25,450	31,007	778	1,021
Acquisition of investment	–	65	–	2
Share of net income (loss) net of income tax	38,840	25,134	1,011	789
Dividents received	(51,099)	–	(1,330)	–
Changes in consolidated Group (note 7)	–	(30,756)	–	(966)
Translation difference	–	–	(225)	(68)
Balance at 31 December	**13,191**	**25,450**	**234**	**778**

In November 2014, Tulpar Technik LLC was sold by the Group.

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

’000 RUB	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Loss**
2013					
UTG-Express CJSC	50%	93,712	36,534	297,803	45,797
Tulpar Technik LLC	25.5%	164,484	239,882	253,485	(81,150)
		258,196	**276,416**	**551,288**	**(35,353)**
2014					
UTG-Express CJSC	50%	80,821	46,464	362,975	69,983
		80,821	**46,464**	**362,975**	**69,983**

’000 USD	**Ownership**	**Total assets**	**Total liabilities**	**Revenues**	**Loss**
2013					
UTG-Express CJSC	50%	2,863	1,117	9,099	1,,400
Tulpar Technik LLC	25.5%	5,025	7,330	7,745	(2,480)
		7,888	**8,447**	**16,844**	**(1,080)**
2014					
UTG-Express CJSC	50%	1,437	826	9,447	1,821
		1,437	**826**	**9,447**	**1,821**

11 Loans issued

This Note provides information about terms and conditions of relative loan agreements issued by the Group and accounted at amortized cost.

	2014	**2013**	**2014**	**2013**
	’000 RUB	**’000 RUB**	**’000 USD**	**’000 USD**
Non-current loans issued				
Unsecured loans issued	91,087	342,436	1,619	10,463
	91,087	**342,436**	**1,619**	**10,463**
Current loans issued				
Secured loans issued	–	830,468	–	25,374
Unsecured promissory notes	–	4,811,994	–	147,024
Unsecured loans issued	1,636,312	1,077,658	29,086	32,927
Allowance for impairment of current loans issued	(145,711)	–	(2,590)	-
	1,490,601	**6,720,120**	**26,496**	**205,325**

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

’000 RUB	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2014	Carrying amount 31 December 2013
Unsecured promissory notes	RUB	0-12%	3%	–	–	4,811,994
Secured loans issued	RUB	6%	6%	–	–	830,468
Unsecured loans issued	RUB	6-15%	10%	2015-2018	921,414	1,050,822
Unsecured loans issued	USD	0-4%	3%	2013-2015	804,829	362,966
Unsecured loans issued	other	0%	0%	2014	1,156	6,306
					1,727,399	**7,062,556**

’000 USD	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2014	Carrying amount 31 December 2013
Unsecured promissory notes	RUB	0-12%	3%	2014	–	147,025
Secured loans issued	RUB	6%	6%	–	–	25,374
Unsecured loans issued	RUB	6-15%	10%	2015-2018	16,378	32,107
Unsecured loans issued	USD	0-4%	3%	2013-2015	14,306	11,090
Unsecured loans issued	other	0%	0%	2014	21	192
					30,705	**215,788**

As at 31 December 2014 the Group had no contractual obligations to provide unsecured loans, which have not yet been received by the relevant borrower (2013: RUB 75,000 thousand / USD 2,292 thousand).

In 2014 loans issued in the amount of RUB 482,982 thousand / USD 13,773 thousand which were not expected to be repaid, were written-off and included in the line Impairment of doubtful debts.

Information about the Group's exposure to credit and foreign exchange risks is disclosed in the Note 37.

12 Net investment in finance leases

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

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Gross investments in leases	1,461,045	1,672,868	25,971	51,112
Less: unearned finance lease income	(270,963)	(401,922)	(4,818)	(12,280)
Net investment in finance leases	**1,190,082**	**1,270,946**	**21,153**	**38,832**

Rate of return under the lease agreements varies from 15% to 19% per annum (2013: 15% to 23% per annum) depending on the total amount and duration of the contract as well as other terms. The amounts receivable under lease agreements are secured by the leased assets.

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

’000 RUB	2014 Gross investment	2014 Net investment	2013 Gross investment	2013 Net investment
Less than 1 year	650,496	509,499	585,159	568,078
1 to 5 years	810,549	680,583	1,087,709	702,868
Total	**1,461,045**	**1,190,082**	**1,672,868**	**1,270,946**

’000 USD	2014		2013	
	Gross investment	Net investment	Gross investment	Net investment
Less than 1 year	11,563	9,056	17,878	17,357
1 to 5 years	14,408	12,097	33,234	21,475
Total	**25,971**	**21,153**	**51,112**	**38,832**

13 Other advances issued

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Long-term				
Advances issued under operating leases (will be offset against lease payable)	1,704,182	2,805,448	30,292	85,717
Advances issued under finance lease agreements	–	65,287	–	1,995
Other	19,500	12,754	347	389
	1,723,682	**2,883,489**	**30,639**	**88,101**
Short-term				
Advances issued under finance lease agreements	–	109,199	–	3,336
Advances issued under operating leases (will be offset against lease payable)	375,778	1,258,599	6,679	38,455
Other	1,910,420	2,637,020	33,958	80,570
Less:				
Provision for impairment of other prepayments	(255,495)	(218,404)	(4,541)	(6,672)
	2,030,703	**3,786,414**	**36,096**	**115,689**

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

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
1 January	**218,404**	**79,464**	**6,672**	**2,616**
Utilised during the year	(191)	(19,083)	(5)	(599)
Reversed during the year	(192,670)	(68,561)	(5,015)	(2,153)
Charged during the year	229,952	226,584	5,985	7,114
Effect of movements in exchange rates	–	–	(3,096)	(306)
31 December	**255,495**	**218,404**	**4,541**	**6,672**

14 Trade and other receivables

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Trade receivables	7,543,540	5,181,931	134,087	158,328
Receivables due for consulting and marketing services	–	14,692,290	–	448,905
Receivables from related parties (see note 42)	245,967	187,050	4,373	5,715
Other taxes receivable	35,868	127,293	637	3,889
VAT recoverable	1,182,496	1,122,947	21,019	34,310
Deferred expenses	42,978	54,182	765	1,655
Sales-leaseback transaction	–	792,474	–	24,213
Other accounts receivable	1,409,140	1,187,246	25,046	36,275
Less:				
Provision for impairment of trade receivables	(605,894)	(149,247)	(10,770)	(4,560)
Provision for impairment of other receivables	(61,509)	(36,638)	(1,093)	(1,119)
	9,792,586	**23,159,528**	**174,064**	**707,611**

The total amount of current trade and other receivables includes collections from passenger transportation in the amount of RUB 476,035 thousand/USD 8,462 thousand (2013: RUB 356,536 thousand/USD 10,894 thousand) which remained at agent cash desks as at 31 December 2014. This amount of such receivables is subject to transfer to the Group's bank account in early January.

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

	2014	2013	2014	2013
	'000 RUB	'000 RUB	'000 USD	'000 USD
1 January	**185,885**	**105,020**	**5,679**	**3,458**
Utilised during the year	(10,910)	(25,148)	(284)	(790)
Reversed during the year	(166,684)	(84,289)	(4,338)	(2,647)
Charged during the year	659,112	190,302	17,155	5,976
Effect of movements in exchange rates	–	–	(6,349)	(318)
31 December	**667,403**	**185,885**	**11,863**	**5,679**

Information about The Group's exposure to credit and currency risks and losses on impairment of trade and other receivables in the amount of RUB 8,531,244 thousand / USD 151,643 thousand (2013: RUB 21,855,106 thousand / USD 667,757 thousand) (excluding tax receivables and deferred expenses) is disclosed in the Note 37.

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	440,111	21,175	(2,849,374)	(6,019,069)	(2,409,263)	(5,997,894)
Intangible assets	24,497	13,476	(108,863)	(68,882)	(84,366)	(55,406)
Investments	24,030	30,198	(19,348)	(23,634)	4,682	6,564
Inventories	450,370	185,881	(42)	(2,498)	450,328	183,383
Trade and other receivables	2,748,922	428,925	(211,674)	(215,254)	2,537,248	213,671
Advance received and deferred income	345,541	209,271	(46,323)	(49,261)	299,218	160,010
Trade and other payables	508,509	139,160	(223,288)	–	285,221	139,160
Tax loss carry-forwards	2,368,680	140,051	–	–	2,368,680	140,051
Other differences	291,745	51,584	(1,260,994)	(8,175)	(969,249)	43,409
Tax assets/(liabilities)	**7,202,405**	**1,219,721**	**(4,719,906)**	**(6,386,773)**	**2,482,499**	**(5,167,052)**
Valuation allowance for deferred tax assets	(4,976,645)	–	–	–	(4,976,645)	–
Tax offset	(2,225,760)	(1,052,992)	2,225,760	1,052,992	–	–
Net tax assets/(liabilities)	–	**166,729**	**(2,494,146)**	**(5,333,781)**	**(2,494,146)**	**(5,167,052)**

	Assets		Liabilities		Net	
’000 USD	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	7,823	647	(50,648)	(183,905)	(42,825)	(183,258)
Intangible assets	435	412	(1,935)	(2,105)	(1,500)	(1,693)
Investments	427	923	(344)	(722)	83	201
Inventories	8,005	5,679	(1)	(76)	8,004	5,603
Trade and other receivables	48,862	13,105	(3,763)	(6,577)	45,099	6,528
Advance received and deferred income	6,142	6,394	(823)	(1,505)	5,319	4,889
Trade and other payables	9,039	4,252	(3,969)	–	5,070	4,252
Tax loss carry-forwards	42,104	4,279	–	–	42,104	4,279
Other differences	5,186	1,576	(22,414)	(250)	(17,228)	1,326
Tax assets/(liabilities)	128,023	37,267	(83,897)	(195,140)	44,126	(157,873)
Valuation allowance for deferred tax assets	(88,460)	–	–	–	(88,460)	–
Tax offset	(39,563)	(32,173)	39,563	32,173	–	–
Net tax assets/(liabilities)	–	**5,094**	**(44,334)**	**(162,967)**	**(44,334)**	**(157,873)**

(b) Valuation allowance for deferred tax assets

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

	2014	2013	2014	2013
	’000 RUB	**’000 RUB**	**’000 USD**	**’000 USD**
Deductible temporary differences	2,607,965	–	46,356	–
Tax losses	2,368,680	640,687	42,104	19,575
	4,976,645	**640,687**	**88,460**	**19,575**

The tax losses expire in 2020-2024. Deferred tax assets was not recognised in respect of these items because it was unlikely that future taxable profit will be available to utilise these tax benefits.

(c) Unrecognised deferred tax liabilities

A deferred tax liability for temporary differences related to investments in subsidiaries was not recognised as the Group had control on whether the liability would be incurred. The amount of contingent liabilities was estimated to be RUB 441,509 thousand / USD 7,848 thousand (2013: RUB 550,254. thousand / USD 16,812 thousand).

(d) Movement in temporary differences during the year

'000 RUB	1 January 2014	Recognised in profit or loss	Recognized in other comprehend-sive income	Foreign currency translation reserve	Acquisition of a subsidiary	31 December 2014
Property, plant and equipment	(5,997,894)	3,539,249	143,272	(95,166)	1,276	(2,409,263)
Intangible assets	(55,406)	(885)	–	(28,075)	–	(84,366)
Investments	6,564	(1,882)	–	–	–	4,682
Inventories	183,383	266,945	–	–	–	450,328
Trade and other receivables	213,671	2,323,577	–	–	–	2,537,248
Advance received and deferred income	160,010	139,208	–	–	–	299,218
Trade and other payables	139,160	146,061	–	–	–	285,221
Other items	43,409	(1,012,658)	–	–	–	(969,249)
Tax loss carry-forwards	140,051	2,228,629	–	–	–	2,368,680
	(5,167,052)	**7,628,244**	**143,272**	**(123,241)**	**1,276**	**2,482,499**
Valuation allowance for deferred tax assets	-	(4,976,645)	–	–	–	(4,976,645)
	(5,167,052)	**2,651,599**	**143,272**	**(123,241)**	**1,276**	**(2,494,146)**

'000 RUB	1 January 2013	Recognised in profit or loss	Recognized in other comprehend-sive income	Foreign currency translation reserve	Acquisition of a subsidiary	31 December 2013
Property, plant and equipment	(6,530,506)	550,602	(1,118)	(19,865)	2,993	(5,997,894)
Intangible assets	(57,626)	8,967	–	(6,747)	–	(55,406)
Investments	33,071	(26,507)	–	–	–	6,564
Inventories	82,845	100,538	–	–	–	183,383
Trade and other receivables	227,285	(13,614)	–	–	–	213,671
Advance received and deferred income	74,155	85,855	–	–	–	160,010
Trade and other payables	193,126	(53,966)	–	–	–	139,160
Other items	24,129	19,280	–	–	–	43,409
Tax loss carry-forwards	190,471	(50,420)	–	–	–	140,051
	(5,763,050)	**620,735**	**(1,118)**	**(26,612)**	**2,993**	**(5,167,052)**

'000 USD	1 January 2014	Recognised in profit or loss	Recognized in other comprehend-sive income	Foreign currency translation reserve	Acquisition of a subsidiary	31 December 2014
Property, plant and equipment	(183,258)	92,116	3,729	44,555	33	(42,825)
Intangible assets	(1,693)	(23)	–	216	–	(1,500)
Investments	201	(51)	–	(67)	–	83
Inventories	5,603	6,947	–	(4,546)	–	8,004
Trade and other receivables	4,910	61,853	–	(21,664)	–	45,099
Advance received and deferred income	4,889	3,623	–	(3,193)	–	5,319
Trade and other payables	4,252	3,802	–	(2,984)	–	5,070
Other items	2,945	(27,735)	–	7,562	–	(17,228)
Tax loss carry-forwards	4,279	58,005	–	(20,180)	–	42,104
	(157,872)	**198,537**	**3,729**	**(301)**	**33**	**44,126**
Valuation allowance for deferred tax assets	–	(129 524)	–	41,064	–	(88,460)
	(157,872)	**69,013**	**3,729**	**40,763**	**33**	**(44,334)**

'000 USD	1 January 2013	Recognised in profit or loss	Recognized in other comprehen-sive income	Foreign currency translation reserve	Acquisition of a subsidiary	31 December 2013
Property, plant and equipment	(215,013)	17,288	(35)	14,408	94	(183,258)
Intangible assets	(1,897)	282	–	(78)	–	(1,693)
Investments	1,089	(832)	–	(56)	–	201
Inventories	2,728	3,157	–	(282)	–	5,603
Trade and other receivables	7,483	(428)	–	(527)	–	6,528
Advance received and deferred income	2,442	2,695	–	(248)	–	4,889
Trade and other payables	6,359	(1,694)	–	(413)	–	4,252
Other items	794	605	–	(73)	–	1,326
Tax loss carry-forwards	6,271	(1,583)	–	(409)	–	4,279
	(189,744)	**19,490**	**(35)**	**12,322**	**94**	**(157,873)**

16 Inventories

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Spare parts	2,076,196	2,556,129	36,905	78,099
Fuel	747,327	714,943	13,284	21,844
Work in progress	62,276	36,147	1,107	1,104
Finished goods and goods for resale	206	795	4	25
Other inventories	1,037,994	1,056,258	18,450	32,273
Impairment allowance for obsolete inventory	(661,301)	(270,217)	(11,755)	(8,256)
Allowance for the spare parts at service organizations	(1,152,330)	–	(20,483)	–
	2,110,368	**4,094,055**	**37,512**	**125,089**

In 2014 the Group's management decided to terminate several aircraft lease contracts and exclude them from the fleet. At 31December 2014 an allowance was accrued for the spare parts for this aircraft, which was at the warehouses of service organizations. The amount of the allowance was translated to US dollars using the exchange rate as at 31 December 2014.

17 Security deposits

As at 31 December 2014 deposits in the amount of RUB 3,839,550 thousand / USD 68,248 thousand (2013: RUB 14,297,720 thousand / USD 436,849 thousand) included security deposits under aircraft operating leases with maturity no later than 31 December 2015. The interest rate on these deposits denominated in USD was 4% per annum (2013: 4% per annum). Deposits were paid to the company, which was engaged in organization of the lease and acted as an intermediary between the Group and manufacturer of the aircraft and lessors. During 2014, the Group decided to refuse from some of the aircraft or to postpone its delivery. Consequently on October 1, 2014, deposits in the amount of RUB 14,260,802 thousand / USD 362,100 thousand (at exchange rate on the date of transaction) were withheld by the intermediary. The Group recognised these deposits as an expense from termination/amendment of contracts (Note 34).

18 Cash and cash equivalents

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Cash on hand and at banks in RUB	329,165	275,815	5,851	8,427
Cash at banks in foreign currency	882,736	224,078	15,691	8,847
Short-term deposits in USD	112,518	65,458	2,000	2,000
Other	–	6,098	–	186
Cash and cash equivalents	**1,324,419**	**571,449**	**23,542**	**17,460**
Restricted cash in RUB	821,981	–	14,611	–
Restricted cash in foreign currency	867,150	–	15,414	–
Restricted cash	**1,689,131**	–	**30,025**	–

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 37.

As at 31 December 2014 the interest rate on deposits denominated in USD was 0.4% per annum, the maturity term – in November 2015.

As at 31 December 2014 cash in the amount of RUB 1,689,131 thousand / USD 30,025 thousand was restricted as a interlocutory injunction in relation to the claim of Alfa-Bank on debt recovery under the credit agreements and letters of credit. These restrictions were lifted in 2015, details on credit indebtedness and loans are presented in note 20.

19 Capital and reserves

(a) Share capital

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital ’000 RUB	Treasury shares at cost ’000 RUB	Surplus from reissuance of treasury shares ’000 RUB
At 1 January 2013	**538,403**	**38,805**	**577,208**	**576,468**	**13,010**
Purchase of treasury shares	(98,491)	98,491	–	2,322,700	–
Sale of treasury shares	69,910	(69,910)	–	(1,578,261)	–
At 31 December 2013	**509,822**	**67,386**	**577,208**	**1,320,907**	**13,010**
Purchase of treasury shares	(15,490)	15,490	–	325,800	–
Sale of treasury shares	14,630	(14,630)	–	(272,473)	(19,437)
At 31 December 2014	**508,962**	**68,246**	**577,208**	**1,374,234**	**(6,427)**

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital ’000 USD	Treasury shares at cost ’000 USD	Surplus from reissuance of treasury shares ’000 USD
At 1 January 2013	**538,403**	**38,805**	**20,871**	**19,609**	**451**
Purchase of treasury shares	(98,491)	98,491	–	72,928	–
Sale of treasury shares	69,910	(69,910)	–	(52,178)	–
At 31 December 2013	**509,822**	**67,386**	**20,871**	**40,359**	**451**
Purchase of treasury shares	(15,490)	15,490	–	5,791	–
Sale of treasury shares	14,630	(14,630)	–	(260)	(506)
Foreign currency differences	–	–	–	(21,463)	–
At 31 December 2014	**508,962**	**68,246**	**20,871**	**24,427**	**(55)**

As at 31 December 2014 the number of authorised ordinary shares was 577,208,000 (2013: 577,208,000) with a par value of 1 RUB per share. All authorised shares were issued and fully paid.

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

The holders of ordinary shares are entitled to receive dividends and to vote at Company’s meetings based on a rule “one share – one vote”. In respect of the Company’s shares that are held by the Group, all rights of shares are suspended until those shares will be reissued.

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

(b) Dividends

In accordance with Russian legislation, the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles.

Distributable profit is determined in accordance with the Russian legislation. No dividends were paid by the Company in 2014.

The Company's shares are listed at the Moscow Exchange (PJSC "Moscow Exchange"), and as at December 30, 2014 were traded at price RUB 8.55 per 1 share and included in the third level quotation list of securities admitted to trading at the exchange (2013: RUB 24.039 per 1 share).

The following dividends were declared by the Company:

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
0 RUB per ordinary share for 2014 (for 2013: 0.20 RUB)	–	115,442	–	3,625
	–	**115,442**	**–**	**3, 625**

20 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. The Group's exposure to interest, foreign currency and liquidity risk is disclosed in note 37.

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Non-current liabilities				
Unsecured bonds issued	83,938	9,823,835	1,492	300,155
Unsecured promissory notes	–	127,482	–	3,895
Finance lease liabilities	22,875,032	8,569,478	406,607	261,830
Secured bank loans	309,528	8,963,996	5,502	273,884
Unsecured bank loans	1,436	2,519,068	25	76,967
	23,269,934	**30,003,859**	**413,626**	**916,731**
Current liabilities				
Current portion of secured bank loans	37,220,375	8,450,214	661,596	258,186
Unsecured promissory notes	12,413,065	12,991,681	220,644	396,945
Current portion of finance lease liabilities	8,514,323	2,842,726	151,344	86,856
Liabilities under REPO transactions	–	214,723	–	6,561
Unsecured bank overdraft	207,359	129,516	3,686	3,957
Unsecured bank loans	16,631,028	16,343,723	295,619	499,362
Unsecured bonds issued	10,391,034	3,252,378	184,702	99,372
Secured bank overdraft	24,571	–	437	–
	85,401,755	**44,224,961**	**1,518,028**	**1,351,239**

(a) Terms and debt repayment schedule

Terms and conditions of the outstanding loans were as follows:

					Carrying amount	
'000 RUB	**Cur-rency**	**Nominal interest rate**	**Effective interest rate**	**Year of maturity**	**31 December 2014**	**31 December 2013**
Unsecured bonds issued	RUB	9.5-13.0%	11.89%	2015-2016	10,235,591	12,905,597
Unsecured bonds issued	USD	10.0%	10.0%	2015	239,381	170,616
Finance lease liabilities	USD	1.8-38.7%	13.12%	2015-2023	26,184,751	7,008,045
Finance lease liabilities	RUB	13.3-79.4%	20.59%	2015-2020	5,204,603	4,404,159
Secured bank loans	USD	5.1-9.0%	8.06%	2014-2017	3,934,550	9,205,187
Secured bank loans	RUB	8.0-16.0%	11.13%	2015-2019	33,295,993	8,029,018
Unsecured promissory notes	RUB	10.5-15.0%	12.24%	2015	12,413,065	13,119,163
Unsecured bank loans	USD	5.3-6.4%	5.87%	2014-2015	7,492,264	10,896,521
Secured bank loans,	EUR	8.0%	8%	2015-2017	299,361	180,005
Unsecured bank loans	EUR	7.2-8.2%	7.81%	2015	290,667	–
Liabilities under REPO transactions	RUB	–	–	–	–	214,723
Unsecured bank overdraft	USD	5.5%	5.5%	2015	124,127	60,476
Unsecured bank overdraft	RUB	–	–	–	–	6,191
Unsecured bank overdraft	EUR	5.5%	5.5%	2015	83,232	62,849
Unsecured bank loans	RUB	11.0-16.5%	12.17%	2014-2018	8,849,533	7,966,270
Secured bank overdrafts	RUB	13.0%	13%	2015	24,571	–
					108,671,689	**74,228,820**

’000 USD	Cur-rency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31 December 2014	Carrying amount 31 December 2013
Unsecured bonds issued	RUB	9.5-13.0%	11.89%	2015-2016	181,939	394,314
Unsecured bonds issued	USD	10.0%	10%	2015	4,255	5,213
Finance lease liabilities	USD	1.8-38.7%	13.12%	2015-2023	465,437	214,122
Finance lease liabilities	RUB	13.3-79.4%	20.59%	2015-2020	92,512	134,564
Secured bank loans	USD	5.1-9.0%	8.06%	2014-2017	69,937	281,253
Secured bank loans	RUB	8.0-16.0%	11.13%	2015-2019	591,840	245,317
Unsecured promissory notes	RUB	10.5-15.0%	12.24%	2015	220,644	400,840
Unsecured bank loans	USD	5.3-6.4%	5.87%	2014-2015	133,176	332,930
Secured bank loans	EUR	8.0%	8%	2015-2017	5,321	5,500
Unsecured bank loans	EUR	7.2-8.2%	7.81	2015	5,167	–
Liabilities under REPO transactions	RUB	–	–	–	–	6,561
Unsecured bank overdraft	USD	5.5%	5.5%	2015	2,206	1,848
Unsecured bank overdraft	RUB	–	–	–	–	189
Unsecured bank overdraft	EUR	5.5%	5.5%	2015	1,479	1,920
Unsecured bank loans	RUB	11.0-16.5%	12.17%	2014-2018	157,303	243,399
Secured bank overdrafts	RUB	13.0%	13%	2015	438	–
					1,931,654	**2,267,970**

As at 31 December 2014, finance lease liabilities included liabilities of RUB 714,424 thousand/ USD 12,699 thousand (2013: RUB 473,875 thousand/ USD 14,479 thousand) under lease agreements with a floating interest rate, set at LIBOR + 4% per annum.

Finance lease liabilities were secured by the leased assets, see note 8.

In 2014 the Group was in default of both principal and interest repayments to its lenders and lessors. The amount of the Group’s defaulted loans at the reporting date was RUB 15,262,966 thousand / USD 271,301 thousand, including interest RUB 241,704 thousand / USD 4,296 thousand.

As at 31 December 2014, one of the Group's subsidiaries, UTair-Finance LLC has failed to comply with issuer's liabilities on securities repurchase and payment of the accrued coupon profit. The book value of the bonds in default amount to RUB 2,950,963 thousand/ USD 52,454 thousand on 31 December 2014. In addition, the Group breached the promissory notes payment schedule. The amount of defaulted promissory notes at the reporting date was RUB 3,471,000 thousand / USD 61,697 thousand.

Moreover, as at 31 December 2014, the Group was not in compliance with certain covenants contained in the loan agreements concluded by the Group with banks. As a result at 31 December 2014 long-term debt in the amount of RUB 27,210,900 thousand / USD 483,677 thousand was reclassified to current liabilities.

The total amount of loans and borrowings with breached covenants or defaults was RUB 57,012,229 thousand / USD 1,013,399 thousand (information about negotiations on covenants compliance and debt restructuring scheme is presented in Note 2).

Bank loans were secured by fixed assets with the carrying value of RUB 6,464,551 thousand / USD 114,908 thousand and third party guarantee in the amount of RUB 12,000,000 thousand / USD 213,301 thousand (2013: RUB 7,047,440 thousand / USD 215,326 thousand , no guarantees).

As at 31 December 2014, there were no unused borrowing facilities (2013: RUB 128,271 thousand / USD 3,919 thousand denominated in RUB; RUB 880,753 thousand / USD 26,910 thousand denominated in USD and RUB 52,545 thousand / USD 1,605 thousand denominated in EUR).

21 Derivatives

(a) Hedging of fair value

As of 31 December 2014 the Group had a cross currency swap arrangement with the nominal value of USD 21,118 thousand (Peruvian sols 57,018 thousand), allowing to receive a payment at a fixed rate of 2.58, 2.72 and 2.73 Sols per 1 USD. The swap is used to hedge the exposure to changes in fair value of the contractual obligations for the purchase of property, plant and equipment. Decrease of a fair value of the currency swap by RUB 14,946 thousand / USD 389 thousand was recognised as financial expense. The fair value of the derivative liabilities amounted to RUB 172,772 thousand / USD 3,071 thousand (2013: RUB 118 637 thousand / USD 3 725 thousand).

22 Trade and other payables

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Non-current				
Frequent flyer programme liabilities (see note 23(a))	93,671	37,966	1,665	1,160
Other non-current payables	810,788	321,539	14,412	9,824
	904,459	**359,505**	**16,077**	**10,984**
Current				
Trade payables	16,235,442	9,045,103	288,585	276,362
Unused vacation liability	1,327,930	1,753,261	23,604	53,569
Payroll and related payables	862,853	1,071,630	15,337	32,742
Payables to related parties (see note 42)	754,740	382,990	13,416	11,702
Accrued liabilities and other payables	1,866,652	260,683	33,180	7,966
Frequent flyer programme liabilities (see note 23(a))	71,793	24,564	1,276	750
Dividends payable	8,548	7,110	152	217
Other current liabilities	–	36,811	–	1,124
	21,127,958	**12,582,152**	**375,550**	**384,432**

Other long-term payables include the cost of guarantees issued to unrelated parties in respect of the contractual obligations for the purchase of aircraft by other unrelated parties. Guarantees are valid till the end of 2017 in accordance with the contract payment schedule.

The Group does not expect any liability to arise in connection with such payment. As at 31 December 2014 the fair value of the guarantee calculated in accordance with IAS 39 based on analysis of credit ratings of similar entities amounted to: non-current part – RUB 796,966 thousand / USD 14,166 thousand, and current part – RUB 28,808 thousand / USD 512 thousand.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 37.

23 Deferred income

(a) Frequent flyer programme liabilities

Liabilities related to the frequent flyer programme "Status" were assessed in accordance with the requirements of IFRIC 13 *Customer Loyalty Programmes*. The amount of deferred income was calculated as the number of unused bonus miles multiplied by the fair value of a mile adjusted for the expected usage rate.

As at 31 December 2014 deferred income and other liabilities related to the frequent flyer programme "Status" were as follows:

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Deferred income, non-current	301,165	245,312	5,353	7,495
Deferred income, current	212,851	158,717	3,783	4,850
Other non-current liabilities (see note 22)	93,671	37,966	1,665	1,160
Other current liabilities (see note 22)	71,793	24,564	1,276	750
	679,480	**466,559**	**12,077**	**14,255**

(b) Deferred income on sale and leaseback transactions

In 2010 and 2013 the Group sold a number of Mi-171, Mi-8 and Mи-26 helicopters (previously classified as assets held for sale) and leased them back under finance lease agreements. In accordance with IAS 17 *Leases*, the gain received from sale was deferred and will be recognised in the comprehensive financial result over the period of a lease.

As at 31 December 2014 deferred income related to the sale and leaseback was as follows:

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Deferred income, non-current	871,113	515,329	15,484	15,745
Deferred income, current	178,498	175,797	3,173	5,371
	1,049,611	**691,126**	**18,657**	**21,116**

(c) Other long-term deferred income

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Other long term deferred income	334 153	–	5 940	–
	334 153	**–**	**5 940**	**–**

24 Employee benefits

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

On 31 December 2014 and 2013, the Group had no assets related to pension plans or unrecognized actuarial gains and losses.

The components of net benefit expense recognised in other comprehensive income or in profit or loss for the year ended 31 December 2014 and 31 December 2013, as well as amounts recognised in consolidated statement of financial position as at 31 December 2014 and 2013 were as follows:

	2014	2013	2014	2013
	'000 RUB	'000 RUB	'000 USD	'000 USD
Liabilities as at 1 January	**252,440**	**266,704**	**7,713**	**8,781**
Benefit expense	(140,062)	5,866	(3,645)	185
Benefits paid	(9,336)	(20,130)	(243)	(632)
Effect of movements in exchange rates	–	–	(1,993)	(621)
Liabilities as at 31 December, including:	**103,042**	**252,440**	**1,832**	**7,713**
non-current	95,355	233,607	1,695	7,138
current	7,687	18,833	137	575

(a) Employee benefits expense

	2014	2013	2014	2013
	'000 RUB	'000 RUB	'000 USD	'000 USD
Current service cost	14,998	21,744	390	683
Past service cost	(66,784)	–	(1,738)	–
Interest expense on liabilities	17,964	18,946	468	595
Actuarial changes in other long-term benefits	(30,234)	(20,560)	(787)	(657)
Total (gain)/loss charged to profit or loss	**(64,056)**	**20,130**	**(1,667)**	**621**
Adjustments based on experience	(38,277)	(7)	(996)	(1)
Actuarial changes due to financial assumptions	(48,399)	(23,078)	(1,260)	(725)
Actuarial changes due to demographic assumptions	10,668	8,821	278	290
Total charge to other comprehensive income	**(76,006)**	**(14,264)**	**(1,978)**	**(436)**

(b) Actuarial assumptions

Principal actuarial assumptions at the balance sheet date (presented as average):

	2014	2013
	%	%
Discount rate at December 31	12,00	7,7
Average long-term salary increase rate	8,5	7,0
Inflation and pension growth rate	7,00	5,5

Assumptions of the expected endowment were based on published statistics data and demographic mortality tables. Currently, the retirement age in Russia is 60 years for men and 55 for women.

The average duration of pension benefit obligations at the end of the reporting period was 9.5 years.

(c) Sensitivity analysis

Quantitative sensitivity analysis for significant assumptions is shown in the table below as at 31 December 2014:

Assumption	**Discount rate**		**Inflation**		**mortality Rates**		**rate of layoffs**	
	0,5%	(0,5%)	0,5%	(0,5%)	0,5%	(0,5%)	0,5%	(0,5%)
Effect on defined benefit obligations	(4 459)	4 875	5 230	(4 811)	(1 440)	1 610	(1 361)	1 442

The presented sensitivity analysis is based on the extrapolation of the changes in key assumptions after the end of the reporting period.

25 Taxes payable

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Value added tax payable	257,494	61,112	4,577	1,867
Social insurance charges	528,428	192,007	9,393	5,867
Personal income tax	390,973	133,170	6,950	4,069
Property tax	17,291	18,089	307	553
Contributions to pension fund	67,181	20,655	1,194	631
Other taxes and tax provisions	43,891	21,532	780	657
	1,305,258	**446, 565**	**23,201**	**13,644**

26 Advances received

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Advances from passengers	1,010,702	1,198,235	17,965	36,611
Advances from customers	406,417	1,423,870	7,224	43,505
Advances from related parties (see note 42)	3,254	4,792	58	146
	1,420,373	**2,626,897**	**25,247**	**80,262**

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

27 Revenue

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Aircraft transportation services, regular flights	38,716,093	42,383,212	1,007,663	1,330,747
Aircraft transportation services, charter flights	14,859,092	9,919,476	386,737	311,456
Helicopter transportation services, inland	9,498,966	9,887,009	247,229	310,433
Revenues under agreements with UN	7,763,648	6,858,109	202,064	215,331
Helicopter service abroad	2,440,306	2,467,679	63,514	77,480
Airport services	719,901	297,362	18,737	9,337
Repair and maintenance services	691,858	482,807	18,007	15,159
Passenger traffic and helicopter services revenue	**74,689,864**	**72,295,654**	**1,943,950**	**2,269,943**
Consulting and marketing services	–	9,250,750	–	290,456
Other	1,899,936	1,335,684	49,450	41,938
Other revenues	**1,899,936**	**10,586,434**	**49,450**	**332,394**
	76,589,800	**82,882,088**	**1,993,400**	**2,602,337**

The subsidies of regional authorities were provided to the Group for the execution of regular flights to several Russian regions. These grants are provided both in the form of cash remuneration to cover the Group's losses from performing such flights and in the form of reduced airport charges, etc. Since 2005 the Group participates in the regional programme by selling tickets with discounts to passengers flying within the Tyumen and other regions. These discounts are reimbursed by the regional government. The amount of reimbursement received in 2014 amounted to RUB 1,249,253 thousand/USD 32,514 thousand (2013: RUB 1,151,330 thousand/USD 36,150 thousand) and was included in the revenue from the regular transportation services.

In 2011 the Company entered into the consulting services agreement and in 2013 recognized revenue and related accounts receivable from this contract in amount of RUB 8 887 275 thousand/USD279 043 thousand.

In 2014 and 2013 the Group generated revenue from the following major customer groups and geographical areas:

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Group of customers				
Individual customers	38,716,093	42,383,106	1,007,662	1,330,747
Commercial organizations	30,110,060	33,640,873	783,674	1,056,259
United Nations	7,763,647	6,858,109	202,064	215,331
	76,589,800	**82,882,088**	**1,993,400**	**2,602,337**
Geographical area				
Russia	46,084,959	58,363,727	1,199,451	1,832,508
Other countries	30,504,841	24,518,361	793,949	769,829
	76,589,800	**82,882,088**	**1,993,400**	**2,602,337**

28 Direct operating expenses

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Rent of the aircraft and equipment	11,876,080	8,755,396	309,098	274,902
Airport services	9,636,122	9,011,380	250,799	282,940
Air navigation and meteo services	3,692,732	3,662,411	96,111	114,993
Spare parts and other materials	3,004,589	1,193,530	78,200	37,475
Passenger servicing	2,352,984	2,899,457	61,241	91,036
Travel expenses	2,086,842	2,472,183	54,314	77,622
Freight transportation services	939,555	951,039	24,454	29,861
Custom duties	275,146	424,622	7,161	13,332
UN missions support	312,055	278,644	8,122	8,749
Other direct operating expense	297,411	790,198	7,742	24,811
Direct operating expenses except fuel	**34,473,516**	**30,438,860**	**897,242**	**955,721**
Fuel expenses	18,160,299	17,675,780	472,656	554,986
	52,633,815	**48,114,640**	**1,369,898**	**1,510,706**

29 Personnel expenses

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Salaries and wages	13,778,126	12,827,130	358,603	402,747
Social security costs	3,761,488	3,422,180	97,900	107,450
Gains related to defined benefit plans	(91,357)	–	(2,378)	–
	17,448,257	**16,249,310**	**454,125**	**510,197**

30 Sales-leaseback transactions

In 2014 the Group performed a sale-leaseback transaction in respect of its 5 helicopters. As of 31 December 2014 five helicopters were leased back for the period from 40 to 60 months. The carrying amount of sold assets in 2014 comprised RUB 753,330 thousand/USD 19,607 thousand (2013: RUB 3,214,706 thousand/USD 100,936 thousand), and revenue from sales comprised RUB 899,370 thousand/USD 23,408 thousand (2013: RUB 3,808,109 thousand/USD 119,567 thousand).

The Group recognizes the revenue from sale- leaseback transactions evenly during the lease period. In 2014 the Group recognized revenues in the amount of RUB 254,109 thousand / USD 6,614 thousand (2013: RUB 32,909 thousand / USD 1,033 thousand).

31 Other operating income and expenses

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Other operating income				
Penalties and compensations	360,506	444,868	9,383	13,968
Other operating income	684,575	235,477	17,817	7,394
	1,045,081	**680,345**	**27,200**	**21,362**

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Other operating expenses				
Training expenses	664,440	413,235	17,293	12,975
Fines and penalties	632,702	–	16,467	–
Consulting, audit and legal expenses	597,680	529,223	15,556	16,617
Bank charges	563,795	483,067	14,674	15,167
Insurance expenses	530,048	489,219	13,796	15,361
Utilities	444,572	415,600	11,571	13,049
Taxes other than income tax	439,867	357,508	11,448	11,225
Communication services	302,999	259,577	7,886	8,150
Advertising	94,545	112,881	2,461	3,544
Result of disposal of other assets	57,871	–	1,506	–
Other operating expenses	628,643	47,750	16,362	1,499
	4,957,162	**3,108,060**	**129,020**	**97,587**

32 Other finance income and finance costs

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Other finance income				
Interest income on loans issued	950,915	750,301	24,749	23,558
Gain from disposal of other investments	213,582	591,334	5,559	18,567
Interest income at the interest rate below the market rate	684,550	301,133	17,817	9,455
	1,849,047	**1,642,768**	**48,125**	**51,580**
Other finance expenses				
Interest expense on financial liabilities measured at amortized cost	8,984,190	6,909,250	233,831	216,937
Unwinding of discount for liabilities	–	18,820	–	591
Loss from the sale of other investments	2,081,351	–	54,171	–
Interest expenses of actuarial liabilities	17,964	–	468	–
Hedge expenses	14,946	118,637	389	3,725
Dividends	8,623	13,437	224	422
	11,107,074	**7,060,144**	**289,083**	**221,675**

33 Result of the revaluation and impairment of assets

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Revaluation of fixed assets	11,741,309	–	208,702	–
Impairment of fixed assets	2,945,946	–	52,365	–
Impairment of intangible assets	503,721	–	8,954	–
Impairment of goodwill	774,457	–	13,766	–
Impairment of investment	50	–	1	–
Total loss	**15,965,483**	**–**	**283,788**	**–**

Additional information on revaluation of fixed assets is presented in Note 8 (e).

Revaluation and impairment of assets are translated into US dollars at the exchange rate as at 31 December 2014.

34 The result of termination / modification of contracts

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Write-off of security deposits (Note 17)	14,260,802	–	362,100	–
Loss / (gain) on termination of the lease agreements	1,903,950	(118,986)	49,555	(3,736)
The price adjustments for the sale of fixed assets commenced in prior periods	1,128,099	–	29,362	–
The result of changes in guarantees contract terms	353,592	–	6,283	–
Total loss / (gain)	**17,646,443**	**(118,986)**	**447,300**	**(3,736)**

The write-down of security deposits is a one-off operation described in Note 17. It was translated into US dollars at the exchange rate on the date of the transaction (October 1, 2014. See note 17).

In 2014, the Group incurred additional costs related to the early termination of lease agreements due to penalties. In 2013, the early termination of finance lease agreements resulted in income being the excess of the liability derecognised over the cost of the disposed fixed asset.

In 2014, in connection with the decision to refuse from the delivery of twelve Airbus aircraft, the Group written-off the asset, which was previously recognized in respect of guarantees issued by the Group to the buyer of aircraft in favor of the manufacturer. Related loss amounted to RUB 353,592 thousand / USD 6,283 thousand.

35 Income tax benefit

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

	2014	2013	2014	2013
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Current tax expense				
Current year	85,850	174,008	2,234	5,466
Deferred tax	(2,651,599)	(620,736)	(69,013)	(19,490)
Income tax benefit excluding the share in income tax of the equity accounted investees	**(2,565,749)**	**(446,728)**	**(66,779)**	**(14,024)**

(a) Income tax recognised directly in other comprehensive income

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Revaluation of fixed assets	143,272	(1,118)	3,729	(35)
Total income tax recognized in other comprehensive income	**143,272**	**(1,118)**	**3,729**	**(35)**

(b) Reconciliation of effective tax rate

	2014		2013	
	'000 RUB	%	'000 RUB	%
Loss before income tax	**(64,225,120)**	**100**	**(4,953,714)**	**100**
Income tax at applicable tax rate	(12,845,024)	20	(990,745)	20
Effect of income taxed at higher rates	232,671	–	81,682	(2)
Effect of income taxed at lower rates	–	–	(24,656)	1
Non-deductible expenses	5,693,756	(9)	382,553	(8)
Deferred tax assets valuation allowance	4,335,958	(7)	173,391	(3)
Underaccrued in prior years	16,890	–	(68,953)	1
	(2,565,749)	**4**	**(446,728)**	**9**

	2014		2013	
	'000 USD	%	'000 USD	%
Loss before income tax	**(1,458,980)**	**100**	**(155,535)**	**100**
Income tax at applicable tax rate	(291,796)	20	(31,107)	20
Effect of income taxed at higher rates	6,056	–	2,565	(2)
Reduction tax rates	–	–	(774)	1
Non-deductible expenses	105,670	(9)	12,013	(8)
Deferred tax assets valuation allowance	112,852	(7)	5,444	(4)
Underaccrued in prior years	439	–	(2,165)	1
	(66,779)	**4**	**(14,024)**	**9**

36 Loss per share

The basic loss per share at 31 December 2014 was calculated based on the loss attributable to ordinary shareholders and the weighted average number of the outstanding ordinary shares of 535,405 thousand (2013: 550,518 thousand), as presented below. The Company has no dilutive potential ordinary shares.

In thousands of shares	**2014**	**2013**
Issued shares at 1 January	536,249	564,787
Effect of own shares held	(844)	(14,269)
Weighted average number of shares for the year ended 31 December	**535,405**	**550,518**
Loss for the year attributable to owners of the Company, '000 RUB	(60,709,127)	(4,131,779)
Basic and diluted loss per share, RUB	**(113,39)**	**(7,51)**
Loss for the year attributable to owners of the Company, '000 USD	(1,367,469)	(129,730)
Basic and diluted loss per share, USD	**(2,55)**	**(0,24)**

37 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk (including interest rate and foreign currency risk)

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

Risk management framework

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

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

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

(b) Credit risk

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

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

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

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

(i) Exposure to credit risk

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

	Carrying amount			
	2014	2013	2014	2013
	’000 RUB	’000 RUB	’000 USD	’000 USD
Long-term loans issued	91,087	342,436	1,619	10,463
Long-term net investments in leases	680,583	702,868	12,097	21,475
Long-term other investments	111,169	143,233	1,976	4,376
Trade and other receivables	8,531,244	21,855,106	151,643	667,757
Security rent deposits	3,839,550	14,297,720	68,248	436,849
Short-term loans issued	1,490,601	6,720,120	26,496	205,325
Short-term net investments in leases	509,499	568,078	9,056	17,357
Cash and cash equivalents	1,324,419	571,449	23,542	17,460
Restricted cash	1,689,131	–	30,025	–
	18,267,283	**45,201,010**	**324,702**	**1,381,062**

(ii) Impairment losses

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

’000 RUB	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	6,958,923	–	21,457,781	–
Overdue	2,389,225	(816,904)	583,210	(185,885)
less than 30 days	1,054,950	–	246,733	–
from 30 to 60 days	401,720	–	69,480	–
from 60 to 150 days	551,463	(278,335)	47,088	–
over 150 days	381,092	(538,569)	219,909	(185,885)
	9,348,148	**(816,904)**	**22,040,991**	**(185,885)**

’000 USD	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	123,695	–	655,616	–
Overdue	42,469	(14,521)	17,820	(5,679)
less than 30 days	18,752	–	7,539	–
from 30 to 60 days	7,141	–	2,123	–
from 60 to 150 days	9,802	(4,947)	1,439	–
over 150 days	6,774	(9,574)	6,719	(5,679)
	166,164	**(14,521)**	**673,436**	**(5,679)**

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

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

(iii) Financial instruments and cash deposits

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

(c) Liquidity risk

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

The Group manages liquidity risk by targeting an optimal ratio between equity and debt capital consistent with the management plans and business objectives.

As of 31 December 2014 the Group's current liabilities amounted to RUB 109,940,953 thousand / USD 1,954,213 thousand and exceeded the Group's current assets by RUB 86,736,120 thousand / USD 1,541,745 thousand (31 December 2013: RUB 60,288,956 thousand/USD 1,842,055 thousand and RUB 6,799,178 thousnad/ USD 207,741 thousand accordingly). Net loss for 2014 amounted to RUB 61,659,371 thousand/USD 1,392,201 thousand (2013: net loss of RUB 4,506,986 thousand/USD 141,511 thousand). Net cash inflow used in operating activity in 2014 amounted to RUB 2,586,237 thousand/USD 67,312 thousand (2013: net cash outflow of RUB 8,487,742 thousand/USD 266,499 thousand).

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

2014

’000 RUB	Carrying amount	Contractual cash flows	On demand	0-3 mths	3-12 mths	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Secured bank loans	37,529,903	37,847,726	33,725,163	1,790,598	1,119,865	1,212,100	–
Finance lease liabilities	31,389,35	41,867,499	-	3,602,845	7,478,345	26,313,301	4,473,008
Trade and other payables	21,866,953	21,866,953	16,650,282	3,356,139	956,074	904,458	–
Unsecured bonds issued	10,474,972	11,231,142	2,950,963	2,555,023	2,030,375	3,694,781	–
Unsecured promissory notes	12,413,065	12,465,016	3,471,000	8,283,495	710,521	–	–
Unsecured bank loans	16,632,464	16,633,173	16,633,173	–	–	–	–
Unsecured bank overdrafts	207,359	207,359	207,359	–	–	–	–
Secured bank overdrafts	24,571	24,571	24,571	–	–	–	–
	130,538,642	**142,143,439**	**73,662,511**	**19,588,100**	**12,295,180**	**32,124,640**	**4,473,008**
Derivative financial liabilities							
Interest rate swaps used for hedging	172,772	172,772	–	–	172,772	–	–
	172,772	**172,772**	–	–	**172,772**	–	–

2014

’000 USD	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans	667,098	672,748	599,469	31,828	19,906	21,545	–
Finance lease liabilities	557,951	744,199	-	64,041	132,928	467,722	79,508
Trade and other payables	388,686	388,686	295,961	59,654	16,994	16,077	–
Unsecured bonds issued	186,194	199,635	52,454	45,416	36,090	65,675	–
Unsecured promissory notes	220,644	221,567	61,697	147,240	12,630	–	–
Unsecured bank loans	295,644	295,657	295,657	–	–	–	–
Unsecured bank overdrafts	3,686	3,686	3,686	–	–	–	–
Secured bank overdrafts	437	437	437	–	–	–	–
	2,320,340	**2,526,615**	**1,309,361**	**348,179**	**218,548**	**571,019**	**79,508**
Derivative financial liabilities							
Interest rate swaps used for hedging	3,071	3,071	–	–	3,071	–	–
	3,071	**3,071**	–	–	**3,071**	–	–

2013

’000 RUB	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 mths**	**3-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities							
Secured bank loans	17,414,211	18,871,610	–	4,810,066	4,531,180	9,530,364	–
Finance lease liabilities	11,412,203	15,524,357	–	1,044,672	2,856,478	11,402,206	221,001
Trade and other payables	12,842,316	12,842,318	5,588,113	4,880,918	2,013,782	359,500	5
Unsecured bonds issued	13,076,213	15,449,631	–	3,461,957	1,204,106	10,783,568	–
Unsecured promissory notes	13,119,163	13,949,575	–	1,811,271	11,988,304	150,000	–
Unsecured bank loans	18,862,790	19,574,330	–	5,243,709	11,744,971	2,584,214	1,436
Unsecured bank overdrafts	129,516	130,549	–	7,753	122,796	–	–
Liabilities under REPO transactions	214,723	218,735	–	218,735	–	–	–
	87,071,135	**96,561,105**	**5,588,113**	**21,479,081**	**34,461,617**	**34,809,852**	**222,442**
Derivative financial liabilities							
Interest rate swaps used for hedging	40,018	40,195	–	1,771	38,424	–	–
	40,018	**40,195**	–	**1,771**	**38,424**	–	–

2013

’000 USD	Carrying amount	Contractual cash flows	On demand	0-3 mths	3-12 mths	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Secured bank loans	532,070	576,599	–	146,966	138,445	291,188	–
Finance lease liabilities	348,686	474,327	–	31,919	87,276	348,380	6,752
Trade and other payables	392,381	392,381	170,738	149,130	61,529	10,984	–
Unsecured bonds issued	399,527	472,044	–	105,776	36,790	329,478	–
Unsecured promissory notes	400,840	426,212	–	55,341	366,288	4,583	–
Unsecured bank loans	576,329	598,069	–	160,215	358,853	78,957	44
Unsecured bank overdrafts	3,957	3,989	–	237	3,752	–	–
Liabilities under REPO transactions	6,561	6,683	–	6,683	–	–	–
	2,660,351	**2,950,304**	**170,738**	**656,267**	**1,052,933**	**1,063,570**	**6,796**
Derivative financial liabilities							
Interest rate swaps used for hedging	1,223	1,228	–	54	1,174	–	–
	1,223	1,228	–	54	1,174	–	–

(d) Market risk

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

(iv) Foreign currency risk

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

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group’s operations (disclosed in note 21).

Exposure to currency risk

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

’000 RUB	USD-denominated 2014	EUR-denominated 2014	USD-denominated 2013	EUR-denominated 2013
Trade and other receivables	3,103,944	320,055	16,809,946	368,103
Security deposits	3,839,550	–	14,297,720	–
Cash and cash equivalents	214,845	18,396	173,408	2,820
Restricted cash	669,793	162,195	–	–
Short-term loans issued	424,798	–	278,198	–
Investments in finance leases	–	617,110	–	116,304
Finance lease liabilities	(5,791,390)	–	(7,008,045)	–
Secured bank loans and overdrafts	(10,420,752)	(673,260)	(20,162,184)	(242,855)
Trade and other payables	(8,325,451)	(880,745)	(2,141,948)	(417,128)
Net exposure	**(16,284,663)**	**(436,249)**	**2,247,095**	**(172,756)**

’000 USD	USD-denominated 2014	EUR-denominated 2014	USD-denominated 2013	EUR-denominated 2013
Trade and other receivables	55,173	5,689	513,607	11,247
Security deposits	68,248	–	436,849	–
Cash and cash equivalents	3,819	327	5,298	86
Restricted cash	11,906	2,883	–	–
Short-term loans issued	7,551	–	8,500	–
Investments in finance leases	–	10,969	–	3,554
Finance lease liabilities	(102,943)	–	(214,122)	-
Secured bank loans and overdrafts	(185,230)	(11,967)	(616,030)	(7,420)
Trade and other payables	(147,986)	(15,655)	(65,445)	(12,745)
Net exposure	**(289,462)**	**(7,754)**	**68,657**	**(5,278)**

The following significant exchange rates applied during the year:

in RUB	Average rate 2014	Average rate 2013	Reporting date spot rate 2014	Reporting date spot rate 2013
USD 1	38.4217	31.8491	56.2584	32.7292
EUR 1	50.8158	42.3129	68.3427	44.9699

Sensitivity analysis

A strengthening of the RUB, as indicated below, against the following currencies at 31 December would have increased profit or loss by the amounts shown below. There would have been no impact directly on equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

	2014		2013	
’000 RUB	Currency appreciation	Profit / (loss)	Currency appreciation	Profit / (loss
USD	-28.54%	4,648,270	-10.21%	(229,397)
USD	28.54%	(4,648,270)	20%	449,408
EUR	-29.58%	129,021	-8.63%	14,911
EUR	29.58%	(129,021)	20%	(34,551)

	2014		2013	
’000 USD	Currency appreciation	Profit / (loss	Currency appreciation	Profit / (loss
USD	-28.54%	120,980	-10.21%	(7,203
USD	28.54%	(120,980)	20%	14,111
EUR	-29.58%	3,358	-8.63%	468
EUR	29.58%	(3,358)	20%	(1,085)

The appreciation of currencies to Russian rouble at 31 December 2014 would have different effect on the amounts shown above depending the net currency position (asset or liability).

(v) Interest rate risk

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

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

As at 31 December 2014 the share of the Group's liabilities bearing a floating interest rate constituted 0.815% of the total liabilities (2013: 0.6%).

Profile

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

	Carrying amount			
	2014	**2013**	**2014**	**2013**
	'000 RUB	**'000 RUB**	**'000 USD**	**'000 USD**
Fixed rate instruments				
Financial assets	6,594,295	21,497,576	117,214	656,832
Finance lease liabilities	(30,674,930)	(10,938,329)	(545,251)	(334,207)
Other financial liabilities	(77,282,335)	(62,816,615)	(1,373,703)	(1,919,284)
	(101,362,970)	**(52,257,368)**	**(1,801,740)**	**(1,596,659)**
Variable rate instruments				
Finance lease liabilities	(714,424)	(473,875)	(12,699)	(14,479)
Other financial liabilities	(172,770)	(40,018)	(3,071)	(1,223)
	(887,194)	**(513,893)**	**(15,770)**	**(15,702)**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. There would have been no impact directly on equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

	Profit / (loss)		Profit / (loss)	
	2014		**2013**	
'000 RUB	**Increase**	**Decrease**	**Increase**	**Decrease**
Borrowings in USD	(7,144)	7,144	(4,739)	4,739
Hedge liabilities related to lease contracts	–	–	707	(707)
Cash flow sensitivity (net)	**(7,144)**	**7,144**	**(4,032)**	**4,032**

	Profit / (loss)		Profit / (loss)	
	2014		**2013**	
'000 USD	**Increase**	**Decrease**	**Increase**	**Decrease**
Borrowings with hedged interest rate in USD	(127)	127	(145)	145
Hedge liabilities related to lease contracts	–	–	22	(22)
Cash flow sensitivity (net)	**(127)**	**127**	**(123)**	**123**

Fair value sensitivity analysis for fixed rate instruments

The comparison of the carrying amount and the fair value of financial instruments of the Group is presented below by categories.

The assessment of the fair value for loans and borrowings is based on the discounted cash flows for each loan agreement. The discount rate is the market rate for borrowings in certain currency and for the certain period at 31 December 2014.

The fair value of the listed bonds is derived from the effective market yield at the balance sheet date.

By the short-term loans with repayment in 2014, the fair value is considered to be equal to balance value.

	2014		2013	
’000 RUB	**Balanse value**	**Fair value**	**Balanse value**	**Fair value**
long-term liabilities				
Unsecured bond issued	83,938	83,938	9,823,835	9,823,835
Unsecured promissory notes	–	–	127,482	127,482
Finance lease liabilities	22,875,032	24,380,096	8,569,478	8,569,478
Secured bank loans	309,528	297,224	8,963,996	8,963,996
Unsecured bank loans	1,436	1,436	2,519,068	2,519,068
	23,269,934	**24,762,694**	**30,003,859**	**30,003,859**
short-term liabilities				
Current portion of secured bank loans	37,220,375	37,220,375	8,450,214	8,450,214
Unsecured promissory notes	12,413,065	12,413,065	12,991,681	12,991,681
Current portion of finance lease liabilities	8,514,323	9,246,188	2,842,726	2,842,726
Liabilities under REPO transactions	–	–	214,723	214,723
Unsecured bank overdrafts	207,359	207,359	129,516	129,516
Unsecured bank loans	16,631,028	16,631,028	16,343,723	16,343,723
Unsecured bond issued	10,391,034	3,944,678	3,252,378	3,252,378
Secured bank overdrafts	24,571	24,571	–	–
	85,401,755	**79,687,264**	**44,224,961**	**44,224,961**

	2014		2013	
’000 USD	**Balanse value**	**Fair value**	**Balanse value**	**Fair value**
long-term liabilities				
Unsecured bond issued	1,492	1,492	300,155	300,155
Unsecured promissory notes	–	–	3 895	3 895
Finance lease liabilities	406,607	433,359	261,830	261,830
Secured bank loans	5,502	5,283	273,884	273,884
Unsecured bank loans	25	25	76,967	76,967
	413,626	**440,159**	**916,731**	**916,731**
short-term liabilities				
Current portion of secured bank loans	661,596	661,597	258,186	258,186
Unsecured promissory notes	220,644	220,644	396,945	396,945
Current portion of finance lease liabilities	151,344	164,352	86,856	86,856
Liabilities under REPO transactions	–	–	6,561	6,561
Unsecured bank overdrafts	3,686	3,686	3,957	3,957
Unsecured bank loans	295,619	295,619	499,362	499,362
Unsecured bond issued	184,702	70,117	99,372	99,372
Secured bank overdrafts	437	437	–	–
	1,518,028	**1,416,452**	**1,351,239**	**1,351,239**

(b) Fair values hierarchy

The table below analyses financial instruments carried at fair value, presented cutaway methods for determining this value.

'000 RUB	Level 1	Level 2	Level 3	Total
31 December 2014				
Investments available-for-sale	–	111,169	–	**111,169**
Derivative financial liabilities	–	(172,772)	–	**(172,772)**
Guarantee issued (Note 22)	–	(825,774)	–	**(825,774)**
	–	**(887,377)**	–	**(887,377)**
31 December 2013				
Investments available-for-sale	–	153,510	65,458	**218,968**
Derivative financial liabilities	–	(40,018)	–	**(40,018)**
Guarantee issued (Note 22)	–	(385,045)	–	**(385,045)**
	–	**(271,553)**	**65,458**	**(206,095)**

'000 USD	Level 1	Level 2	Level 3	Total
31 December 2014				
Investments available-for-sale	–	1,976	–	**1,976**
Derivative financial liabilities	–	(3,071)	–	**(3,071)**
Guarantee issued (Note 22)	–	(14,678)	–	**(14,678)**
	–	**(15,773)**	–	**(15,773)**
31 December 2013				
Investments available-for-sale	–	4,690	2,000	**6,690**
Derivative financial liabilities	–	(1,223)	–	**(1,223)**
Guarantee issued (Note 22)	–	(11,764)	–	**(11,764)**
	–	**(8,297)**	**2,000**	**(6,297)**

(c) Capital management

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

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

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

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Total liabilities	**138,211,278**	**96,980,349**	**2,456,722**	**2,963,115**
Less: cash and cash equivalents	(1,324,419)	(571,449)	(23,542)	(17,460)
Less: restricted cash	(1,689,131)	-	(30,025)	-
Net debt	**135,197,728**	**96,408,900**	**2,403,155**	**2,945,655**
Total equity	**(43,556,091)**	**16,757,043**	**(774,215)**	**511,990**
Debt to equity ratio at 31 December	**(3,10)**	**5.75**	**(3,10)**	**5.75**

In accordance with the legislation of the Russian Federation, the Company and all joint-stock companies registered in the Russian Federation should calculate the net asset value according to the statutory financial statements, prepared in accordance with RAS on the annual basis. If the net assets of a company are less than its registered capital at the end of the accounting year which follows the second reporting year or each forthcoming year, the company is required to make a decision within 6 months period whether to reduce the authorized share capital to an amount not exceeding the value of its net assets or to initiate liquidation. As at 31 December 2014 the net assets of the following companies of the Group were less than the value of the share capital: UTair Aviation PJSC, UTair CJSC, UTair-Engineering OJSC and UTG CJSC at the end of the first reporting year, so the Group has no obligation to take the decision of reducing the registered capital or liquidation of these companies at the present moment. The management is taking a series of measures for managing the capital in order to bring the net assets of these companies in accordance with the legislation of the Russian Federation, as well as measures of increasing the equity of the Group as a whole. These activities include both debt restructuring and the planned increase in the authorized capital by an additional share issue (see Note 2). The group management believes that conducting of these activities will contribute to meeting the target net assets of the joint-stock companies at the end of the accounting year following the second reporting year (year ended 31 December 2016) and by the each subsequent reporting year (year ended 31 December 2017 and etc.) at the end of which the net asset value appeared to be less than its registered capital.

38 Operating leases

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

	2014	2013	2014	2013
	’000 RUB	’000 RUB	’000 USD	’000 USD
Less than one year	6,103,579	7,579,737	108,492	231,589
Between one and five years	22,955,368	21,417,937	408,034	654,398
More than five years	22,910,404	12,582,783	407,235	384,451
	51,969,351	**41,580,457**	**923,761**	**1,270,438**

As at 31 December 2014 RUB 49,962,189 thousand/USD 888,084 thousand (2013: RUB 39,193,541 thousand/USD 1,197,510 thousand) out of total rent payments relates to the contracts denominated in USD; and RUB 233,161 thousand/USD 4,144 thousand (2013: RUB 73,348 thousand/USD 2,241 thousand) relates to the contracts nominated in euro.

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

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

Rent payments aren’t provided in the agreements. The Group is obliged to maintain the property in an appropriate condition, perform repairs and other necessary works in time. Significant modernisation and reconstruction of the rented property is recognised as property, plant and equipment and depreciated over the lower of the remaining useful life and the remaining rental period.

39 Capital commitments

As at 31 December 2014 the Group signed several contracts for the purchase of fixed assets and made prepayments in amount of RUB 210,279 thousand/USD 3,738 thousand (2013: RUB 573,839 thousand/USD 17,533 thousand) had been advanced. The contractual commitments to purchase property, plant and equipment as at 31 December 2014 amounted to RUB 6,014 thousand/USD 107 thousand (2013: RUB 334,017 thousand/USD 10,205 thousand).

40 Contingencies

(a) Insurance

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

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

(b) Litigation

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

(c) Taxation contingencies

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

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments., It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

New transfer pricing law was introduced in Russia and became effective from 1 January 2012. According to this law tax authorities may challenge pricing methods and accrue additional tax liabilities if prices in the controlled transactions deviate from the market level. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course. In 2012 the Group determined its tax liabilities arising from "controlled" transactions making appropriate transfer pricing adjustments (where applicable).

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

The estimated amount of potential liabilities that could be subject to different interpretations of the tax laws and regulations and are not accrued in the consolidated financial statements could be up to approximately RUB 227,144 thousand/USD 4,038 thousand (2013: RUB 232,633 thousand/USD 7,108 thousand).

(d) Guarantees

The fair value of the guarantee calculated in accordance with IAS 39 based on the analysis of credit ratings of similar entities is included into the «Trade and other payables» line for an amount of RUB 825,774 thousand / USD 14,678 thousand (2013: RUB 385,045 thousand/USD 11,765 thousand) (Note 22).

41 Finance lease liabilities

As at 31 December 2014 the Group has entered into finance lease agreements and operated 99 leased aircraft and 15 leased buildings (see note 8), with a bargain purchase option to acquire the leased assets at the end of the lease term of 1 to 9 years and option to buy leased assets before the end of the lease. The minimum future lease payments under these agreements as well as the present value of the minimum lease payments are presented in the following table:

	2014			2013		
’000 RUB	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	10,691,689	(2,177,366)	8,514,323	3,901,150	(1,058,423)	2,842,727
Between one and five years	26,312,789	(6,444,492)	19,868,297	11,402,206	(3,044,448)	8,357,758
Over five years	4,487,057	(1,480,322)	3,006,735	221,001	(9,282)	211,719
	41,491,535	**(10,102,180)**	**31,389,355**	**15,524,357**	**(4,112,153)**	**11,412,204**

	2014			2013		
’000 USD	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease paymxents**
Less than one year	190,046	(38,703)	151,343	119,194	(32,339)	86,855
Between one and five years	467,713	(114,552)	353,161	348,380	(93,019)	255,361
Over five years	79,758	(26,311)	53,447	6,753	(283)	6,470
	737,517	**(179,566)**	**557,951**	**474,327**	**(125,641)**	**348,686**

42 Related party transactions

(a) Control relationships

As at 31 December 2014 the Company's immediate and ultimate controlling party was a Non-State Pension Fund Surgutneftegaz.

(b) Management remuneration

Key management personnel comprises directors, members of the Management Board and the Supervisory Council. The total compensation to key management personnel is included in personnel expenses in the consolidated statement of financial result for the year ended 31 December 2014 and amounted to RUB 292,666 thousand/USD 7,617 thousand (2013: RUB 320,152 thousand/USD 10,052 thousand). Compensation to key management personnel consists of the contractual salary and performance bonus depending on the achieved operating results.

(c) Transactions with other related parties

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

Related parties may enter into transactions which unrelated parties might not. The terms, conditions and amounts of transactions with related may differ from transactions between unrelated parties.

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

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

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

	2014 '000 RUB	2013 '000 RUB	2014 '000 USD	2013 '000 USD
Trade and other receivables (note 14):				
Entities with joint control or significant influence over the Group	237,728	175,427	4,226	5,360
Associates	8,038	1,506	143	46
Other	201	10,117	4	309
	245,967	**187,050**	**4,373**	**5,715**

The outstanding balances are interest free and short-term, except for where it is specifically noted. Most receivables relate to the rendering of transportation services to the related parties. The outstanding balances are neither guaranteed nor secured. The settlements are performed in cash. No doubtful debts due from related parties existed as at 31 December 2014 and as at 31 December 2013.

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

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
Trade and accounts payable (note 22):				
Entities with joint control or significant influence over the Group	(727,589)	(371,016)	(12,933)	(11,336)
Associates	(25,517)	(11,094)	(454)	(339)
Other	–	(140)	–	(4)
	(753,106)	**(382,250)**	**(13,387)**	**(11,679)**
Advances received (note 26):				
Entities with joint control or significant influence over the Group	(3,251)	(4,288)	(58)	(131)
Associates	(3)	(502)	–	(15)
Other	–	(2)	–	–
	(3,254)	**(4,792)**	**(58)**	**(146)**
Other:				
Entities with joint control or significant influence over the Group	(4)	(27)	–	(1)
Associates	(1,475)	(636)	(26)	(20)
Key management personnel	(155)	(77)	(3)	(2)
	(1,634)	**(740)**	**(29)**	**(23)**
	(757,994)	**(387,782)**	**(13,474)**	**(11,848)**

There were the following related party transactions in 2014 and 2013:

	2014 ’000 RUB	2013 ’000 RUB	2014 ’000 USD	2013 ’000 USD
***Sales – transportation services**:*				
Entities with joint control or significant influence over the Group	76,133	83,748	1,982	2,630
Associates	97	27,526	3	864
	76,230	**111,274**	**1,985**	**3,494**
Other sales				
Entities with joint control or significant influence over the Group	179,782	174,029	4,679	5,464
Associates	2,466	11,191	64	351
Key management personnel	17	171	–	5
Other	2,712	3,142	71	100
	184,977	**188,533**	**4,814**	**5,920**
***Other operating income**:*				
Entities with joint control or significant influence over the Group	9,461	193,600	246	6,078
Key management personnel	232	57	6	2
	9,693	**193,657**	**252**	**6,080**
Total sales to related parties	**270,900**	**493,464**	**7,051**	**15,494**
Direct operating expenses:				
Entities with joint control or significant influence over the Group	1,995,409	2,373,507	51,934	74,524
Associates	140,514	109,642	3,657	3,443
Key management personnel	3,050	18,574	79	583
Other	1,114	3,706	30	116
	2,140,087	**2,505,429**	**55,700**	**78,666**
Other operating expenses:				
Entities with joint control or significant influence over the Group	255,180	37,935	6,642	1,191
Associates	17,138	1,232	446	39
Key management personnel	–	21,632	–	679
	272,318	**60,799**	**7,088**	**1,909**
Total purchases from related parties	**2,412,405**	**2,566,228**	**62,788**	**80,575**

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

43 Events subsequent to the reporting date

In the second half of 2014, the Company's management started to implement anti-crisis measures, including the Impulse Program. The Impulse Program has been approved by the Management Board of UTair Aviation PJSC and is aimed at improving the efficiency of the UTair Group and optimizing the corporate structure and the 2014-2015 cost structure in order to ensure the smooth operation of the Company in the face of the increasingly negative impact of external economic factors. As part of this project, during 2015, the Group has optimized its aircraft fleet, having reduced the number of aircraft from 115 to 66, and its route network, having cut down 37 routes and over 4 million return flights, and has reduced its costs for all activities. The Group managed to achieve a partial cost-saving effect in 2014 and plans an annual cost reduction rate of 6% between 2015 and 2017.

In 2015, the Group has signed new contracts for helicopter operations with expected revenue of over RUB 2 billion.

In 2015, the Group has entered into a new contract with the UN for the execution of air operations by an AN-74 aircraft. This unique aircraft can transport either cargo or passengers, land on short unpaved runways and operate under hot climatic conditions.

In 2015, the Group has terminated operating lease agreements on 14 aircraft. Future lease payments for the aircraft, which were included in the calculation of future lease payments in Note 38 in the amount of RUB 23.8 billion or in full in accordance with the payment schedule in effect as at December 31, 2014, have been canceled.

Following the termination of leases in 2015, some of the advance payments on the leases in the amount of RUB 523,880 thousand have been withheld by the lessors and have become unrecoverable.

In April 2015, the Extraordinary General Meeting of Shareholders of UTair Aviation PJSC decided to increase the authorized share capital by way of issuance of additional 3,125,000,000 shares. In May 2015, the Central Bank of the Russian Federation (the Financial Market Access Department) registered an additional issue of shares of UTair Aviation PJSC (registration number 1-01-00077-F-003D).

Now UTair Aviation PJSC is ready to proceed directly to the issue of shares to potential investors and shareholders of the Group. The Group plans to raise RUB 25 billion through an additional issue of shares.

In 2015, one of the Group's subsidiaries, UTair-Finance LLC, has failed to comply with its obligations as an issuer to bondholders totaling RUB 13.5 billion.

In June 2015, the Group founded a new subsidiary, Finance Avia LLC, which announced a new bond issuance and submited a registration statement to the Central Bank of the Russian Federation. The new bond issue, registered on October 15, 2015 (state registration numbers 4-01-36484-R and 4-02-36484-R), will be transferred to the holders of the existing bonds issued by UTair-Finance LLC, as part of restructuring under an agreement on compensation.

In August 2015, the General Meetings of Bondholders of UTair-Finance bonds approved the restructuring of 9 issues out of 10. A vote on the remaining issue is to be held in November 2015.

On September 17, 2015, the Interdepartmental Commission on the Monitoring of the Financial and Economic Performance of the Systemically important enterprises held a meeting and approved provision of the Russian Federation state guarantee in the amount of RUB 9.46 billion to the Company.

In September 2015, the Group sold LLC PKF KATEKAVIA. The decision to sell the subsidiary and withdraw from the Group's fleet the aircraft that were to be used for a charter program of an operator established on the basis of LLC PKF KATEKAVIA was adopted by the Group in October 2014. As a result of those changes, the Group has ceased to perform charter operations for one of its customers in 2015. In 2014, the revenue from that contract amounted to over RUB 6 billion.

In September 2015, the Group disposed of its subsidiary Mechanic Workshop & Engineering S.A.C. (untill June 1, 2015 it had been called UTair Engineering AL S.A.C., Peru), which carried out the repairs and maintenance works.

In October 2015, the Group disposed of its subsidiary Tyumen General Aviation Research and Production Center LLC, which carried out research, development and design works.

In October 2015, the Group's disposed of its subsidiary (a representative office) Polar-Aero LLC (untill August 11, 2015 it had been called LLC UTair-Murmansk).

In October 2015, the Government Commission on Economic Development and Integration chaired by I.I. Shuvalov, First Deputy Chairman of the Russian Government, issued a favorable decision on the selection of UTair Aviation PJSC to be provided with a state guarantee of RUB 9.46 billion.

In October 2015, the Group launched a new flight from Moscow (Vnukovo) to Anadyr. Regular flights will be performed by wide-bodied long-haul Boeing 767-200 aircraft.