

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

**IFRS Consolidated Financial Statements  
for the year ended 31 December 2016**

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### Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for 2016

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The following statement, which should be read in conjunction with the independent auditor's responsibilities, as stated in the independent auditor's report set out below, is intended to distinguish between the respective responsibilities of management and the independent auditors in relation to the Consolidated Financial Statements of Public Joint Stock Company Aeroflot - Russian Airlines and its subsidiaries (the "Group").

Management is responsible for the preparation of Consolidated Financial Statements that present fairly the consolidated financial position of the Group as at 31 December 2016, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2016 (set out on pages 1-72) were approved on 28 February 2017 and signed on behalf of management by:



V.G. Saveliev  
General Director



Sh.R. Kurmashev  
Deputy General Director  
for Commerce and Finance



## *Independent Auditor's Report*

To the Shareholders and Board of Directors of PJSC Aeroflot:

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### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Aeroflot and its subsidiaries (together – the “Group”) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit and loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

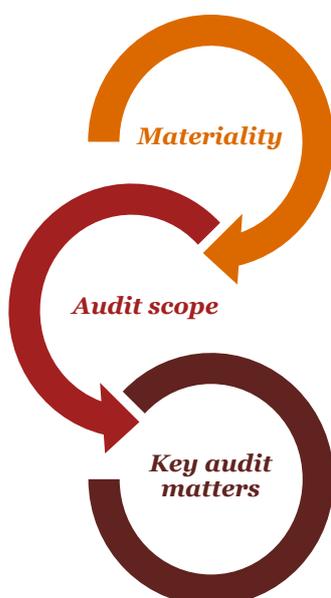
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## Our audit approach

### Overview



- Overall group materiality: Russian Roubles (“RUB”) 4,950 million, which represents 1% of revenue for the reporting period.
- We conducted our audit work at three companies of the Group: PJSC Aeroflot, JSC Rossiya Airlines and CJSC Aeromar;
- Our audit also involved performing procedures on individual significant items of financial statements for LLC Pobeda Airlines, JSC Orenburg Airlines and JSC Sherotel;
- In respect of other Group companies, we primarily performed analytical procedures.
- Our audit scope addressed over 94% of the Group’s revenues and 83% of the Group’s absolute value of underlying profit before tax and before adjustments to eliminate intercompany balances.
- Key audit matter – evaluation of goodwill impairment

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements both individually and in aggregate on the consolidated financial statements as a whole.

<b>Overall group materiality</b>	RUB 4,950 million
<b>How we determined it</b>	1% of revenue for the reporting period



***Rationale for the materiality benchmark applied***

We chose using revenue as the materiality benchmark. Given the volatility of the Group's financial results, revenue represents a more appropriate indicator of the size of the business and risks of misstatement than profits before tax. We chose 1% of the benchmark, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key audit matter**

**How our audit addressed the Key audit matter**

*Evaluation of goodwill impairment*  
*See Note 23 (Goodwill)*

As at 31 December 2016, the Group recognised goodwill, arising mostly as a result of the acquisition of its subsidiaries JSC Rossiya Airlines and JSC Orenburg Airlines, amounting to RUB 5,357 million and RUB 1,145 million, respectively.

In 2016, the assets of JSC Orenburg Airlines were transferred to JSC Rossiya Airlines. As result of the transfer, as at 31 December 2016 the goodwill allocated to JSC Rossiya Airlines amounted to RUB 6,502 million.

In accordance with IAS 36 *Impairment of Assets*, management tests its goodwill for impairment at least once a year.

As at 31 December 2016, the Group performed a test for impairment of goodwill allocated to JSC Rossiya Airlines. As a result of the test, no requirement to recognise any impairment loss was identified.

Management performed an impairment test and presented us with the outcome. The testing was carried out applying the value in use model based on discounted cash flows (DCF) for the relevant CGU. We reviewed and tested the mathematical accuracy and reasonableness of the assumptions used in the model, specifically

- We tested the mathematical accuracy of goodwill allocation to the Group's companies and consistency of such allocation with the requirements of IAS 36, *Impairment of Assets*.
- We evaluated and challenged the composition of management's forecasts of future cash flows and the process of their preparation. In particular, we specifically focused on whether all relevant CGUs were identified.
- We compared the estimated seat occupancy rates, yield and cost of available seat-kilometer (CASK) rates to the actual rates for 2016.
- We worked with our business valuation specialists in analysing the results of the goodwill impairment test performed by management. We assessed the reasonableness of the methodology for cash flows estimation applied to testing, checked calculations for the mathematical accuracy and their consistency with the methodology set by IAS 36, *Impairment of Assets*.

Key audit matter	How our audit addressed the Key audit matter
<p>We focused on this matter due to the size of the goodwill and due to the fact that a test for impairment involves applying significant judgements and estimations regarding the future results of business operations of each cash generating unit (CGU).</p>	<ul style="list-style-type: none"> <li>• With the assistance provided by our business valuation specialists, we also analysed the key assumptions applied by management to their estimations through their benchmarking against available market data:               <ul style="list-style-type: none"> <li>○ aviation fuel prices, exchange rates and assumed long-term growth rates, comparing these to independent projections;</li> <li>○ discount rate, by assessing the weighted average cost of capital for the Group companies and for their peers, subject to required adjustments.</li> </ul> </li> <li>• We identified that the results of testing are most sensitive to assumptions in respect of yield, aircraft fleet, seat occupancy and discount rate. We checked the sensitivity analysis of the key assumptions performed by management to come to the general conclusion on the absence of impairment, by analysing the result with the application of assumptions which, in our opinion, are sufficiently conservative.</li> <li>• We checked the disclosures included in Note 23 to the consolidated financial statements, in terms of their completeness and consistency with the requirements imposed by IAS 36, <i>Impairment of Assets</i>.</li> </ul> <p>As a result of these procedures we came to the conclusion that the key assumptions applied by management for the goodwill impairment testing and their conclusion that as at the reporting date, there was no impairment of goodwill do not require any adjustments for the purposes of presentation of information in the consolidated financial statements.</p>

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We identified the following significant components in respect of which we carried out the audit:

- PJSC Aeroflot;
- JSC Rossiya Airlines;
- CJSC Aeromar.



All work in respect of material components was performed by the engagement team of AO PwC Audit. For the companies LLC Pobeda Airlines, JSC Sherotel and JSC Orenburg Airlines, we performed procedures on individual items of their financial statements. Specifically, we prepared and sent letters to banks to confirm balances on current and deposit accounts and to confirm the absence of any unrecorded liabilities arising from transactions with banks. We additionally performed substantive testing in respect of revenues for the period for LLC Pobeda Airlines.

We performed analytical procedures for other Group companies, the scope of operations of which, in our opinion, had no material qualitative or quantitative effect on the Group's consolidated financial statements.

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### *Other information*

Management is responsible for the other information. Other information includes the PJSC Aeroflot's Annual Report and Issuer's Report for the 1st quarter of 2017, but does not include the consolidated financial statements and our auditor's report thereon. PJSC Aeroflot's Annual Report and Issuer's Report for the 1st quarter of 2017 are expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, upon reviewing the PJSC Aeroflot's Annual Report and Issuer's Report for the 1 quarter of 2017 we conclude that there is a material misstatement, we are required to report that fact to those charged with governance in the Group.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Andrey Nikolaevich Korablev.

*AO PricewaterhouseCoopers Audit*

1 March 2017

Moscow, Russian Federation

 A.N. Korablev, certified auditor (licence No. 01-000389),

AO PricewaterhouseCoopers Audit



Audited entity: PJSC Aeroflot

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

Certificate of inclusion in the Unified State Register of Legal Entities  
issued on 02 August 2002 under No. 1027700092661

119002, Russia, Moscow, 10 Arbat

Independent auditor:  
AO PricewaterhouseCoopers Audit

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

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

Member of Self-regulated organization of auditors "Russian Union of Auditors" (Association)

ORNZ 11603050547 in the register of auditors and audit organisations

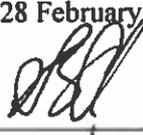
**PJSC AEROFLOT****Consolidated Statement of Profit and Loss**

for the year ended 31 December 2016

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

	Note	2016	2015
Traffic revenue	5	433,966	359,205
Other revenue	6	61,914	55,968
<b>Revenue</b>		<b>495,880</b>	<b>415,173</b>
Operating costs, excluding staff costs and depreciation and amortisation	7	(354,022)	(304,214)
Staff costs	8	(64,682)	(55,619)
Depreciation and amortisation	19, 22	(13,395)	(13,306)
Other operating (expenses)/ income, net	9	(527)	2,073
<b>Operating costs</b>		<b>(432,626)</b>	<b>(371,066)</b>
<b>Operating profit</b>		<b>63,254</b>	<b>44,107</b>
Loss from sale and impairment of investments, net	16	(2,935)	(9,159)
Finance income	10	19,802	15,811
Finance costs	10	(9,443)	(28,556)
Hedging result	10	(12,310)	(23,746)
Share of results of associates		12	(17)
Result from disposal of subsidiaries	21	(5,099)	-
<b>Profit/(loss) before income tax</b>		<b>53,281</b>	<b>(1,560)</b>
Income tax	11	(14,455)	(4,934)
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>38,826</b>	<b>(6,494)</b>
<i>Profit/(loss) for the year attributable to:</i>			
Shareholders of the Company		37,443	(5,829)
Non-controlling interest		1,383	(665)
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>38,826</b>	<b>(6,494)</b>
<b>Profit/(loss) per share – basic and diluted (in Roubles per share)</b>		<b>35.4</b>	<b>(5.5)</b>
<b>Weighted average number of shares outstanding (millions)</b>		<b>1,056.9</b>	<b>1,056.9</b>

Approved on 28 February 2017 and signed on behalf of management


  
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**V.G. Saveliy**  
 General Director


  
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**Sh.R. Kurmashov**  
 Deputy General Director  
 for Commerce and Finance

The consolidated statement of profit and loss should be read in conjunction with the notes set out on pages 7 to 72 which are forming part of the consolidated financial statements

**PJSC AEROFLOT**Consolidated Statement of Comprehensive Income  
for the year ended 31 December 2016*(All amounts in millions of Russian Roubles, unless otherwise stated)*

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>Profit/(loss) for the year</b>		<b>38,826</b>	<b>(6,494)</b>
<b>Other comprehensive income/(loss):</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Profit from the change in fair value of hedging derivative financial instruments	24	4,485	12,810
Effect from hedging revenue with foreign currency liabilities	28	33,773	(32,911)
Deferred tax related to the effect on cash flow hedging instruments recognized in other comprehensive income	11	<u>(7,725)</u>	<u>4,038</u>
<b>Other comprehensive income/(loss) for the year</b>		<b><u>30,533</u></b>	<b><u>(16,063)</u></b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b><u>69,359</u></b>	<b><u>(22,557)</u></b>
<i>Total comprehensive income/(loss) attributable to:</i>			
Shareholders of the Company		67,976	(21,892)
Non-controlling interest		<u>1,383</u>	<u>(665)</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b><u>69,359</u></b>	<b><u>(22,557)</u></b>

The consolidated statement of comprehensive income should be read in conjunction with the notes set out on pages 7 to 72 which are forming part of the consolidated financial statements

**PJSC AEROFLOT**

 Consolidated Statement of Financial Position  
 as at 31 December 2016

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



	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	31,476	30,693
Short-term financial investments	16	6,319	5,917
Accounts receivable and prepayments	14	78,172	76,317
Current income tax prepayment		2,679	2,489
Aircraft lease security deposits	13	320	2,658
Expendable spare parts and inventories	15	10,040	7,447
Derivative financial instruments	24	-	53
Assets classified as held for sale	20	1,140	7,732
<b>Total current assets</b>		<b>130,146</b>	<b>133,306</b>
<b>Non-current assets</b>			
Deferred tax assets	11	12,252	21,632
Investments in associates		98	109
Long-term financial investments	16	3,306	6,118
Aircraft lease security deposits	13	2,181	2,132
Other non-current assets	17	10,112	2,762
Prepayments for aircraft	18	27,830	35,291
Property, plant and equipment	19	104,897	104,494
Intangible assets	22	1,825	2,690
Goodwill	23	6,660	6,660
<b>Total non-current assets</b>		<b>169,161</b>	<b>181,888</b>
<b>TOTAL ASSETS</b>		<b>299,307</b>	<b>315,194</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Derivative financial instruments	24	-	4,853
Accounts payable and accrued liabilities	25	49,868	54,751
Unearned traffic revenue		39,044	28,691
Deferred revenue related to the frequent flyer programme	26	1,607	1,307
Provisions for liabilities	27	5,304	7,519
Finance lease liabilities	28	15,593	19,504
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	9,309	54,085
Liabilities related to assets, classified as held for sale	20	-	7,371
<b>Total current liabilities</b>		<b>120,725</b>	<b>178,081</b>
<b>Non-current liabilities</b>			
Long-term loans and borrowings	29	11,058	14,375
Finance lease liabilities	28	107,143	145,020
Provisions for liabilities	27	10,791	6,917
Deferred tax liabilities	11	39	170
Deferred revenue related to the frequent flyer programme	26	3,623	2,941
Other non-current liabilities	30	5,159	3,810
<b>Total non-current liabilities</b>		<b>137,813</b>	<b>173,233</b>
<b>TOTAL LIABILITIES</b>		<b>258,538</b>	<b>351,314</b>
<b>Equity</b>			
Share capital	32	1,359	1,359
Treasury shares reserve		(3,571)	(3,571)
Accumulated profit on disposal of treasury shares		1,659	1,659
Investment revaluation reserve		(5)	(5)
Hedge reserve	24, 28	(34,187)	(64,720)
Retained earnings		77,198	39,755
<b>Equity attributable to shareholders of the Company</b>		<b>42,453</b>	<b>(25,523)</b>
Non-controlling interest		(1,684)	(10,597)
<b>TOTAL EQUITY</b>		<b>40,769</b>	<b>(36,120)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>299,307</b>	<b>315,194</b>

The consolidated statement of financial position should be read in conjunction with the notes set out on pages 7 to 72 which are forming part of the consolidated financial statements

**PJSC AEROFLOT**

Consolidated Statement of Cash Flows  
for the year ended 31 December 2016

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



	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>			
Profit/(loss) before income tax		53,281	(1,560)
<i>Adjustments for:</i>			
Depreciation and amortisation	19, 22	13,395	13,306
Change in impairment provision for accounts receivable and prepayments	9	2,217	6,449
Loss on doubtful accounts write-off	9	4	246
Change in impairment provision for obsolete expendable spare parts and inventory		216	276
Change in provision for impairment of property, plant and equipment	19	(36)	400
Loss on disposal of property, plant and equipment		885	272
Loss on disposal of subsidiaries	21	5,099	-
Accrual of provision for impairment of investments		2,935	9,159
Loss/(gain) on change in the fair value of derivative financial instruments	10	53	(11,885)
Realised hedging result	10	12,310	23,746
Change in provisions for liabilities	27	6,628	4,433
Interest expense	10	8,907	7,737
Foreign exchange (gain)/loss	10	(15,597)	849
Gain on recovery of VAT	9	-	(8,021)
Other operating income, net		(2,148)	(816)
Other finance expenses/(income), net		447	(36)
Gain on disposal of assets classified as held for sale	9	(2,784)	-
Loss on derivative financial instruments, net	10	-	19,803
Dividend income		(29)	(89)
<b>Total operating cash flows before working capital changes</b>		<b>85,783</b>	<b>64,269</b>
Change in accounts receivable and prepayments		(6,915)	(2,251)
Change in expendable spare parts and inventories		(2,809)	(1,216)
Change in accounts payable and accrued liabilities		13,387	14,705
<b>Total operating cash flows after working capital changes</b>		<b>89,446</b>	<b>75,507</b>
Change in restricted cash	12	20	18
Income tax paid		(13,943)	(6,041)
Income tax refunded		1,189	180
<b>Net cash flows from operating activities</b>		<b>76,712</b>	<b>69,664</b>

The consolidated statement of cash flows should be read in conjunction with the notes set out on pages 7 to 72 which are forming part of the consolidated financial statements

**PJSC AEROFLOT**

Consolidated Statement of Cash Flows  
for the year ended 31 December 2016

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



	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from investing activities:</b>			
Deposits placement		(10,435)	(11,741)
Deposits return		9,840	6,375
Proceeds from sale of investments		-	30
Purchases of investments and loans issued		-	(8,652)
Proceeds from sale of subsidiary		9	-
Proceeds from sale of property, plant and equipment		84	603
Purchases of property, plant and equipment and intangible assets	19,22	(10,222)	(9,196)
Proceeds from sale of assets, classified as held for sale		6,471	-
Dividends received		62	74
Prepayments for aircraft	18	(18,806)	(22,708)
Return of prepayments for aircraft	18	29,362	7,828
Payment of operating lease security deposits	13	(2,504)	(1,995)
Return of operating lease security deposits	13	3,405	612
<b>Net cash flows from/(used in) investing activities</b>		<b>7,266</b>	<b>(38,770)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from loans and borrowings	29	30,885	73,331
Repayment of loans and borrowings	29	(72,991)	(36,267)
Repayment of the principal element of finance lease liabilities	28	(27,024)	(19,455)
Interest paid		(6,954)	(5,914)
Dividends paid		(49)	(88)
Payments for settlement of derivative financial instruments, net	24	(4,362)	(39,682)
<b>Net cash used in financing activities</b>		<b>(80,495)</b>	<b>(28,075)</b>
Effect of exchange rate fluctuations on cash and cash equivalents		(2,700)	1,327
<b>Net increase in cash and cash equivalents</b>		<b>783</b>	<b>4,146</b>
Cash and cash equivalents at the beginning of the year	12	30,693	26,547
<b>Cash and cash equivalents at the end of the year</b>	12	<b>31,476</b>	<b>30,693</b>
<b>Non-cash transactions as part of the investing activities:</b>			
Property, plant and equipment acquired under finance leases		2,170	1,781

The consolidated statement of cash flows should be read in conjunction with the notes set out on pages 7 to 72 which are forming part of the consolidated financial statements

**PJSC AEROFLOT**

Consolidated Statement of Changes in Equity  
for the year ended 31 December 2016

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



Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
<b>1 January 2015</b>		<u>1,359</u>	<u>(1,912)</u>	<u>(5)</u>	<u>(48,657)</u>	<u>45,584</u>	<u>(3,631)</u>	<u>(9,874)</u>	<u>(13,505)</u>
<b>Loss for the year</b>		-	-	-	-	(5,829)	(5,829)	(665)	(6,494)
Loss from the change in fair value of derivative financial instruments net of related deferred tax	24,28	-	-	-	(16,063)	-	(16,063)	-	(16,063)
<b>Total other comprehensive loss</b>		-	-	-	-	-	<u>(16,063)</u>	-	<u>(16,063)</u>
<b>Total comprehensive loss</b>		-	-	-	-	-	<u>(21,892)</u>	<u>(665)</u>	<u>(22,557)</u>
Dividends declared		-	-	-	-	-	-	(58)	(58)
<b>31 December 2015</b>		<u>1,359</u>	<u>(1,912)</u>	<u>(5)</u>	<u>(64,720)</u>	<u>39,755</u>	<u>(25,523)</u>	<u>(10,597)</u>	<u>(36,120)</u>
<b>1 January 2016</b>		<u>1,359</u>	<u>(1,912)</u>	<u>(5)</u>	<u>(64,720)</u>	<u>39,755</u>	<u>(25,523)</u>	<u>(10,597)</u>	<u>(36,120)</u>
<b>Profit for the year</b>		-	-	-	-	37,443	37,443	1,383	38,826
Profit from the change in fair value of derivative financial instruments and the effect from hedging, net of deferred tax	24,28	-	-	-	30,533	-	30,533	-	30,533
<b>Total other comprehensive income</b>		-	-	-	-	-	<u>30,533</u>	-	<u>30,533</u>
<b>Total comprehensive income</b>		-	-	-	-	-	<u>67,976</u>	<u>1,383</u>	<u>69,359</u>
Disposal of subsidiary	21	-	-	-	-	-	-	7,579	7,579
Dividends declared		-	-	-	-	-	-	(49)	(49)
<b>31 December 2016</b>		<u>1,359</u>	<u>(1,912)</u>	<u>(5)</u>	<u>(34,187)</u>	<u>77,198</u>	<u>42,453</u>	<u>(1,684)</u>	<u>40,769</u>

The consolidated statement of changes in equity should be read in conjunction with the notes set out on pages 7 to 72 which are forming part of the consolidated financial statements

## PJSC AEROFLOT

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2016

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



### 1. NATURE OF THE BUSINESS

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

On 1 July 2015, Open Joint Stock Company Aeroflot-Russian Airlines changed its official corporate name to Public Joint Stock Company Aeroflot-Russian Airlines (PJSC Aeroflot) in compliance with legislative changes.

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

During the year the Group disposed of OJSC Vladivostok Avia and CJSC Aeroflot-Cargo as a result of their liquidation in May and September 2016, respectively (Note 21).

As at 31 December 2016 and 2015, the Government of the Russian Federation (the "RF"), as represented by the Federal Agency for Management of State Property, owned a 51.17% stake in the Company. The Company's headquarters are located at 10 Arbat Street, Moscow, 119002, RF.

The principal subsidiaries are:

<u>Company name</u>	<u>Registered address</u>	<u>Principal activity</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
JSC Rossiya airlines ("AK Rossiya")	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
LLC Pobeda Airlines ("Pobeda")	Moscow, RF	Airline	100.00%	100.00%
JSC Aurora Airlines ("AK Aurora")	Yuzhno-Sakhalinsk, RF	Airline	51.00%	51.00%
LLC Aeroflot-Finance ("Aeroflot-Finance")	Moscow, RF	Finance services	100.00%	100.00%
CJSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
JSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%
LLC A-Technics	Moscow, RF	Technical maintenance	100.00%	100.00%
JSC Orenburg airlines ("Orenair")	Orenburg, RF	Airline	100.00%	100.00%
JSC Donavia ("Donavia")	Rostov-on-Don, RF	Airline	100.00%	100.00%
OJSC Vladivostok Avia ("Vladavia")	Primorsk Region, RF	Airline	-	26.60%
CJSC Aeroflot-Cargo	Moscow, RF	Cargo transportation services	-	100.00%

**PJSC AEROFLOT**

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2016

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

**1. NATURE OF THE BUSINESS (CONTINUED)**

The Group's major associate is:

<b>Company name</b>	<b>Registered address</b>	<b>Principal activity</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
JSC AeroMASH-AB ("AeroMASH-AB")	Moscow Region, RF	Aviation security	45.00%	45.00%

**PJSC AEROFLOT**

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2016

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

**1. NATURE OF THE BUSINESS (CONTINUED)**

The table below provides information on the Group's aircraft fleet as at 31 December 2016 (number of aircraft):

<b>TYPE OF AIRCRAFT</b>	<b>OWNERSHIP</b>	<b>PSJC AEROFLOT</b>	<b>JSC AK ROSSIYA</b>	<b>JSC AK AURORA</b>	<b>LLC POBEDA</b>	<b>GROUP TOTAL</b>
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
<b>Total owned aircraft</b>		<b>-</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>7</b>
Airbus A319	Finance lease	-	9	-	-	9
Airbus A321	Finance lease	15	-	-	-	15
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
An-148	Finance lease	-	6	-	-	6
<b>Total aircraft under finance leases</b>		<b>33</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>48</b>
SSJ 100	Operating lease	30	-	-	-	30
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	70	5	-	-	75
Airbus A321	Operating lease	17	-	-	-	17
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	20	17	-	12	49
Boeing B747	Operating lease	-	7	-	-	7
Boeing B777	Operating lease	5	6	-	-	11
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	2	-	2
<b>Total aircraft under operating leases</b>		<b>156</b>	<b>52</b>	<b>17</b>	<b>12</b>	<b>237</b>
<b>Total fleet</b>		<b>189</b>	<b>67</b>	<b>24</b>	<b>12</b>	<b>292</b>

As at 31 December 2016, 2 An-148 aircraft were under maintenance for delivery to sub-lessees, 3 An-148 aircraft and one An-24 aircraft were leased out, one An-148 aircraft was not operating and will not be leased out, 2 DHC 8-Q402 aircraft were undergoing pre-operating maintenance and one B-737 aircraft was not operating due to maintenance for delivery to leasing company.

## **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of presentation***

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with the Federal Law No. 208 – FZ “On consolidated financial reporting” dated 27 July 2010. The consolidated financial statements are presented in millions of Russian Roubles (“RUB million”), except where specifically noted otherwise.

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

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

### ***Going concern***

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group’s financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

### ***Functional and presentation currency***

The functional currency of the Company and its subsidiaries is the Russian Rouble (“RUB” or “rouble”), the presentation currency of the Group’s consolidated financial statements is the Russian Rouble as well.

### ***Consolidation***

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

- (i) has the powers to control significant operations which has a considerable impact on the investee’s income,
- (ii) runs the risks related to variable income from its involvement with investee or is entitled to such income, and
- (iii) is able to use its powers with regard to the investee in order to influence the amount of its income.

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

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

### *Consolidation (continued)*

Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

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

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

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

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

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

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

- a) fair value, or
- b) in proportion to the non-controlling share in the net assets of the acquiree.

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

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

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

### ***Purchases of non-controlling interests***

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

### ***Investments in associates***

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

- (i) the Group's share of profits or losses of associates is included in the consolidated statement of profit and loss for the year as a share of financial results of equity accounted investments,
- (ii) the Group's share in other comprehensive income is recorded as a separate line item in other comprehensive income,
- (iii) all other changes in the Group's share of the carrying value of net assets of the associates are recorded in the consolidated statement of profit and loss within the share of financial results of equity accounted investments.

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

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

### ***Disposals of subsidiaries or associates***

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

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

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

### *Goodwill*

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

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

### *Foreign currency translation*

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

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

The table below presents the US dollar (USD) / Russian rouble (RUB) and euro (EUR) / RUB exchange rates that were used for translating transaction amounts and monetary assets and liabilities into foreign currencies:

	<b>Official exchange rates</b>	
	<b>RUB / USD 1.00</b>	<b>RUB / EUR 1.00</b>
Average rate for 2016	67.03	74.23
31 December 2016	60.66	63.81
Average rate for 2015	60.96	67.78
31 December 2015	72.88	79.70

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

### ***Revenue recognition***

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

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

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

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

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

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

### ***Segment information***

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

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

### *Intangible assets*

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

### *Property, plant and equipment*

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

#### (a) *Fleet*

- (i) *Owned aircraft and engines:* Owned fleet consists of foreign-made aircraft, engines are both Russian and foreign-made. The full list of aircraft is presented in Note 1.
- (ii) *Finance leased aircraft and engines:* Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright.
- (iii) *Capitalised costs on regular maintenance works and repairs of aircraft operated under finance lease:* Expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are capitalised. The carrying amount of those parts that are replaced is derecognised from the Group's consolidated statement of financial position and included in operating costs in the Group's consolidated statement of profit and loss. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and maintenance costs of aircraft are expensed as incurred and included in operating costs (aircraft maintenance) in the Group's consolidated statement of profit and loss.
- (iv) *Depreciation of fleet:* The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life or lease term, if it is shorter. The airframe, engines and interior of aircraft are depreciated separately over their respective estimated useful lives.

The Group's fleet and other property, plant and equipment have the following useful lives:

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

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

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

### ***Property, plant and equipment (continued)***

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

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

#### ***(c) Construction in progress***

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

### ***Gain or loss on disposal of property, plant and equipment***

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

### ***Finance lease***

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

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

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

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

### *Non-current assets classified as held for sale*

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

### *Capitalisation of borrowing costs*

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

The capitalisation starts when the Group:

- (a) bears expenses related to the qualifying asset;
- (b) bears borrowing costs; and
- (c) takes measures to get the asset ready for intended use or sale.

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

The Group capitalises borrowing costs related to capital expenditure made on qualifying assets.

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

### *Capitalisation of borrowing costs (continued)*

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

### *Impairment of property, plant and equipment*

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

### *Operating leases*

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

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

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

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

### *Aircraft lease security deposits*

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

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

### *Classification of financial assets*

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

*Loans and receivables* are unquoted on active market non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

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

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

### *Classification of financial liabilities*

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

### *Financial instruments – key measurement terms*

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

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

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets

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

### *Financial instruments – key measurement terms (continued)*

carried at fair value on a recurring basis if: (a) the Group manages the group of financial assets and financial liabilities on the basis of the Company's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy; (b) the Group provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the Group's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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

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

- (i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (iii) level 3 measurements, which are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

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

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

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

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. *The effective interest rate* is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest

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

### *Financial instruments – key measurement terms (continued)*

repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

### *Initial recognition of financial instruments*

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

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

### *Derecognition of financial assets and liabilities*

The Group derecognises financial assets when:

- (a) the assets are redeemed or the rights to cash flows from the assets expired, or
- (b) the Group has transferred the rights to the cash flows from financial assets or entered into a transfer agreement, while:
  - (i) also transferring all substantial risks and rewards of ownership of the assets, or
  - (ii) neither transferring nor retaining all substantial risks and rewards of ownership but losing control over such assets.

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

The Group removes a financial liability (or a part of a financial liability) from its consolidated statement of financial position when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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

### *Offsetting financial instruments*

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

### *Financial instruments and hedge accounting*

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 24. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

### *Cash flow hedge*

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

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

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

Hedging result in the consolidated statement of profit and loss is composed of change in fair value of hedging derivatives (use of hedging results) and the reverse effect on hedging risks impact of relevant hedging transactions recognized in operating activity.

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

### *Available-for-sale investments*

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

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

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

### *Cash and cash equivalents*

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

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

### *Loans and receivables*

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

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

### ***Impairment of financial assets carried at amortised cost***

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

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

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

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

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

### ***Prepayments***

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

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

### *Trade and other payables*

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

### *Loans and borrowings*

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

Short-term loans and borrowings comprise:

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

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

### *Expendable spare parts and inventories*

Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower. The costs are determined as the actual acquisition cost of spare parts for aircraft maintenance and as the cost of other inventories on the first-in, first-out (“FIFO”) basis. The Group writes off the full amount of obsolete inventories which the Group does not plan to continue using in its operations.

### *Value added taxes*

Value added tax (“VAT”) related to sales of goods or provision of services is recorded as a liability to the tax authorities on an accruals basis. Domestic flights in general are subject to VAT at 10% (before 1 July 2015 – 18%) and international flights are subject to VAT at 0%. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported leased aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT. The recovery of input VAT is typically delayed by up to six months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the date of the consolidated statement of financial position is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the consolidated statement of financial position as VAT receivable. VAT receivable that is not expected to be recovered within the twelve months from the reporting date is classified as a non-current asset. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT.

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

### *Frequent flyer programme*

Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot-Bonus. Subject to the programme's terms and conditions, the miles earned entitle members to a number of benefits such as free flights, flight class upgrades and redeem miles for special awards from programme partners. In accordance with IFRIC 13 *Customer Loyalty Programmes*, accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used. The fair value of miles accumulated on the Group's own flights is recognised under current and non-current deferred revenue related to frequent flyer programme (Note 26) within current and non-current liabilities, respectively, in the Group's consolidated statement of financial position. The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme, as well as the fair value of promo miles, is recognised as other current and non-current liabilities related to frequent flyer programme (Notes 25 and 30) in accounts payable, accrued liabilities and other non-current liabilities, respectively, in the Group's consolidated statement of financial position. Revenue is recognised upon the provision of services to Aeroflot-Bonus members.

### *Employee benefits*

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

### *Provisions for liabilities*

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

### *Income tax*

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

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

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

### ***Income tax (continued)***

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

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

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

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

### ***Uncertain income tax positions***

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

### ***Pensions***

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

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

### *Pensions (continued)*

The Group also participates in a defined contribution plan, under which the Group has committed to making additional contributions as a percentage (20% in 2016) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

### *Share capital*

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

### *Share-based compensation*

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

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

Services, including employee services received in exchange for cash-settled share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed or capitalised as assets, which are depreciated or amortised. The liability is re-measured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

### *Treasury shares purchased*

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

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

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

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

### ***Dividends***

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

### ***Earnings/loss per share***

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

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

### ***Useful lives and residual value of property, plant and equipment***

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

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

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

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

#### *Frequent flyer programme*

At the reporting date, the Group estimates and recognises the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 2) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value. The assessment of the fair value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus members, are a matter of management judgement. A change in these estimates may require the adjustment of deferred revenue, other current and non-current liabilities related to frequent flyer programme in the consolidated statement of financial position (Note 26) and adjustment to revenue in the consolidated statement of profit and loss (Note 5).

#### *Compliance with tax legislation*

Compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities (Note 41).

#### *Classification of a lease agreement as operating and finance lease*

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

#### *Estimated impairment of goodwill*

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 23.

#### *Deferred tax asset recognition*

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

### **4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS**

#### *New standards and interpretations effective from 1 January 2016*

The following amended standards became effective from 1 January 2016, but did not have any material impact on the Group.

**IFRS 14, Regulatory deferral accounts** (issued in January 2014 and effective for annual periods

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

beginning on or after 1 January 2016).

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

*Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38* (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

*Equity Method in Separate Financial Statements - Amendments to IAS 27* (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

*Annual Improvements to IFRSs 2014* (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

*Disclosure Initiative Amendments to IAS 1* (issued in December 2014 and effective for annual periods on or after 1 January 2016).

*Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28* (issued in December 2014 and effective for annual periods on or after 1 January 2016).

##### *New Accounting standards and Pronouncements*

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted:

*IFRS 9 “Financial Instruments: Classification and Measurement”* (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the new standard on its financial statements;

*IFRS 15 “Revenue from contracts with customers”* (issued on 28 May 2014, effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the new standard on its financial statements;

*IFRS 16 “Leases”* (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard was not approved for use in RF, the Group is currently assessing the impact of the new standard on its financial statements;

*Disclosure Initiative - Amendments to IAS 7* (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the amendment on its financial statements;

*Amendments to IAS 15 “Revenue from contracts with customers”* (issued on 12 April and effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the new standard on its financial statements;

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after the date of approval by IASB);

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

*Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12* (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

*Amendments to IFRS 2 "Share-based payments"* (issued on 20 June 2016 and effective for annual periods on or after 1 January 2018);

*IFRS 9 "Financial Instruments" and IFRS 4 "Insurance contracts" - Amendments to IFRS 4* (issued on 12 September 2016 and effective depending on the chosen approach: for annual periods on or after 1 January 2018 (organizations that have chosen deferral approach) and for annual periods since the organization has first begun to apply IFRS 9 (organizations that have chosen overlay approach)).

*Annual Improvements to IFRSs 2014-2016 cycle* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).

*IFRIC 22 - Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

*Transfers of Investment Property - Amendments to IAS 40* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

#### 5. TRAFFIC REVENUE

	<u>2016</u>	<u>2015</u>
Scheduled passenger flights	403,760	343,428
Charter passenger flights	17,617	6,146
Cargo flights	12,589	9,631
<b>Total traffic revenue</b>	<b><u>433,966</u></b>	<b><u>359,205</u></b>

#### 6. OTHER REVENUE

	<u>2016</u>	<u>2015</u>
Airline agreements revenue	35,923	31,596
Revenue from partners under the frequent flyer programme	11,846	10,275
Refuelling services	2,515	2,535
In-flight catering services	1,429	1,434
Sales of duty free goods	1,349	1,162
Ground handling and maintenance	1,382	1,118
Hotel revenue	491	463
Other revenue	6,979	7,385
<b>Total other revenue</b>	<b><u>61,914</u></b>	<b><u>55,968</u></b>

## 7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION

	<u>2016</u>	<u>2015</u>
Aircraft and traffic servicing	70,908	63,408
Operating lease expenses	59,563	44,415
Aircraft maintenance	38,236	32,042
Sales and marketing expenses	13,887	13,568
Communication expenses	14,697	12,890
Administration and general expenses	16,407	12,516
Passenger services	16,319	11,778
Expenses for in-flight catering	8,714	7,766
Insurance expenses	2,059	1,941
Custom duties	1,355	1,290
Cost of duty-free goods sold	732	599
Other expenses	9,563	7,619
<b>Operating costs less aircraft fuel, staff costs and depreciation and amortisation</b>	<b>252,440</b>	<b>209,832</b>
Aircraft fuel	101,582	94,382
<b>Total operating costs less staff costs and depreciation and amortisation</b>	<b>354,022</b>	<b>304,214</b>

## 8. STAFF COSTS

	<u>2016</u>	<u>2015</u>
Wages and salaries	50,885	44,001
Pension costs	10,577	8,829
Social security costs	3,220	2,789
<b>Total staff costs</b>	<b>64,682</b>	<b>55,619</b>

Pension costs include:

- compulsory payments to the RF Pension Fund;
- contributions to a non-governmental pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 12 months of 2016; 20% for 12 months of 2015) of the transfers made personally by employees participating in the programme; and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under defined benefit pension plans.

	<u>2016</u>	<u>2015</u>
Payments to the RF Pension Fund	10,574	8,843
Defined benefit pension plan	3	(14)
<b>Total pension costs</b>	<b>10,577</b>	<b>8,829</b>

**9. OTHER OPERATING EXPENSES AND INCOME, NET**

	<u>2016</u>	<u>2015</u>
Reimbursement of fuel excise tax	5,972	4,658
Gain on disposal of assets classified as held for sale	2,784	-
Fines and penalties received from suppliers	753	614
Insurance compensation received	297	513
Gain on accounts payable write-off	34	164
Charge of impairment provision for doubtful accounts receivable (Note 14)	(2,217)	(6,449)
Accrual of provision for Group liabilities (Note 27)	(6,628)	(4,433)
Loss on fixed assets disposal and impairment on fixed assets	(849)	(672)
Loss on accounts receivable write-off	(4)	(246)
Other expenses and income, net	(669)	(97)
Reversal of VAT recoverable	-	8,021
<b>Total other operating (expenses)/income, net</b>	<b><u>(527)</u></b>	<b><u>2,073</u></b>

**10. FINANCE INCOME AND COSTS**

	<u>2016</u>	<u>2015</u>
<i>Finance income:</i>		
Gain on change in fair value of derivative financial instruments not subject to hedge accounting (Note 24)	-	11,885
Interest income on deposits and security deposits	4,169	3,723
Gain on foreign exchange, net	15,597	-
Other finance income	36	203
<b>Total finance income</b>	<b><u>19,802</u></b>	<b><u>15,811</u></b>

	<u>2016</u>	<u>2015</u>
<i>Finance costs:</i>		
Realised loss on derivative financial instruments not subject to hedge accounting (Note 24)	-	(19,803)
Interest expense	(8,907)	(7,737)
Foreign exchange loss, net	-	(849)
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 24)	(53)	-
Other finance costs	(483)	(167)
<b>Total finance costs</b>	<b><u>(9,443)</u></b>	<b><u>(28,556)</u></b>

	<u>2016</u>	<u>2015</u>
<i>Realised hedging result:</i>		
Realised loss on hedging derivative instruments (Note 24)	(3,994)	(18,654)
Ineffective portion of fuel hedging (Note 24)	-	1,187
Effect of revenue hedging with liabilities in foreign currency (Note 28)	(8,316)	(6,279)
<b>Total hedging result</b>	<b><u>(12,310)</u></b>	<b><u>(23,746)</u></b>

**PJSC AEROFLOT**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2016*(All amounts in millions of Russian Roubles, unless otherwise stated)***11. INCOME TAX**

	<u>2016</u>	<u>2015</u>
Current income tax charge for the year	12,931	3,951
Deferred income tax expense	1,524	983
<b>Total income tax expense</b>	<b><u>14,455</u></b>	<b><u>4,934</u></b>

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

	<u>2016</u>	<u>2015</u>
Profit/(loss) before income tax	53,281	(1,560)
Tax rate applicable in accordance with Russian legislation	20%	20%
Income tax at tax rate in accordance with Russian legislation	(10,656)	312
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Non-taxable income	1,076	1,790
Non-deductible expenses	(5,042)	(5,295)
Unrecognised current year tax losses	(1,514)	(587)
Recognition of previously unrecognised tax losses	1,263	490
Prior years income tax adjustments	418	(1,644)
<b>Total income tax</b>	<b><u>(14,455)</u></b>	<b><u>(4,934)</u></b>

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**11. INCOME TAX (CONTINUED)**

	<b>31 December 2016</b>	<b>Changes for the year</b>	<b>31 December 2015</b>	<b>Changes for the year</b>	<b>31 December 2014</b>
<i>Tax effect of temporary differences:</i>					
Tax losses carried forward	143	70	73	(944)	1,017
Long-term financial investments	259	58	201	176	25
Accounts receivable	13	(570)	583	716	(133)
Property, plant and equipment and finance lease liabilities	8,444	(7,694)	16,138	6,205	9,933
Accounts payable	4,894	882	4,012	1,803	2,209
Derivative financial instruments	-	(960)	960	(5,157)	6,117
<b>Deferred tax assets before tax set off</b>	<b>13,753</b>		<b>21,967</b>		<b>19,168</b>
Tax set off	(1,501)		(335)		(628)
<b>Deferred tax assets after tax set off</b>	<b>12,252</b>		<b>21,632</b>		<b>18,540</b>
Property, plant and equipment	(39)	78	(117)	(25)	(92)
Customs duties related to the imported aircraft under operating leases	(211)	124	(335)	126	(461)
Long-term financial investments	(25)	(15)	(10)	5	(15)
Accounts receivable	(1,240)	(1,239)	(1)	163	(164)
Accounts payable	(25)	17	(42)	(13)	(29)
<b>Deferred tax liabilities before tax set off</b>	<b>(1,540)</b>		<b>(505)</b>		<b>(761)</b>
Tax set off	1,501		335		628
<b>Deferred tax liabilities after tax set off</b>	<b>(39)</b>		<b>(170)</b>		<b>(133)</b>
Movements for the year, net Deferred tax expense/(income) recognised directly in other comprehensive income		(9,249)		3,055	
		7,725		(4,038)	
<b>Deferred income tax expense for the year</b>		<b>(1,524)</b>		<b>(983)</b>	

## 11. INCOME TAX (CONTINUED)

As at 31 December 2016 the Group recognised deferred tax assets from tax losses of subsidiaries in the amount of RUB 143 million.

In the reporting period, the Group did not recognise deferred tax assets from tax losses of its subsidiaries in the amount of RUB 1,514 million (as at 31 December 2015: RUB 587 million), as Group's management doesn't expect that taxable profit will be available against which the deductible temporary difference, related to received tax losses, can be utilized.

Starting from 1 January 2017, the limitation on carry-forward of losses for a 10-year period will be revoked in principle (which means that losses incurred since 2007 will be carried forward until fully recognised). Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been also introduced. In accordance with the new rules, the amount of recognized loss carry forwards can't exceed 50% of the tax base of relevant year. These changes will not have material impact for the Group's consolidated financial statements.

## 12. CASH AND CASH EQUIVALENTS

	<u>31 December 2016</u>	<u>31 December 2016</u>
Bank deposits denominated in roubles with maturity of less than 90 days	23,444	17,205
Cash on hand and bank accounts denominated in roubles	4,639	8,517
Cash on hand and bank accounts denominated in US Dollars	2,293	2,167
Cash on hand and bank accounts denominated in other currencies	418	1,793
Cash on hand and bank accounts denominated in Euro	317	449
Cash in transit	365	562
<b>Total cash and cash equivalents</b>	<b><u>31,476</u></b>	<b><u>30,693</u></b>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 36. More than 35% of the Group's funds are held in 2 highly reliable state-controlled Russian banks – PJSC VTB Bank with long-term credit rating BB+ from S&P rating agency and PJSC Sberbank (hereinafter "Sberbank RF") with long-term credit rating BBB- from Fitch Ratings agency as at 31 December 2016 (as at 31 December 2015 Group's funds were held in "Sberbank RF" with long-term credit rating BBB from Fitch Ratings agency).

As at 31 December 2016 the Group had restricted cash of RUB 148 million (31 December 2015: RUB 168 million) recorded within other non-current assets in the Group's consolidated statement of financial position.

## 13. AIRCRAFT LEASE SECURITY DEPOSITS

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to three monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using an average market yield from 1.9% to 12.6% p.a. in 2016 (2015: from 3.7% to 13.5% p.a.).

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**13. AIRCRAFT LEASE SECURITY DEPOSITS (CONTINUED)**

	<b>Aircraft lease security deposits</b>
<b>1 January 2015</b>	<b>2,431</b>
Payment of security deposits	1,995
Amortisation charge for the year	346
Repaid of security deposits during the year	(696)
Foreign exchange difference	973
Deposits write-off	(216)
Reclassification to assets, classified as held for sale	(43)
<b>31 December 2015</b>	<b>4,790</b>
Payment of security deposits	2,504
Amortisation charge for the year	380
Repaid of security deposits during the year	(3,405)
Set off against accounts payable	(983)
Foreign exchange difference	(886)
Reclassification to assets, classified as held for sale	20
Other	81
<b>31 December 2016</b>	<b>2,501</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>
Current portion of security deposits	320	2,658
Non-current portion of security deposits	2,181	2,132
<b>Total aircraft lease security deposits</b>	<b>2,501</b>	<b>4,790</b>

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Major international lease companies	2,477	4,766
Russian lease companies	24	24
<b>Total aircraft lease security deposits</b>	<b>2,501</b>	<b>4,790</b>

**14. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade accounts receivable	31,329	34,275
Other financial receivables	8,517	8,056
Less: impairment provision	(12,342)	(10,609)
<b>Total financial receivables</b>	<b>27,504</b>	<b>31,722</b>
Prepayments to suppliers	10,504	8,784
VAT and other taxes recoverable	10,905	17,225
Prepayments for delivery of aircraft	26,341	16,734
Deferred customs duties related to the imported aircraft under operating leases, current portion	579	705
Other receivables	2,339	1,147
<b>Accounts receivable and prepayments</b>	<b>78,172</b>	<b>76,317</b>

As at 31 December 2016 the Group recognised impairment provision for financial receivables from OJSC Transaero Airlines for passengers transportation, refuelling services, ground handling, aircraft and traffic servicing of RUB 7,286 million (31 December 2015: RUB 6,403 million).

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

Deferred customs duties of RUB 579 million as at 31 December 2016 (31 December 2015: RUB 705 million) relate to the current portion of paid customs duties related to imported aircraft under operating leases. These customs duties are recognised within operating costs in the Group's consolidated statement of profit and loss over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 17.

Financial receivables are analysed by currencies in Note 36.

As at 31 December 2016 and 31 December 2015, sufficient impairment provision was made against accounts receivable and prepayments.

As at 31 December 2016 and 31 December 2015, the current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

<b>Expected lease type</b>	<b>Type of aircraft</b>	<b>31 December 2016</b>		<b>31 December 2015</b>	
		<b>Number of aircraft, units</b>	<b>Expected delivery date</b>	<b>Number of aircraft, units</b>	<b>Expected delivery date</b>
Undetermined	Boeing B-787	22	2017	2	2016
Operating lease	Boeing B-777	1	2017	2	2016
Operating lease	Airbus A-320	11	2017	9	2016
Operating lease	Airbus A-321	8	2017	7	2016

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**14. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)**

At the extraordinary meeting of shareholders of PJSC Aeroflot in December 2016 the transaction on assignment of rights in respect of the purchase of 22 Boeing B787 aircraft was approved. As at 31 December 2016 the deal was in negotiation process.

The movements in impairment provision for accounts receivable and prepayments are as follows:

	<b>Impairment provision</b>
<b>1 January 2015</b>	<b>4,532</b>
Increase in impairment provision	7,471
Provision used	(344)
Provision released	(1,022)
Disposal of the subsidiaries	(28)
<b>31 December 2015</b>	<b>10,609</b>
Increase in impairment provision	4,040
Provision used	(484)
Provision released	(1,823)
<b>31 December 2016</b>	<b>12,342</b>

Financial receivables are analysed by credit quality in Note 36.

**15. EXPENDABLE SPARE PARTS AND INVENTORIES**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Expendable spare parts	7,633	5,757
Fuel	855	341
Other inventories	2,720	2,301
<b>Total expendable spare parts and inventories, gross</b>	<b>11,208</b>	<b>8,399</b>
Less: written-off obsolete expendable spare parts and inventories	(1,168)	(952)
<b>Total expendable spare parts and inventories</b>	<b>10,040</b>	<b>7,447</b>

**16. FINANCIAL INVESTMENTS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>Available-for-sale investments:</i>		
Available-for-sale securities	3,252	6,062
SITA Investment Certificates	52	56
<b>Total available-for-sale investments</b>	<b>3,304</b>	<b>6,118</b>
Other long-term investments		
Other	2	-
<b>Total long-term financial investments</b>	<b>3,306</b>	<b>6,118</b>

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

## 16. FINANCIAL INVESTMENTS (CONTINUED)

The RF, as represented by the Federal Agency for Management of State Property owns over 80% of the entity's shares (Note 38).

Due to the market quotes absence the Group's investments in JSC MASH are measured at historical cost less accumulated impairment losses. As a result of the update of macroeconomic and financial indicators, the Group revised the recoverable amount of its long-term financial investment in JSC MASH and recognised an impairment loss in the amount of RUB 2,810 million during 2016.

The following factors had the most significant impact on the assessment of recoverable amount of this investment:

- (a) the weighted average cost of capital was revised from 12.0% to 16.7% based on public capital markets data, data about peer companies and the actual cost of capital of JSC MASH determined based on the effective rate in financial statements;
- (b) update of forecasts for macro assumptions based on an Economist Intelligence Unit forecast;
- (c) update of passenger traffic growth rates based on the independent Airbus Global Market Forecast 2016-2035; passenger traffic growth rates decreased on average by 0.3 percentage points (pp).

The Group performed a sensitivity analysis of key assumptions used in the financial model of JSC MASH.

An increase in the weighted average cost of capital for JSC MASH by 2.5 pp results in an impairment of investments by RUB 3,929 million. Decrease in the weighted average cost of capital for JSC MASH by 2.5 pp results in an impairment of investments by RUB 1,159 million.

An increase in passenger traffic growth rates by 1 pp results in an impairment of investments by RUB 1,323 million. A decrease in passenger traffic growth rates by 1 pp results in an impairment of investments by RUB 4,129 million.

As at 31 December 2016 the investments in JSC MASH are recognised in the consolidated statement of financial position at their initial cost of RUB 3,203 million (31 December 2015: RUB 6,013 million).

	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>Other short-term financial investments:</i>		
Loans issued and promissory notes of third parties	9,458	9,335
Deposits placed in banks for more than 90 days	6,319	5,917
Other short-term investments	5	5
<b>Total other short-term financial investments (before impairment provision)</b>	<b>15,782</b>	<b>15,257</b>
Less: provision for impairment of short-term financial investments	(9,463)	(9,340)
<b>Total short-term financial investments</b>	<b>6,319</b>	<b>5,917</b>

The provision for impairment is related primarily to provision for impairment of loans granted by Group companies to OJSC Transaero Airlines recognized during 2015.

As at 31 December 2016, deposits with maturity for more than 90 days are placed in the largest Russian commercial banks with long-term credit rating not lower than B1 according to Moody's credit rating agency.

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**17. OTHER NON-CURRENT ASSETS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	559	1,119
Prepaid expenses for operating lease transactions	5,697	-
Other non-current assets	3,856	1,643
<b>Total other non-current assets</b>	<b>10,112</b>	<b>2,762</b>

During 2016, the Group has made RUB 5,697 million payments for 14 aircraft as part of the initial payments under the operating lease agreements that have been recognized as other non-current assets as at 31 December 2016. The carrying value of these non-current assets should be allocated to operating lease expenses over the term of the operating lease agreements.

**18. PREPAYMENTS FOR AIRCRAFT**

As at 31 December 2016 and 31 December 2015 non-current portion of prepayments for aircraft were RUB 27,830 million and RUB 35,291 million, respectively. Change of non-current portion of prepayments is due to approaching the contractual period of delivery and payment of new non-current prepayments to suppliers.

Prepayments for aircraft with a delivery date less than 12 months to reporting date are disclosed inside of accounts receivable (Note 14).

As at 31 December 2016 and 31 December 2015 non-current prepayments include advance payments for the acquisition of the following aircraft:

Expected lease type	Aircraft type	31 December 2016		31 December 2015	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Undetermined	Boeing B787	-	-	20	2017-2019
Operating lease	Airbus A350	22	2018-2023	22	2018-2023
Operating lease	Boeing B777	-	-	1	2017
Operating lease	Airbus A320	10	2018	21	2017-2018
Undetermined	Airbus A321	4	2018	12	2017-2018

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**19. PROPERTY, PLANT AND EQUIPMENT**

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other assets	Construction in progress	Total
<i>Cost</i>						
<b>1 January 2015</b>	<b>6,930</b>	<b>126,724</b>	<b>11,718</b>	<b>16,939</b>	<b>1,519</b>	<b>163,830</b>
Additions (i)	1,588	-	78	3,895	3,389	8,950
Capitalised expenditures	-	991	-	-	816	1,807
Disposals	(4,075)	(477)	(1,422)	(977)	4	(6,947)
Transfers to assets, classified as held for sale (note 20)	(33)	(20,601)	-	(3)	-	(20,637)
Transfers	84	140	71	562	(857)	-
<b>31 December 2015</b>	<b>4,494</b>	<b>106,777</b>	<b>10,445</b>	<b>20,416</b>	<b>4,871</b>	<b>147,003</b>
Additions (ii)	2,134	32	26	3,603	4,138	9,933
Capitalised expenditures	-	1,810	-	-	632	2,442
Disposals	(988)	-	(392)	(1,141)	(3)	(2,524)
Transfers from assets, classified as held for sale (note 20)	-	3,613	-	-	-	3,613
Transfers to assets, classified as held for sale (note 20)	-	(366)	-	-	(223)	(589)
Transfers (iii)	2,507	1,076	52	1,059	(4,694)	-
<b>31 December 2016</b>	<b>8,147</b>	<b>112,942</b>	<b>10,131</b>	<b>23,937</b>	<b>4,721</b>	<b>159,878</b>
<i>Accumulated depreciation</i>						
<b>1 January 2015</b>	<b>(4,110)</b>	<b>(30,469)</b>	<b>(4,627)</b>	<b>(8,507)</b>	<b>(73)</b>	<b>(47,786)</b>
Charge for the year (Accrual)/release of impairment provision	(614)	(9,259)	(406)	(2,132)	-	(12,411)
Disposals	131	-	(567)	36	-	(400)
	3,666	477	842	768	-	5,753
	18	12,317	-	-	-	12,335
<b>31 December 2015</b>	<b>(909)</b>	<b>(26,934)</b>	<b>(4,758)</b>	<b>(9,835)</b>	<b>(73)</b>	<b>(42,509)</b>
Charge for the year/ release of impairment provision	(762)	(8,761)	(355)	(2,569)	-	(12,447)
Disposals	25	-	-	11	-	36
Disposals	135	-	143	722	-	1,000
Transfers from assets, classified as held for sale (note 20)	-	(1,338)	-	-	-	(1,338)
Transfers to assets, classified as held for sale (note 20)	-	277	-	-	-	277
<b>31 December 2016</b>	<b>(1,511)</b>	<b>(36,756)</b>	<b>(4,970)</b>	<b>(11,671)</b>	<b>(73)</b>	<b>(54,981)</b>
<i>Carrying amount</i>						
<b>31 December 2015</b>	<b>3,585</b>	<b>79,843</b>	<b>5,687</b>	<b>10,581</b>	<b>4,798</b>	<b>104,494</b>
<b>31 December 2016</b>	<b>6,636</b>	<b>76,186</b>	<b>5,161</b>	<b>12,266</b>	<b>4,648</b>	<b>104,897</b>

- (i) During 2015, additions mainly related to the purchase of 3 DHC-8 aircraft being under pre-operating maintenance.
- (ii) During 2016, additions mainly related to the purchase of 2 DHC-8 aircraft for JCS Aurora and purchase of equipment under finance leases.
- (iii) During 2016, transfers primarily related to 3 DHC-8 aircraft.

**19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Capitalised borrowing costs for 12 months 2016 amounted to RUB 632 million (2015: RUB 976 million). Capitalisation rate of interest expenses for the period was 3.2% p.a. (2015: 3.2% p.a.).

As at 31 December 2016 there were no property and land (including tenancy) (31 December 2015: RUB 711 million), which were pledged to third and related parties as a security for the Group's loans and borrowings (Note 29).

As at 31 December 2016 the cost of fully depreciated property, plant and equipment was RUB 6,990 million (31 December 2015: RUB 8,170 million).

**20. ASSETS CLASSIFIED AS HELD FOR SALE**

By decision of the Group's management, as at 31 December 2016, 2 Airbus A321 operated under finance lease agreements were targeted for disposal, therefore at the end of the reporting period these assets and related liabilities were classified as held for sale.

As at 31 December 2016 the amount of net assets held for sale amounted to RUB 1,140 million.

	<b>Initial cost of fixed assets</b>	<b>Accumulated depreciation</b>	<b>Aircraft lease security deposits</b>	<b>Total assets</b>	<b>Total liabilities</b>
<b>1 January 2016</b>	<b>18,539</b>	<b>(10,850)</b>	<b>43</b>	<b>7,732</b>	<b>(7,371)</b>
Additions	589	(277)	-	312	-
Disposals	(12,466)	7,880	(2)	(4,588)	4,702
Transfers to PP&E	(3,613)	1,338	(41)	(2,316)	2,669
<b>31 December 2016</b>	<b>3,049</b>	<b>(1,909)</b>	<b>-</b>	<b>1,140</b>	<b>-</b>
	<b>Initial cost of fixed assets</b>	<b>Accumulated depreciation</b>	<b>Aircraft lease security deposits</b>	<b>Total assets</b>	<b>Total liabilities</b>
<b>1 January 2015</b>	-	-	-	-	-
Additions	20,637	(12,335)	43	8,345	(7,517)
Disposals	(2,098)	1,485	-	(613)	146
<b>31 December 2015</b>	<b>18,539</b>	<b>(10,850)</b>	<b>43</b>	<b>7,732</b>	<b>(7,371)</b>

As at 31 December 2016, 2 aircraft of type An-148 were leased out, 4 aircraft of type An-148 were under maintenance for delivery to sub-lessees, therefore these aircraft were reclassified from assets held for sale to property, plant and equipment (Note 19).

During 12 months 2016, 2 Airbus A319 aircraft, 1 Airbus A320 and 6 Airbus A321 were disposed. Profit from disposal amounted to RUB 2,784 million.

By decision of the Group's management, as at 31 December 2015 some of the aircraft operated under finance lease agreements were taken out of service and were undergoing redelivery maintenance.

**21. DISPOSAL OF SUBSIDIARIES**

On 17 May 2016, the Group disposed of OJSC Vladivostok Avia as a result of liquidation. A loss from the disposal in the amount of RUB 5,726 million was recognised in profit and loss for 12 months of 2016. OJSC Vladivostok Avia did not conduct any significant operating activities in 2016.

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**21. DISPOSAL OF SUBSIDIARIES (CONTINUED)**

On 14 July 2016, the Group sold ALT Rejsebureau A/S. A loss from the sale in the amount of RUB 12 million was recognised in profit and loss for 12 months of 2016.

On 6 September 2016, the Group disposed of CJSC Aeroflot-Cargo as a result of liquidation. A profit from the disposal in the amount of RUB 639 million was recognised in profit and loss for 12 months 2016. CJSC Aeroflot-Cargo did not conduct any significant operating activities in 2016.

Profit/loss on disposal of subsidiaries CJSC Aeroflot-Cargo and OJSC Vladivostok Avia includes the following components:

	<b>CJSC Aeroflot- Cargo</b>	<b>OJSC Vladivostok Avia</b>
Negative net assets of disposed company	5,219	10,236
Non-controlling interest share in negative net assets	-	7,579
Group's share in negative net assets of disposed company	5,219	2,747
Intragroup liabilities, including:		
<i>Accounts payable from disposed subsidiary to the Group</i>	(4,483)	(7,028)
<i>Loan issued by the Group to disposed subsidiary</i>	(97)	(1,445)
<b>Profit/(loss) from disposal of subsidiaries</b>	<b>639</b>	<b>(5,726)</b>

**22. INTANGIBLE ASSETS**

	<b>Software</b>	<b>Licences</b>	<b>Investments in software and R&amp;D</b>	<b>Trademark and client base</b>	<b>Other</b>	<b>Total</b>
<i>Cost</i>						
<b>1 January 2015</b>	<b>2,266</b>	<b>134</b>	<b>1,184</b>	<b>1,686</b>	<b>2</b>	<b>5,272</b>
Additions	785	-	49	-	37	871
Disposals	(25)	-	(32)	-	-	(57)
<b>31 December 2015</b>	<b>3,026</b>	<b>134</b>	<b>1,201</b>	<b>1,686</b>	<b>39</b>	<b>6,086</b>
Additions	131	-	133	-	3	267
Disposals	(317)	-	(142)	(56)	(6)	(521)
<b>31 December 2016</b>	<b>2,840</b>	<b>134</b>	<b>1,192</b>	<b>1,630</b>	<b>36</b>	<b>5,832</b>
<i>Accumulated amortisation</i>						
<b>1 January 2015</b>	<b>(1,572)</b>	<b>(89)</b>	<b>-</b>	<b>(848)</b>	<b>(1)</b>	<b>(2,510)</b>
Charge for the year	(762)	-	-	(133)	-	(895)
Disposals	9	-	-	-	-	9
<b>31 December 2015</b>	<b>(2,325)</b>	<b>(89)</b>	<b>-</b>	<b>(981)</b>	<b>(1)</b>	<b>(3,396)</b>
Charge for the year	(714)	-	-	(229)	(5)	(948)
Disposals	260	-	-	71	6	337
<b>31 December 2016</b>	<b>(2,779)</b>	<b>(89)</b>	<b>-</b>	<b>(1,139)</b>	<b>-</b>	<b>(4,007)</b>
<i>Carrying amount</i>						
<b>31 December 2015</b>	<b>701</b>	<b>45</b>	<b>1,201</b>	<b>705</b>	<b>38</b>	<b>2,690</b>
<b>31 December 2016</b>	<b>61</b>	<b>45</b>	<b>1,192</b>	<b>491</b>	<b>36</b>	<b>1,825</b>

## 23. GOODWILL

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

On 1 October 2015, the Board of Directors has made a decision to setup the united company AK “Rossiya”. As at 31 December 2015, the goodwill impairment test was based on the following business-units: business-unit “Sever” (head office in Saint-Petersburg, based on “AK “Rossiya”), business-unit “Moskva” (branch in Moscow, based on “Orenair”), business-unit “Yug” (branch in Rostov-on-Don, based on OJSC “Donavia”), and business-unit “Charter” (based on Transaero’s fleet and on a part of Orenair’s fleet). The total carrying amount of AK Rossiya’s goodwill was attributed to business-unit “Sever”, the carrying amount of Orenair’s goodwill was reallocated among business-units “Sever” and “Moskva”.

The aggregate carrying amount of goodwill, allocated to the Group entities as at 31 December 2015 is presented in the table below:

<b>CGU name</b>	<b>31 December 2015</b>
Business-unit “Sever”	5,657
Business-unit “Moskva”	845
AK Aurora	158
<b>Total</b>	<b>6,660</b>

As part of the impairment test of goodwill as at 31 December 2016, the carrying value of business-units’ “Sever” and “Moskva” goodwill business was allocated to United “AK “Rossiya”.

During 2016 there was a transition to the Group's new operating structure that includes the transfer of all assets belonging to the business-units “Sever”, “Moskva”, “Yug”, “Charter” into United “AK “Rossiya”. Due to the completion of junction of all business-units into a single structure the United “AK “Rossiya” is considered as a single GGU the goodwill has been allocated to.

The aggregate carrying amount of goodwill, allocated to the Groups’ business-units as at 31 December 2016 is presented in the table below:

<b>CGU name</b>	<b>31 December 2016</b>
AK Rossiya	6,502
AK Aurora	158
<b>Total</b>	<b>6,660</b>

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

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

### **AK Rossiya**

The discount rate is based on weighted average cost of capital (WACC) and amounts to 15.8% p.a. (31 December 2015: 14.5% p.a. for 2015) for the forecaster period.

**23. GOODWILL (CONTINUED)**

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 1.5% p.a. (2015: 1.5% p.a.).

The budget for 2017 of "AK Rossiya" was adopted as a basis to forecasting the cash flows.

The Group's management has performed a sensitivity analysis of the goodwill impairment test results to changes in yields as the most sensitive indicator. In case of decrease of this rate by 11% even though all other variables held constant, the Group would recognised an impairment of CGU's goodwill in the full amount.

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

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

	<b>Derivative financial instruments</b>	
	<b>2016</b>	<b>2015</b>
<b>1 January</b>	<b>(4,800)</b>	<b>(30,586)</b>
<i>Level 3 derivative financial instruments that are not subject to special hedge accounting rules</i>		
Change in fair value for the period	(53)	(7,918)
Settlements during the period (Note 10)	-	19,803
<i>Level 3 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	-	(4,703)
Additions for the period	-	
Settlements during the period (Note 10)	-	18,654
<i>Level 2 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	859	(50)
Settlements during the period (Note 10)	3,994	-
<b>31 December</b>	<b>-</b>	<b>(4,800)</b>
<i>Representing:</i>		
Assets	-	53
Liabilities	-	(4,853)
<b>31 December</b>	<b>-</b>	<b>(4,800)</b>

For risk management purposes the Group uses the following derivative financial instruments:

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

In early 2016, the Group closed cross-currency interest rate swap agreements upon their maturity. For these instruments, the Group applied a cash flow hedge accounting model according to IAS 39, "Financial Instruments: Recognition and Measurement".

Until the expiration, the Group recognised a profit of RUB 491 million from revaluation of these derivative financial instruments within other comprehensive income together with a corresponding deferred income tax of RUB 98 million. As a result of the termination of this transaction, accumulated loss of RUB 3,994 million was recognised within hedging results.

**24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

During 12 months 2015, a profit of RUB 47 million from the change in fair value of similar financial instruments was recognised in other comprehensive income together with a corresponding deferred income tax of RUB 10 million.

*(b) Fuel options*

During 12 months 2016, the Group did not conclude any new fuel option agreements. As at 31 December 2015, all previously concluded fuel option agreements had matured and were closed.

For 12 months 2015, the increase in fair value of fuel options amounted to RUB 10,542 million and was reported as a part of profit or loss. Gains from changes in the fair value of option agreements to which hedge accounting was applied for 12 months 2015 amounted to RUB 12,763 million and were reported in other comprehensive income together with corresponding deferred tax of RUB 2,552 million.

The ineffective part of RUB 1,187 million was recognised within profit or loss. For 12 months 2015, realised losses on fuel options amounting to RUB 18,654 million was recognised in profit and loss.

*(c) Currency options*

As at 31 December 2016, all currency option agreements were matured. As at 31 December 2015 there was one currency option contract with a fair value of RUB 53 million. Hedge accounting was not applied to this financial instrument.

During 12 months 2016, a loss on the change in fair value of currency option transactions amounting to RUB 53 million was recognised in profit or loss (12 months 2015: profit of RUB 1,343 million). For the year ended 31 December 2015, the loss on the currency and fuel options to which hedge accounting is not applied was RUB 19,803 million.

*Valuation principles for currency and fuel options*

Valuation of future fuel and currency options cash flows are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the reporting period if hedge accounting is not applied.

If hedge accounting is applied, the effective portion is accounted within hedge reserve with subsequent reclassification to profit or loss in the same periods when the hedged item affects profit or loss.

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

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

**25. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Accounts payable	23,659	29,466
Other financial payables	6,972	9,327
<b>Total financial payables</b>	<b>30,631</b>	<b>38,793</b>
Staff related liabilities	11,929	8,378
VAT payable on imported leased aircraft	-	265
Advances received (other than unearned traffic revenue)	1,147	1,502
Other taxes payable	2,865	2,667
Other current liabilities related to the frequent flyer programme (Note 26)	2,518	2,572
Income tax payable	-	30
Other payables	778	544
<b>Total accounts payable and accrued liabilities</b>	<b>49,868</b>	<b>54,751</b>

As at 31 December 2016, staff related liabilities primarily include salaries payable, as well as social contribution liabilities of RUB 9,106 million (31 December 2015: RUB 5,596 million) and the unused vacation accrual of RUB 2,750 million (31 December 2015: RUB 2,696 million).

Financial payables are analysed by currency in Note 36.

**26. DEFERRED REVENUE AND OTHER LIABILITIES RELATED TO THE FREQUENT FLYER PROGRAMME**

Deferred revenue and other liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 31 December 2016 and 31 December 2015 represented the number of bonus miles earned when flying on the Group flights, but unused by the Aeroflot Bonus programme members and the number of promo-miles and bonus miles earned by programme members for using programme partners' services, respectively; they are estimated at fair value. Deferred revenue and other accrued liabilities related to the frequent flyer programme also include liabilities under the Company's discount programme as at 31 December 2015, which represent the fair value of coupons for a discount on the repeated purchase of tickets at Aeroflot's web-site. There were no liabilities related to coupons for a discount on the purchase of tickets as at 31 December 2016.

	<u>31 December 2016</u>	<u>31 December 2015</u>
Deferred revenue related to the frequent flyer programme, current	1,607	1,307
Deferred revenue related to the frequent flyer programme, non-current	3,623	2,941
Other current liabilities related to the frequent flyer programme (Note 25)	2,518	2,572
Other non-current liabilities related to the frequent flyer programme (Note 30)	2,580	2,779
<b>Total deferred revenue and other liabilities related to the frequent flyer programme</b>	<b>10,328</b>	<b>9,599</b>

**27. PROVISIONS FOR LIABILITIES**

	<u>Litigations</u>	<u>Tax risks</u>	<u>Regular repairs and maintenance works</u>	<u>Total provisions</u>
<b>1 January 2015</b>	<b>1,372</b>	-	<b>5,822</b>	<b>7,194</b>
Charge of provision for the year	2,438	53	3,117	5,608
Use of provision for the year	(169)	-	-	(169)
Release of provision for the year	(49)	-	(1,126)	(1,175)
Unwinding of the discount	-	-	777	777
Loss on foreign exchange, net	70	-	2,241	2,311
Other changes	-	-	(110)	(110)
<b>31 December 2015</b>	<b>3,662</b>	<b>53</b>	<b>10,721</b>	<b>14,436</b>
Charge the provision for the year	2,291	57	6,150	8,498
Use of provision for the year	(1,615)	(53)	(1,757)	(3,425)
	(981)	-	(889)	(1,870)
Unwinding of discounting	-	-	1,562	1,562
Gain on foreign exchange , net	(286)	-	(2,277)	(2,563)
Other changes	(543)	-	-	(543)
<b>31 December 2016</b>	<b>2,528</b>	<b>57</b>	<b>13,510</b>	<b>16,095</b>

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current liabilities	5,304	7,519
Non-current liabilities	10,791	6,917
<b>Total provisions</b>	<b>16,095</b>	<b>14,436</b>

*Litigations*

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 41).

*Tax risks*

The Group makes a provision for contingent liabilities, including fines and penalties based on the best management's estimate of the amount of additional taxes that may be required to be paid (Note 41).

*Regular repairs and maintenance works*

As at 31 December 2016, the Group made a provision of RUB 13,510 million (31 December 2015: RUB 10,721 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

**28. FINANCE LEASE LIABILITIES**

The Group leases aircraft from third and related parties under finance lease agreements (Note 38). The list of aircraft that the Group have operated under finance lease agreements as at 31 December 2016 is disclosed in Note 1.

	<b>31 December 2016</b>	<b>31 December 2015</b>
Total outstanding payments on finance lease contracts	137,395	184,730
Future finance lease interest expense	(14,659)	(20,206)
<b>Total finance lease liabilities</b>	<b>122,736</b>	<b>164,524</b>
<i>Including:</i>		
Current finance lease liabilities	15,593	19,504
Non-current finance lease liabilities	107,143	145,020
<b>Total finance lease liabilities</b>	<b>122,736</b>	<b>164,524</b>

	<b>31 December 2016</b>			<b>31 December 2015</b>		
	<b>Principal</b>	<b>Future interest expense</b>	<b>Total payments</b>	<b>Principal</b>	<b>Future interest expense</b>	<b>Total payments</b>
<i>Due for repayment:</i>						
On demand or within 1 year	15,593	3,662	19,255	19,504	4,337	23,841
Later than 1 year and not later than 5 years	65,792	8,912	74,704	78,536	11,927	90,463
Later than 5 years	41,351	2,085	43,436	66,484	3,942	70,426
<b>Total</b>	<b>122,736</b>	<b>14,659</b>	<b>137,395</b>	<b>164,524</b>	<b>20,206</b>	<b>184,730</b>

As at 31 December 2016 interest payable amounted to RUB 80 million (31 December 2015: RUB 424 million) was included in accounts payable and accrued liabilities.

The effective interest rate for finance lease during 2016 was 2.9% p.a. (in 2015: 2.8% p.a.). Fair value of finance lease liabilities approximate their carrying value.

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the finance lease liabilities denominated in the same currency. The Group applies cash flow hedge accounting model to this hedging relationship, in accordance with IAS 39. As at 31 December 2016, finance lease liabilities including those related to assets, classified as held for sale in the amount of RUB 116,219 million denominated in US dollars were designated as a hedging instrument for highly probable revenue forecasted for the period of 2016 – 2026 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the finance lease liabilities match the future cash inflows on the revenue being hedged. At 31 December 2016, accumulated foreign currency loss of RUB 42,734 million (before deferred income tax) on the finance lease liabilities, representing an effective portion of the hedge, was recognised in the hedge reserve in the equity (31 December 2015: RUB 76,507 million). The loss reclassified from the hedging reserve to profit or loss in 2016 was RUB 8,316 million (in 2015: RUB 6,279 million) (Note 10).

In 2016 interest expense on finance leases was RUB 4,070 million (2015: RUB 4,076 million).

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

**29. LOANS AND BORROWINGS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>Short-term bank loans, bonds and other borrowings:</i>		
Short-term bank loans in euro	4,478	-
Short-term loans in Russian roubles	113	-
Short-term loans in US dollars	-	31,550
Current portion of loans and borrowings in Russian roubles	4,718	3,190
Current portion of long-term loans in US dollars	-	14,242
Current portion of bonds in Russian roubles	-	5,103
<b>Total short-term loans and borrowings</b>	<b>9,309</b>	<b>54,085</b>
<i>Long-term bank loans, bonds and other borrowings:</i>		
Long-term loans in Russian roubles	12,581	17,565
Long-term loans and borrowings in US dollars	395	14,242
Long-term bonds in Russian roubles	2,800	5,103
Less:		
Current portion of long-term bank loans in Russian roubles	(4,718)	(3,190)
Current portion of loans and borrowings in US dollars	-	(14,242)
Current portion of bonds in Russian roubles	-	(5,103)
<b>Total long-term loans and borrowings</b>	<b>11,058</b>	<b>14,375</b>

*Main changes in loans and borrowings during the reporting period:*

The Group has opened a long-term non-revolving credit line with PJSC “Sberbank” (floating interest rate) in the amount of RUB 12,581 million. As at 31 December 2016 the outstanding amount including interest accrued was RUB 12,694 million. As at 31 December 2015 the outstanding amount was RUB 12,581 million. The loan is unsecured and issued for the period up to December 2018.

The Group has opened a credit line with PJSC Sovcombank (floating interest rate) in the amount of USD 6,000 million, which can be obtained in Roubles, Euro or US Dollar. As at 31 December 2016, the outstanding amount was RUB 2,800 million (as at 31 December 2015 the outstanding amount was null). The loan is unsecured and issued for the period up to November 2021.

The Group has opened a credit line with PJSC Bank VTB (floating interest rate) in the amount of USD 250 million, which can be obtained in Roubles, Euro or US Dollar. As at 31 December 2016 the outstanding amount of the loan was EUR 70 million, which is equal to RUB 4,478 million including interest (as at 31 December 2015 the outstanding amount was RUB 3,657 million). The credit line is unsecured and issued for the period up to October 2018.

The Group has opened a line of credit with JSC Alfa-Bank in the amount of RUB 4,100 million, which can be obtained in Roubles, Euro or US Dollar. As at 31 December 2016 the outstanding amount of the loan was null. The credit line is unsecured and issued for the period up to January 2020.

**29. LOANS AND BORROWINGS (CONTINUED)***Main changes in loans and borrowings during reporting period (continued)*

The Group has opened long-term revolving line of credit with PJSC AKB Sviaz-Bank in the amount of RUB 9,500 million, which can be obtained in Roubles, Euro or US Dollar. As at 31 December 2015 the outstanding amount was USD 129 million, which was equal to RUB 9,386 million. The loan was unsecured. As at 31 December 2016, the loan was repaid in full.

The Group has received a loan from PJSC Moscow Credit Bank in the amount of USD 100 million. As at 31 December 2015 the outstanding amount was USD 100 million, which was equal to RUB 7,304 million (including interest accrued). The loan was unsecured and issued for the period up to December 2016. As at 31 December 2016 the loan was repaid in full.

The Group has received unsecured loan from PJSC Rosbank in the amount of USD 60 million, which can be obtained in Roubles, US Dollar or Euro. As at 31 December 2015 the outstanding amount was RUB 4,378 million (including interest accrued). As at 31 December 2016 the loan was repaid in full.

The Group has opened a credit line with PJSC Sovcombank in the amount of USD 100 million. As at 31 December 2015 the outstanding amount was RUB 7,288 million. The loan is unsecured and issued for the period up to October 2016. As at 31 December 2016, the loan was repaid in full.

The Group has opened a credit line with Bank VTB (Austria) in the amount of USD 150 million. As at 31 December 2015 the outstanding amount including interest was RUB 10,996 million. The loan is unsecured and issued for the period up to October 2016. As at 31 December 2016, the loan was repaid in full.

As at 31 December 2016 there were no secured loans or borrowings. As at 31 December 2015 bank loans in the amount of RUB 1,940 million were secured by property, land (Note 19).

As at 31 December 2016 and 31 December 2015, the fair values of loans and borrowings were not materially different from their carrying amounts.

***Bond issue***

As at 31 December 2015 the Group had bonds issued (BO-03 series) with notional amount of RUB 5,000 million and interest coupon rate of 8.3% p.a. and issued for the period up to March 2016. As at 31 December 2015 effective yield to maturity for these bonds was 10.99% p.a. As at 31 December 2016, the bonds were repaid in full.

***Undrawn facilities***

As at 31 December 2016 the Group was able to raise RUB 89,247 million in cash (31 December 2015: RUB 36,840 million) available under existing credit lines granted to the Group by various lending institutions.

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**30. OTHER NON-CURRENT LIABILITIES**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Other non-current liabilities related to the frequent flyer programme (Note 26)	2,580	2,779
Defined benefit pension obligation, non-current portion	805	745
Other non-current liabilities	1,774	286
<b>Total other non-current liabilities</b>	<b>5,159</b>	<b>3,810</b>

**31. NON-CONTROLLING INTEREST**

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

	<b>2016</b>	<b>2015</b>
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
Profit/(loss) attributable to non-controlling interest for the year	948	(828)
Accumulated losses attributable to non-controlling interests in subsidiary	(3,689)	(4,637)

The summarised financial information of AK Rossiya is presented below:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Current assets	12,589	6,843
Non-current assets	13,149	9,363
Current liabilities	17,442	15,298
Non-current liabilities	23,051	19,454
	<b>2016</b>	<b>2015</b>
Revenue	73,193	38,771
Profit/(loss) for the year	3,790	(3,312)
Comprehensive income/(expense) for the year	3,790	(3,312)

As at 31 December 2016 and 2015 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

**32. SHARE CAPITAL**

As at 31 December 2016 and 31 December 2015 share capital was equal to RUB 1,359 million.

	<b>Number of ordinary shares authorised and issued (shares)</b>	<b>Number of treasury shares (shares)</b>	<b>Number of ordinary shares outstanding (shares)</b>
31 December 2015	1,110,616,299	(53,716,189)	1,056,900,110
31 December 2016	1,110,616,299	(53,716,189)	1,056,900,110

All issued shares are fully paid. The total number of unissued ordinary shares is 250,000,000 shares (31 December 2015: 250,000,000 shares) with a par value of RUB 1 per share (31 December 2015: RUB 1 per share).

As at 31 December 2016 and 31 December 2015, treasury shares in amount of 53,716,189 shares were held by subsidiary of the Group LLC Aeroflot Finance.

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

The Company's shares are listed on the Moscow Exchange; as at 31 December 2016 and 31 December 2015, they were traded at RUB 152.96 per share and RUB 56.10 per share, respectively.

The Company launched Global Depositary Receipts (GDRs) programme in December 2000. From January 2014 one GDR equates 5 ordinary shares. As at 31 December 2016 and 31 December 2015 the GDRs were traded on the Frankfurt stock exchange at EUR 11.6 per GDR and EUR 3.41 per GDR, respectively.

**33. DIVIDENDS**

At the annual shareholders' meeting held on 27 June 2016 it was resolved not to declare and pay dividends for 2015.

At the annual shareholders' meeting held on 22 June 2015 it was resolved not to declare and pay dividends for 2014.

**34. OPERATING SEGMENTS**

The Group has a number of operating segments, but none of them, except for "Passenger Traffic", meet the quantitative threshold for determining reportable segment. Flight routes information was aggregated in "Passenger Traffic" segment as passenger flight services on different routes have similar economic characteristics and meet aggregation criteria.

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

Segment information is presented based on financial information prepared in accordance with IFRS. Sales between segments are carried out on an arm's length basis and eliminated for consolidation.

Group assets are located mainly in Russian Federation.

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**34. OPERATING SEGMENTS (CONTINUED)**

	<b>Passenger traffic</b>	<b>Other</b>	<b>Inter-segment sales elimination</b>	<b>Total Group</b>
<b>2016</b>				
External sales	492,455	3,425	-	495,880
Inter-segment sales	-	15,953	(15,953)	-
<b>Total revenue</b>	<b>492,455</b>	<b>19,378</b>	<b>(15,953)</b>	<b>495,880</b>
<b>Operating profit</b>	<b>62,207</b>	<b>980</b>	<b>67</b>	<b>63,254</b>
Loss from sale and impairment of investments, net				(2,935)
Finance income				19,802
Finance costs				(9,443)
Hedging result				(12,310)
Share in financial results of associated companies				12
Result from disposal of subsidiaries				(5,099)
<b>Profit before income tax</b>				<b>53,281</b>
Income tax				(14,455)
<b>Net profit for the year</b>				<b>38,826</b>
<b>31 December 2016</b>				
Segment assets*	288,553	9,221	(13,495)	284,279
Investments in associates	-	98	-	98
Unallocated assets				14,930
<b>Total assets</b>				<b>299,307</b>
Segment liabilities*	257,270	5,647	(4,419)	258,498
Unallocated liabilities				40
<b>Total liabilities</b>				<b>258,538</b>
<b>2016</b>				
Capital expenditures and purchase of PP&E (Note 19)	11,823	552	-	12,375
Depreciation (Notes 19)	12,109	338	-	12,447

\* Segments' assets and liabilities include assets classified as held for sale and liabilities related to assets held for sale (Note 20).

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**34. OPERATING SEGMENTS (CONTINUED)**

	<u>Passenger traffic</u>	<u>Other</u>	<u>Inter-segment sales elimination</u>	<u>Total Group</u>
<b>2015</b>				
External sales	412,174	2,999	-	415,173
Inter-segment sales	-	13,588	(13,588)	-
<b>Total revenue</b>	<b>412,174</b>	<b>16,587</b>	<b>(13,588)</b>	<b>415,173</b>
<b>Operating profit</b>	<b>42,953</b>	<b>1,196</b>	<b>(42)</b>	<b>44,107</b>
Loss on sale and impairment of investments, net				(9,159)
Finance income				15,811
Finance costs				(28,556)
Hedging result				(23,746)
Share of results of associates				(17)
<b>Loss before income tax</b>				<b>(1,560)</b>
Income tax				(4,934)
<b>Loss for the year</b>				<b>(6,494)</b>
<b>31 December 2015</b>				
Segment assets*	295,141	9,523	(13,698)	290,966
Investments in associates	-	109	-	109
Unallocated assets				24,119
<b>Total assets</b>				<b>315,194</b>
Segment liabilities*	351,056	5,269	(5,211)	351,114
Unallocated liabilities				200
<b>Total liabilities</b>				<b>351,314</b>
<b>2015</b>				
Capital expenditures and purchase of PP&E (Note 19)	10,349	408	-	10,757
Depreciation (Note 19)	12,127	284	-	12,411

\* Segments' assets and liabilities include assets classified as held for sale and liabilities related to assets held for sale (Note 20).

Expenses of the Group mainly relate to scheduled passenger flights services.

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**34. OPERATING SEGMENTS (CONTINUED)**

	<u>2016</u>	<u>2015</u>
<b>Scheduled passenger revenue:</b>		
<i>International flights from the RF to:</i>		
CIS	10,446	10,098
Europe	53,244	42,563
Middle East and Africa	9,772	8,992
Asia	32,923	26,651
North America	13,144	9,934
<b>Total scheduled passenger revenue from flights from the RF</b>	<b><u>119,529</u></b>	<b><u>98,238</u></b>
<i>International flights to the RF from:</i>		
CIS	10,835	9,480
Europe	53,355	42,615
Middle East and Africa	9,665	9,366
Asia	30,695	28,289
North America	13,245	9,907
<b>Total scheduled passenger revenue from flights to the RF</b>	<b><u>117,795</u></b>	<b><u>99,657</u></b>
Domestic scheduled passengers flights	166,227	145,378
Other international scheduled passengers flights	209	155
<b>Total scheduled passenger traffic revenue</b>	<b><u>403,760</u></b>	<b><u>343,428</u></b>

**35. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY**

Financial assets and liabilities are classified by measurement categories as at 31 December 2016 as follows:

<b>Assets</b>	<b>Note</b>	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Assets at fair value through profit or loss</b>	<b>Total</b>
Cash and cash equivalents	12	31,476	-	-	31,476
Short-term financial investments		6,318	1	-	6,319
Financial receivables	14	27,504	-	-	27,504
Aircraft lease security deposits	13	2,501	-	-	2,501
Derivative financial instruments	16	-	3,306	-	3,306
Other non-current assets		148	-	-	148
<b>Total financial assets</b>		<b><u>67,947</u></b>	<b><u>3,307</u></b>	<b><u>-</u></b>	<b><u>71,254</u></b>
		<b>Liabilities at fair value through profit or loss</b>	<b>Derivative financial instruments (hedging)</b>	<b>Other financial liabilities</b>	<b>Total</b>
Financial payables	25	-	-	30,631	30,631
Finance lease liabilities	28	-	-	122,736	122,736
Loans and borrowings	29	-	-	20,367	20,367
<b>Total financial liabilities</b>		<b><u>-</u></b>	<b><u>-</u></b>	<b><u>173,734</u></b>	<b><u>173,734</u></b>

### 35. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

Financial assets and liabilities are classified by measurement categories as at 31 December 2015 as follows:

	Note	Loans and receivables	Available-for-sale financial assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	12	30,693	-	-	30,693
Short-term financial investments		5,916	1	-	5,917
Financial receivables	14	31,722	-	-	31,722
Aircraft lease security deposits	13	4,790	-	-	4,790
Derivative financial instruments	24	-	-	53	53
Long-term financial investments	16	-	6,118	-	6,118
Other non-current assets		168	-	-	168
<b>Total financial assets</b>		<b>73,289</b>	<b>6,119</b>	<b>53</b>	<b>79,461</b>
	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	24	-	4,853	-	4,853
Financial payables	25	-	-	38,793	38,793
Finance lease liabilities	28	-	-	164,524	164,524
Loans and borrowings	29	-	-	68,460	68,460
Liabilities for guarantees issued	27	-	-	1,517	1,517
<b>Total financial liabilities</b>		<b>-</b>	<b>4,853</b>	<b>273,294</b>	<b>278,147</b>

### 36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

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

#### *Liquidity risk*

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

The following are the Group's financial liabilities as at 31 December 2016 and 31 December 2015 by contractual maturity (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

31 December 2016	Average interest rate		0–12 months	1–2 years	2–5 years	Over 5 years	Total
	Contractual rate, p.a.	Effective rate, p.a.					
Loans and borrowings in foreign currency	3.4%	3.4%	4,584	-	-	446	5,030
Loans and borrowings in roubles	11.7%	11.7%	6,085	8,814	3,501	-	18,400
Finance lease liabilities	2.9%	2.9%	19,255	20,998	53,706	43,436	137,395
Financial payables			30,631	-	-	-	30,631
Liabilities for guarantees issued			1,225	-	-	-	1,225
<b>Total future payments, including future interest payments</b>			<b>61,780</b>	<b>29,812</b>	<b>57,207</b>	<b>43,882</b>	<b>192,681</b>

31 December 2015	Average interest rate		0–12 months	1–2 years	2–5 years	Over 5 years	Total
	Contractual rate	Effective rate					
Loans and borrowings in foreign currency	5.5%	5.5%	47,456	-	-	-	47,456
Loans and borrowings in roubles	13.4%	13.4%	5,345	9,393	6,953	-	21,691
Bonds denominated in roubles	8.3%	8.3%	5,206	-	-	-	5,206
Finance lease liabilities	2.7%	2.8%	23,841	24,235	66,228	70,426	184,730
Financial payables			38,793	-	-	-	38,793
Derivative financial instruments			4,761	-	-	-	4,761
Liabilities for guarantees issued			2,144	-	-	-	2,144
<b>Total future payments, including future interest payments</b>			<b>127,546</b>	<b>33,628</b>	<b>73,181</b>	<b>70,426</b>	<b>304,781</b>

**36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)***Currency risk*

The Group is exposed to currency risk in relation to revenue as well as purchases and borrowings that are denominated in a currency other than rouble. The currencies in which these transactions are primarily denominated are Euro and US Dollar. The Groups analyses the exchange rate trends on a regular basis.

The Group uses long-term lease liabilities nominated in US Dollars as hedging instrument for risk of change in US Dollar exchange rate in relation to revenue (Note 28).

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

<i>In millions of Russian Roubles</i>	Note	31 December 2016				31 December 2015			
		US Dollar	Euro	Other currency	Total	US Dollar	Euro	Other currency	Total
Cash and cash equivalents	12	2,293	317	418	3,028	2,167	449	1,793	4,409
Financial receivables		17,915	3,653	3,575	25,143	18,560	4,062	4,502	27,124
Aircraft lease security deposits		2,179	-	-	2,179	4,504	-	-	4,504
Derivative financial instruments	24	-	-	-	-	53	-	-	53
Other assets		83	62	3	148	94	71	3	168
<b>Total assets</b>		<b>22,470</b>	<b>4,032</b>	<b>3,996</b>	<b>30,498</b>	<b>25,378</b>	<b>4,582</b>	<b>6,298</b>	<b>36,258</b>
Financial payables		12,348	5,110	2,558	20,016	13,691	5,419	2,071	21,181
Finance lease liabilities	28	120,254	-	-	120,254	164,519	-	-	164,519
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	-	4,478	-	4,478	45,792	-	-	45,792
Long-term loans and borrowings	29	395	-	-	395	-	-	-	-
Derivative financial instruments	24	-	-	-	-	-	4,853	-	4,853
<b>Total liabilities</b>		<b>132,997</b>	<b>9,588</b>	<b>2,558</b>	<b>145,143</b>	<b>224,002</b>	<b>10,272</b>	<b>2,071</b>	<b>236,345</b>
<b>Total assets/ (liabilities), net</b>		<b>(110,527)</b>	<b>(5,556)</b>	<b>1,438</b>	<b>(114,645)</b>	<b>(198,624)</b>	<b>(5,690)</b>	<b>4,227</b>	<b>(200,087)</b>

Strengthening or weakening of listed below currencies against rouble as at 31 December 2016 and 31 December 2015, would change profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

**36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)***Currency risk (continued)*

	31 December 2016		31 December 2015	
	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/decrease)	Percent of change in rate of currency versus rouble	Effect on loss after tax ((increase)/decrease)
<b>Increase in the rate of currency versus rouble:</b>				
US Dollar	20%	1,556	50%	(13,642)
Euro	20%	(889)	50%	(335)
Other currencies	20%	230	50%	1,691
<b>Decrease in the rate of currency versus rouble:</b>				
US Dollar	20%	(1,556)	50%	13,642
Euro	20%	889	50%	335
Other currencies	20%	(230)	50%	(1,691)

As at 31 December 2016 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 17,684 million. The change of other currencies would have no material impact on equity. As at 31 December 2015 the increase in the US dollar rate against rouble by 50% would have led to a reduction in the amount of the Group's equity by RUB 79,450 million. The change of other currencies would have no material impact on equity.

*Interest rate risk*

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

As at 31 December 2016 and 31 December 2015, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2016	31 December 2015
<i>Fixed rate financial instruments:</i>		
Financial assets	30,127	17,767
Financial liabilities	(19,098)	(34,266)
<b>Total fixed rate financial instruments</b>	<b>11,029</b>	<b>(16,499)</b>
<i>Variable rate financial instruments:</i>		
<b>Total variable rate financial liabilities</b>	<b>(123,679)</b>	<b>(198,137)</b>

As at 31 December 2016 and 31 December 2015 the Group had loans and finance lease with variable interest rates. If the variable part of interest rates as at 31 December 2016 and 31 December 2015 were 20bps higher or lower than the actual variable part of interest rates for the year, with all other variables held constant, financial result and equity would not have changed significantly (2015: would not have changed significantly).

### **36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)**

#### ***Aircraft fuel price risk***

The results of the Group's operations are significantly impacted by changes in the price of aircraft fuel. In 2012, 2013 and 2014 the Group entered into agreements with a number of Russian banks to hedge a portion of its fuel costs from potential future price increases.

Given as at 31 December 2016 and 31 December 2015 the deals were matured, change in value of underlying asset as at the reporting date would not have any significant impact of financial results and equity of the Group. In case as at 31 December 2016 and 31 December 2015 price for Brent crude oil was 50% higher or lower than its actual price, with all other variables remaining constant (including forecast of crude oil price), the effect on the Group's financial result and equity would not be materially different.

#### ***Capital management risk***

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

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

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

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

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

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

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

**36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)*****Capital management risk (continued)***

The ratios are as follows:

	<b>As at and for the year ended 31 December 2016</b>	<b>As at and for the year ended 31 December 2015</b>
Total debt	143,908	233,729
Cash and cash equivalents and short-term financial investments	(37,795)	(36,610)
Net debt	106,113	197,119
Equity attributable to shareholders of the Company	42,453	(25,523)
Total capital	148,566	171,596
EBITDA	78,004	58,703
Net debt/Total capital	0.7	1.1
Total debt/EBITDA	1.8	4.0
Net debt/EBITDA	1.4	3.4

These ratios are analysed by Group's management over time without any limitations.

There were no changes in the Group's approach to capital management in 2016 and 2015.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in 2016 and 2015, except for minimal share capital according to the legislation.

***Credit risk***

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

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

- (i) The Group has credit risk associated with travel agents and industry organisations. A significant share of the Group's sales is made via travel agencies. Due to the fact that receivables from travel agents are diversified the overall credit risk related to travel agencies is assessed by management as low.
- (ii) Receivables from other airlines and agencies are carried out through the IATA clearing house. Regular settlements ensure that the exposure to credit risk is mitigated to the greatest extent possible.
- (iii) Management actively monitors its investing performance and in accordance to current policy investing only in liquid securities with high credit ratings. Management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2016 the total amount of investments into securities was RUB 3,252 million (31 December 2015: RUB 6,062 million), major part of financial receivables amounted to RUB 19,054 million relates to receivables regulated by clearing house (31 December 2015: RUB 15,079 million).

**36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)***Credit risk (continued)*

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Cash and cash equivalents (excluding petty cash) (Note 12)	31,387	30,626
Financial receivables (Note 14)	27,504	31,722
Short-term financial investments (Note 16)	6,319	5,917
Long-term financial investments (Note 16)	3,306	6,118
Aircraft lease security deposits (Note 13)	2,501	4,790
Other non-current assets	148	168
<b>Total financial assets exposed to credit risk</b>	<b>71,165</b>	<b>79,341</b>

Analysis by credit quality of financial receivables is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>Past due impaired receivables</i>		
- less than 45 days overdue	89	110
- 46 days to 90 days overdue	75	1,212
- 91 days to 2 years overdue	7,995	4,895
- more than 2 years overdue	4,183	4,393
<b>Total impaired receivables</b>	<b>12,342</b>	<b>10,610</b>
	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>Past due but not impaired</i>		
- less than 90 days overdue	33	30
- 91 days to 2 years overdue	-	-
<b>Total past due but not impaired receivables</b>	<b>33</b>	<b>30</b>

*Credit risk concentration*

As at 31 December 2016 and 31 December 2015 a large portion of the cash and cash equivalents was placed in two banks, which causes the credit risk concentration for the Group (Note 12).

**37. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

*Financial instruments carried at fair value.*

This category includes only derivative financial instruments disclosed in Note 24.

### 37. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### *Financial assets carried at amortised cost.*

The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of financial receivables (Note 14), lease security deposits (Note 13) and deposits for more than 90 days (Note 13), other financial assets and loans issued (Note 16) approximate their fair values, which belong to Level 2 in the fair value hierarchy. Cash and cash equivalents (with exception for cash on hand) belong to level 2 and are carried at amortised cost which is approximately equal to their fair value.

#### *Liabilities carried at amortised cost.*

The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2016 and 31 December 2015, the fair values of financial payables (Note 25), finance lease liabilities (Note 28), loans, borrowings and bonds (Note 29) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

### 38. RELATED PARTY TRANSACTIONS

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

As at 31 December 2016 and 31 December 2015, the outstanding balances with related parties and income and expense items with related parties for the years ended 31 December 2016 and 31 December 2015 are disclosed below:

#### *Associates*

As at 31 December 2016 and 31 December 2015, the outstanding balances with associates and income and expense items with associates for the years ended 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Assets</b>		
Accounts receivable	25	1
<b>Liabilities</b>		
Accounts payable and accrued liabilities	<u>120</u>	<u>111</u>

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

	<u>2016</u>	<u>2015</u>
<b>Transactions</b>		
Sales to associates	7	25
Purchase from associates	<u>1,564</u>	<u>1,469</u>

Purchases from associates consist primarily of aviation security services.

**38. RELATED-PARTY TRANSACTIONS (CONTINUED)***Government-related entities*

As at 31 December 2016 and 31 December 2015, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Group operates in an economic environment where the entities are directly or indirectly controlled by the Government of the RF through its government authorities, agencies, associations and other organizations, collectively referred to as government-related entities.

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

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

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

Outstanding balances of derivative financial instruments and cash at settlement and currency accounts in government-related banks are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Assets</b>		
Cash and cash equivalents	13,048	8,060
Derivative financial instruments	-	53

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

The amounts of the Group's finance lease liabilities are disclosed in Note 28. The share of liabilities to the government-related entities is approximately 71% for finance lease (31 December 2015: 70%). The share of the government-related entities in the amount of the future minimum lease payments under non-cancellable operating leases agreements (note 39) is approximately 39% (31 December 2015: 38%). The share of interest expenses on finance lease is approximately 86% and 32% for operating lease expenses (2015: 84% and 28%, respectively).

For the year ended 31 December 2016 the share of the Group's transactions with government-related entities was more than 20% of operating costs, and less than 3% of revenue (2015: about 19% and less than 3%, respectively). These expenses primarily include supplies of fuel by government-related entities, costs of air navigation and aircraft maintenance services in the government-related airports and also costs of operating lease for government-related lessors.

As at 31 December 2016 the Group issued guarantees for the amount of RUB 1,225 million to a government-related entity to secure obligations under tender procedures (31 December 2015: RUB 627 million).

As at 31 December 2016 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group amounted to RUB 3,523 million (31 December 2015: RUB 4,623 million).

Transactions with the state also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 8, 9, 11, 14, 17, 25.

***Compensation of key management personnel***

The remuneration of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as other compensation, amounted to RUB 1,478 million (2015: RUB 748 million).

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

***Bonus programmes based on the Company's capitalisation***

In 2013, the Group approved bonus programmes for the Group's key management personnel and members of the Company's Board of Directors. These programmes run for three years and are exercised in three tranches of cash payments. The amounts of payments depend both on the absolute increase in the Company's capitalisation and the Company's capitalisation growth rates against its peers based on the results of the reporting year. The fair value of the liabilities under the bonus programmes was determined based on the Company's capitalisation growth in 2016 and, as at 31 December 2016, were recognised in accounts payable and accrued liabilities line item.

After the programmes approved in 2013 had expired, in 2016 the Group approved new bonus programmes for its key management personnel and members of the Company's Board of Directors. These programmes run for 3.5 years and are to be exercised in four tranches of cash payments.

**38. RELATED-PARTY TRANSACTIONS (CONTINUED)*****Bonus programmes based on the Company's capitalisation (continued)***

The amounts of payments depend on the level of increase in the Company's capitalisation, its capitalisation growth rates against peers, and the MICEX index (in relation to members of the Company's Board of Directors) or a client satisfaction index (in relation to the Group's key management personnel) based on the results of each reporting period and the attainment of objectives for the Company's capitalisation at the termination of the programmes. The fair value of the liabilities under the bonus programmes as of 31 December 2016 was determined based on the expected payment amount for the reporting period from 1 January 2016 until 31 December 2016 and the amount of payments deferred until the end of the programmes.

In 2016, expenses related to the bonus programmes were RUB 1,142 million and were recorded within staff costs and other financial costs in the Group's consolidated statement of profit and loss (2015: RUB 205 million). As at 31 December 2016, outstanding liability under these plans was RUB 1,594 million (as at 31 December 2015 it was RUB 452 million).

***Cross shareholding***

As at 31 December 2016 and 31 December 2015, Aeroflot-Finance, 100%-owned subsidiary of the Group, owned 53,716,189 ordinary shares of the Company (Note 32).

**39. COMMITMENTS UNDER OPERATING LEASES**

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 38) are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
On demand or within 1 year	58,191	57,356
Later than 1 year and not later than 5 years	218,479	202,376
Later than 5 years	239,224	219,353
<b>Total operating lease commitments</b>	<b><u>515,894</u></b>	<b><u>479,085</u></b>

The amounts above represent base rentals payable and exclude maintenance fees payable to the lessor, based on actual flight hours, and other variable costs.

The aircraft that the Group has operated under operating lease agreements as at 31 December 2016 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 1 to 16 years. The agreements are extendable.

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

**40. CAPITAL COMMITMENTS**

As at 31 December 2016, the Group entered into agreements on acquisition of property, plant and equipment with third parties for the total of RUB 418,671 million (31 December 2015: RUB 866,439 million). These commitments mainly relate to 1 Boeing B777 (31 December 2015: 3), 22 Boeing B787 (31 December 2015: 22), 22 Airbus A350 (31 December 2015: 22) and 33 Airbus A320/321 (31 December 2015: 49) aircraft. The Group plans to use the mentioned aircraft under operating or finance lease agreements, thus does not expect cash outflow under the corresponding agreements.

## 41. CONTINGENCIES

### *Operating Environment of the Group*

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The Group continues to monitor the situation and executes set of measures to minimize influence of possible risks on operating activity of the Group and its financial position.

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

### *Tax contingencies*

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

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

Since 1 July 2015, the Russian Government has decided to decrease VAT on domestic passenger and luggage carriage by air to 10% for two years. This is aimed at improving the financial and economic position of the airlines providing domestic services.

## **41. CONTINGENCIES (CONTINUED)**

### ***Tax contingencies (continued)***

In accordance with amendments to the Russian Tax Code made in 2015, excise duties charged on the aviation fuel obtained by the Group's airlines are subject to deduction using the following special coefficients: 1.84 for 2016, 2 for 2015.

Since 1 January 2015, the Russian Tax Code has been supplemented with the framework of beneficial ownership to the income paid from the RF (beneficial ownership framework) for the purposes of applying tax benefits under the Double Tax Treaties (DTT). Given the ambiguity of the new rules application procedure and absence of any practice to that effect, it is impossible to reliably assess the potential outcome of any disputes with tax authorities over compliance with the beneficial ownership confirmation requirements, however they may have a significant impact on the Group.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

In addition to the above matters, as at 31 December 2016 and 31 December 2015 management estimates that the Group has no possible obligations from exposure to other than remote tax risks. The risks represent estimates arising from uncertainties in the interpretation of Russian tax legislation and related requirements for documentation. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these consolidated financial statements, if these are challenged by the tax authorities.

### ***Insurance***

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

### ***Litigations***

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

## **PJSC AEROFLOT**

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2016

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

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### **42. SUBSEQUENT EVENTS**

In January 2017, PJSC Aeroflot has filed lawsuits on bankruptcy of its subsidiaries Orenair and Donavia. As a result, in February 2017 the Arbitration Courts introduced the monitoring process in regard to the stated companies, whereby the Group expects their subsequent receivership. The Group is currently assessing the impact of these facts on its consolidated financial statements.