



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

**Condensed Consolidated Interim Financial Statements  
for the 9 months ended 30 September 2016**

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

Management is responsible for the preparation of the Condensed Consolidated Interim Financial Statements in accordance with IAS 34, "Interim Financial Reporting".



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

- selecting suitable accounting principles and applying them consistently;
- making 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 Condensed Consolidated Interim Financial Statements; and
- preparing the Condensed Consolidated Interim Financial Statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the Group's Condensed Consolidated Interim Financial Statements are prepared in accordance with IAS 34, "Interim Financial Reporting";
- 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 Condensed Consolidated Interim Financial Statements as at and for the 9 months ended 30 September 2016 were approved on 29 November 2016 by:

  
\_\_\_\_\_  
**V. G. Saveliev**  
General Director  
\_\_\_\_\_  
**Sh. R. Kurmashov**  
Deputy General Director  
for Commerce and Finance



## ***Report on Review of Condensed Consolidated Interim Financial Statements***

To the Shareholders and Board of Directors of PJSC Aeroflot

### **Introduction**

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC Aeroflot and its subsidiaries (the "Group") as of 30 September 2016 and the related condensed consolidated statements of profit or loss and comprehensive income for the three-month and nine-month periods then ended, and cash flows and changes in equity for the nine-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### **Scope of Review**

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

### **Conclusion**

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

*AO PricewaterhouseCoopers Audit*

29 November 2016  
Moscow, Russian Federation

**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of  
Profit or Loss for the three and nine months ended 30 September 2016

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



	Note	Three months ended		Nine months ended	
		30 September 2016	30 September 2015	30 September 2016	30 September 2015
Traffic revenue	4	141,233	117,958	334,563	268,562
Other revenue	5	16,249	15,085	46,743	40,948
<b>Revenue</b>		<b>157,482</b>	<b>133,043</b>	<b>381,306</b>	<b>309,510</b>
Operating costs, excluding staff costs, depreciation and amortisation	6	(94,527)	(83,182)	(256,599)	(222,348)
Staff costs	7	(17,086)	(13,408)	(48,118)	(40,643)
Depreciation and amortisation		(3,135)	(3,325)	(9,250)	(10,035)
Other operating income/(expenses), net		942	(2,186)	(413)	324
<b>Operating costs</b>		<b>(113,806)</b>	<b>(102,101)</b>	<b>(314,380)</b>	<b>(272,702)</b>
<b>Operating profit</b>		<b>43,676</b>	<b>30,942</b>	<b>66,926</b>	<b>36,808</b>
Loss from sale and impairment of investments, net	20	(305)	(5,022)	(3,734)	(4,992)
Finance income	8	11,075	5,202	18,860	7,987
Finance costs	8	(2,419)	(13,051)	(7,388)	(16,124)
Hedging result	8	(1,956)	(6,883)	(10,611)	(15,731)
Share of results of associates		45	28	-	(28)
Result from disposal of subsidiaries	14	627	-	(5,099)	-
<b>Profit before income tax</b>		<b>50,743</b>	<b>11,216</b>	<b>58,954</b>	<b>7,920</b>
Income tax expense	9	(9,412)	(5,849)	(15,156)	(6,094)
<b>PROFIT FOR THE PERIOD</b>		<b>41,331</b>	<b>5,367</b>	<b>43,798</b>	<b>1,826</b>
<i>Attributable to:</i>					
Shareholders of the Company		41,245	6,119	42,588	2,699
Non-controlling interest		86	(752)	1,210	(873)
<b>PROFIT FOR THE PERIOD</b>		<b>41,331</b>	<b>5,367</b>	<b>43,798</b>	<b>1,826</b>
<b>Basic and diluted profit per share (in roubles per share)</b>		<b>39.0</b>	<b>5.8</b>	<b>40.3</b>	<b>2.6</b>
<b>Weighted average number of shares outstanding (millions)</b>		<b>1,056.9</b>	<b>1,056.9</b>	<b>1,056.9</b>	<b>1,056.9</b>

Approved and signed on behalf of management 29 November 2016

  
V. G. Saveliy  
General Director

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

The Condensed Consolidated Interim Statement of Profit or Loss is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32.

**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of

Comprehensive Income for the three and nine months ended 30 September 2016

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

	Note	Three months ended		Nine months ended	
		30 September 2016	30 September 2015	30 September 2016	30 September 2015
<b>Profit for the period</b>		<b>41,331</b>	<b>5,367</b>	<b>43,798</b>	<b>1,826</b>
<b>Other comprehensive profit/(loss) :</b>					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Profit on the change in fair value of hedging derivative financial instruments	15	-	1,037	4,485	7,248
Effect from hedging revenue with foreign currency liabilities	18	4,129	(23,833)	27,360	(19,698)
Deferred tax related to a profit/(loss) from cash-flow hedging instruments		(825)	4,566	(6,442)	2,509
<b>Other comprehensive profit/(loss) for the period</b>		<b>3,304</b>	<b>(18,230)</b>	<b>25,403</b>	<b>(9,941)</b>
<b>TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD</b>		<b>44,635</b>	<b>(12,863)</b>	<b>69,201</b>	<b>(8,115)</b>
<i>Total comprehensive profit/(loss) attributable to:</i>					
Shareholders of the Company		44,549	(12,111)	67,991	(7,242)
Non-controlling interest		86	(752)	1,210	(873)
<b>TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD</b>		<b>44,635</b>	<b>(12,863)</b>	<b>69,201</b>	<b>(8,115)</b>

The Consolidated Interim Condensed Statement of Comprehensive Income is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32.

**PJSC AEROFLOT**Condensed Consolidated Interim Statement of  
Financial Position as at 30 September 2016*(All amounts are presented in millions of Russian roubles, unless otherwise stated)*

	Note	30 September 2016	31 December 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		52,121	30,693
Short-term financial investments		8,469	5,917
Accounts receivable and prepayments	10	84,454	76,317
Current income tax prepayment		93	2,489
Aircraft lease security deposits		932	2,658
Expendable spare parts and inventories		9,462	7,447
Derivative financial instruments	15	-	53
Assets classified as held for sale	13	936	7,732
<b>Total current assets</b>		<b>156,467</b>	<b>133,306</b>
<b>Non-current assets</b>			
Deferred tax assets		13,668	21,632
Investments in associates		88	109
Long-term financial investments	20	3,308	6,118
Aircraft lease security deposits		2,450	2,132
Prepayments for aircraft	11	30,563	35,291
Property, plant and equipment	12	103,595	104,494
Intangible assets		2,087	2,690
Goodwill		6,660	6,660
Other non-current assets	10	10,916	2,762
<b>Total non-current assets</b>		<b>173,335</b>	<b>181,888</b>
<b>TOTAL ASSETS</b>		<b>329,802</b>	<b>315,194</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Derivative financial instruments	15	-	4,853
Accounts payable and accrued liabilities	16	62,611	54,751
Unearned traffic revenue		36,271	28,691
Deferred revenue related to the frequent flyer programme	17	1,588	1,307
Provisions for liabilities		5,076	7,519
Finance lease liabilities	18	18,168	19,504
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	15,924	54,085
Liabilities related to assets held for sale	13	-	7,371
<b>Total current liabilities</b>		<b>139,638</b>	<b>178,081</b>
<b>Non-current liabilities</b>			
Long-term loans and borrowings	19	15,881	14,375
Finance lease liabilities	18	114,578	145,020
Provisions for liabilities		9,836	6,917
Deferred tax liabilities		213	170
Deferred revenue related to the frequent flyer programme	17	3,628	2,941
Other non-current liabilities		5,375	3,810
<b>Total non-current liabilities</b>		<b>149,511</b>	<b>173,233</b>
<b>TOTAL LIABILITIES</b>		<b>289,149</b>	<b>351,314</b>
<b>Equity</b>			
Share capital	21	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	15, 18	(39,317)	(64,720)
Retained earnings		82,343	39,755
<b>Equity attributable to shareholders of the Company</b>		<b>42,468</b>	<b>(25,523)</b>
Non-controlling interest		(1,815)	(10,597)
<b>TOTAL EQUITY</b>		<b>40,653</b>	<b>(36,120)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>329,802</b>	<b>315,194</b>

The Condensed Consolidated Interim Statement of  
Financial Position is to be read in conjunction with the notes to, and forms a part of, the Condensed  
Consolidated Interim Financial Statements presented on pages 7 to 32.

**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of  
Cash Flows for the 9 months ended 30 September 2016

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



	<u>Note</u>	<u>9m 2016</u>	<u>9m 2015</u>
<b>Cash flows from operating activities:</b>			
Profit before income tax		58,954	7,920
<i>Adjustments for:</i>			
Depreciation and amortisation		9,250	10,035
Change in impairment provision for accounts receivable and prepayments		959	58
Loss on doubtful accounts write-off		276	25
Change in impairment provision for obsolete expendable spare parts and inventory		(27)	228
Change in provision for impairment of property, plant and equipment	12	(25)	386
Loss on disposal of property, plant and equipment		335	42
Loss on sale of investments	14	5,099	-
Accrual of provision for impairment of investments	20	3,734	4,992
Loss/(gain) on change in the fair value of derivative financial instruments	8	53	(2,727)
Hedging result	8	10,611	15,731
Change in provisions for liabilities		3,655	4,200
Interest expense	8	7,189	5,465
Foreign exchange gain	8	(15,007)	(2,437)
Write-off of VAT recoverable		500	90
Other finance loss/(income), net	8	142	(4)
Loss on derivative financial instruments, net	8	-	10,635
Dividend income		(14)	(31)
Profit from disposal of assets held for sale		(2,784)	-
Other operating income, net		(1,294)	(424)
<b>Total operating cash flows before working capital changes</b>		<b>81,606</b>	<b>54,184</b>
Increase in accounts receivable and prepayments		(15,011)	(7,518)
Increase in expendable spare parts and inventories		(1,988)	(419)
Increase in accounts payable and accrued liabilities		19,303	9,718
<b>Total operating cash flows after working capital changes</b>		<b>83,910</b>	<b>55,965</b>
Change in restricted cash		10	(50)
Income tax paid		(8,674)	(4,505)
Income tax refunded		1,189	91
<b>Net cash flows from operating activities</b>		<b>76,435</b>	<b>51,501</b>

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32.



**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of  
Cash Flows for the 9 months ended 30 September 2016

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



	<u>9m 2016</u>	<u>9m 2015</u>
<b><i>Cash flows from investing activities:</i></b>		
Deposits return	5,438	1,179
Deposits placement	(8,109)	(4,910)
Purchases of investments and loans issued	-	(5,003)
Proceeds from sale of property, plant and equipment	13	153
Proceeds from sale of subsidiary	9	-
Proceeds from sale of assets held for sale	5,467	-
Purchases of property, plant and equipment and intangible assets	(7,712)	(6,606)
Dividends received	62	44
Prepayments for aircraft	(16,722)	(13,279)
Return of prepayments for aircraft	29,243	7,793
Repayment of operating lease security deposits	(2,143)	(1,375)
Return of operating lease security deposits	2,360	600
<b>Net cash flows from / (used in) investing activities</b>	<b><u>7,906</u></b>	<b><u>(21,404)</u></b>
<b><i>Cash flows from financing activities:</i></b>		
Proceeds from loans and borrowings	25,303	35,642
Repayment of loans and borrowings	(56,441)	(22,151)
Repayment of the principal element of finance lease liabilities	(19,343)	(13,646)
Interest paid	(5,760)	(4,098)
Dividends paid	(7)	(63)
Payments from settlement of derivative financial instruments	(4,362)	(23,905)
<b>Net cash used in financing activities</b>	<b><u>(60,610)</u></b>	<b><u>(28,221)</u></b>
Effect of exchange rate fluctuations on cash and cash equivalents	(2,303)	934
<b>Net increase in cash and cash equivalents</b>	<b><u>21,428</u></b>	<b><u>2,810</u></b>
Cash and cash equivalents at the beginning of the year	30,693	26,547
<b>Cash and cash equivalents at the end of the period</b>	<b><u>52,121</u></b>	<b><u>29,357</u></b>
<b><i>Non-cash transactions as part of the investing activities:</i></b>		
Property, plant and equipment acquired under finance leases	14	1,781

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32.

**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of Changes in Equity  
for the 9 months ended 30 September 2016

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



	Note	Equity attributable to shareholders of the Company					Non-controlling interest	Total equity
		Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Hedge reserve	Retained earnings		
<b>1 January 2015</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(48,657)</b>	<b>45,584</b>	<b>(3,631)</b>	<b>(13,505)</b>
<b>Profit/(loss) for the period</b>		-	-	-	-	2,699	(873)	1,826
Loss from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15,18	-	-	-	(9,941)	-	-	(9,941)
<b>Total other comprehensive loss</b>		-	-	-	-	(9,941)	-	(9,941)
<b>Total comprehensive loss</b>		-	-	-	-	(7,242)	(873)	(8,115)
Disposal of subsidiary		-	-	-	-	-	-	-
Dividends declared		-	-	-	-	-	(33)	(33)
<b>30 September 2015</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(58,598)</b>	<b>48,283</b>	<b>(10,780)</b>	<b>(21,653)</b>
<b>1 January 2016</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(64,720)</b>	<b>39,755</b>	<b>(10,597)</b>	<b>(36,120)</b>
<b>Profit for the period</b>		-	-	-	-	42,588	1,210	43,798
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15,18	-	-	-	25,403	-	-	25,403
<b>Total other comprehensive profit</b>		-	-	-	-	25,403	-	25,403
<b>Total comprehensive profit</b>		-	-	-	-	67,991	1,210	69,201
Disposal of subsidiary		-	-	-	-	-	7,579	7,579
Dividends declared	14	-	-	-	-	-	(7)	(7)
<b>30 September 2016</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(39,317)</b>	<b>82,343</b>	<b>(1,815)</b>	<b>40,653</b>

The Condensed Consolidated Interim Statement of Changes in Equity is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32.

## **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.

The Group disposed of OJSC Vladivostok Avia and CJSC Aeroflot-Cargo as a result of their liquidation in May and September of 2016, respectively (Note 14).

As at 30 September 2016 and 31 December 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.

**PJSC AEROFLOT**

Notes to the Condensed Consolidated Interim Financial Statements  
for the 9 months ended 30 September 2016

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

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

The table below provides information on the Group's aircraft fleet as at 30 September 2016 (number of items):

Type of aircraft	Ownership	JSC ORENBURGSKIE					GROUP TOTAL
		PJSC AEROFLOT	JSC AK ROSSIYA	AVIALINII	JSC AK AURORA	LLC POBEDA	
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>-</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>-</b>	<b>48</b>
SSJ 100	Operating lease	30	-	-	-	-	30
Airbus A319	Operating lease	-	17	-	10	-	27
Airbus A320	Operating lease	71	5	-	-	-	76
Airbus A321	Operating lease	15	-	-	-	-	15
Airbus A330	Operating lease	14	-	-	-	-	14
Boeing B737	Operating lease	20	16	-	-	12	48
Boeing B747	Operating lease	-	6	-	-	-	6
Boeing B777	Operating lease	5	7	1	-	-	13
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>155</b>	<b>51</b>	<b>1</b>	<b>17</b>	<b>12</b>	<b>236</b>
<b>Total fleet</b>		<b>188</b>	<b>66</b>	<b>1</b>	<b>24</b>	<b>12</b>	<b>291</b>

As at 30 September 2016, 6 An-148 aircraft were under delivery maintenance to sub-lessees, 2 Boeing B777 aircraft were undergoing redelivery maintenance to lessor, 2 DHC 8-Q402 aircraft were undergoing pre-operating maintenance and 1 An-24 aircraft was leased out.

## 2. BASIS OF PREPARATION

### *Basis of presentation*

The Group's Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS.

### *Foreign currency translation*

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>Exchange rates</b>	
	<b>RUB / USD 1.00</b>	<b>RUB / EUR 1.00</b>
As at 30 September 2016	63.16	70.88
Average rate for 9 months 2016	68.37	76.28
As at 31 December 2015	72.88	79.70
Average rate for 9 months 2015	59.28	66.26

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

In preparing the Condensed Consolidated Interim Financial Statements, the Group followed principal accounting policies that are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015 and as at this date.

### *New standards and interpretations*

The following new standards, amendments and improvements to standards are required for the Group's reporting periods beginning on 1 January 2016:

- IFRS 14, "Regulatory Deferral Accounts";
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation";
- Annual Improvements to IFRS 2014;
- Disclosure Initiative Amendments to IAS 1;
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28.

These new standards, amendments and improvements to standards did not have any impact or did not have a material impact on the Group's Condensed Consolidated Interim Financial Statements.

A number of new standards, amendments to standards and interpretations had not yet taken effect as at 30 September 2016, and have not been early adopted:

- IFRS 9, "Financial Instruments";
- IFRS 15, "Revenue from Contracts with Customers" and amendments to IFRS 15, "Revenue from Contracts with Customers";

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

#### *New standards and interpretations (continued)*

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- IFRS 16, “Leases”;
- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7 - Disclosure Initiative.

The Group is currently assessing the impact of the standards on its consolidated financial statements.

#### *Critical accounting estimates and judgements*

In preparing these Condensed Consolidated Interim Financial Statements, the Group’s management makes estimates, judgements and assumptions that affect the implementation of accounting policy and the reported amounts of assets, liabilities, gains and losses. Actual results may deviate from declared estimates. Judgements regarding the accounting policy provisions and valuation methods applied by management when preparing these Condensed Consolidated Interim Financial Statements correspond to those used when preparing consolidated financial statements for the year ended 31 December 2015, and as at this date, except for changes in accounting estimates with respect to the amount of income tax expenses.

#### *Income tax expenses*

Income tax expenses are recognised in interim periods on the basis of the best accounting estimate of the annual effective income tax rate expected for the full financial year.

### 4. TRAFFIC REVENUE

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September 2016</b>	<b>30 September 2015</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
Scheduled passenger flights	132,138	114,132	313,234	258,219
Charter passenger flights	6,074	1,786	13,090	3,861
Cargo flights	3,021	2,040	8,239	6,482
<b>Total traffic revenue</b>	<b>141,233</b>	<b>117,958</b>	<b>334,563</b>	<b>268,562</b>

**5. OTHER REVENUE**

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Airline agreement revenue	9,576	8,714	27,581	22,820
Revenue from partners under the frequent flyer programme	2,638	2,777	8,709	7,483
Refuelling services	833	960	1,898	1,887
In-flight catering services	570	510	1,191	1,100
Sales of duty-free goods	350	303	993	842
Ground handling and maintenance	336	285	945	821
Hotel revenue	126	102	378	283
Other revenue	1,820	1,434	5,048	5,712
<b>Total other revenue</b>	<b>16,249</b>	<b>15,085</b>	<b>46,743</b>	<b>40,948</b>

**6. OPERATING COSTS**

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Aircraft servicing	19,452	18,813	53,095	47,728
Operating lease expenses	14,808	11,400	43,170	31,341
Aircraft maintenance	9,509	8,711	27,034	21,809
Passenger services	5,182	3,012	11,680	8,610
Communication expenses and booking systems	3,105	3,293	11,113	9,267
Administration and general expenses	3,643	2,933	10,502	8,279
Sales and marketing expenses	3,603	3,378	9,587	9,511
Food cost for in-flight catering	2,782	2,254	6,733	5,773
Insurance expenses	483	505	1,571	1,447
Custom duties	314	268	984	1,003
Cost of duty-free goods sold	190	144	500	433
Other expenses	2,329	2,184	6,713	6,146
<b>Operating costs less aircraft fuel, staff costs and depreciation and amortisation</b>	<b>65,400</b>	<b>56,895</b>	<b>182,682</b>	<b>151,347</b>
Aircraft fuel	29,127	26,287	73,917	71,001
<b>Total operating costs less staff costs and depreciation and amortisation</b>	<b>94,527</b>	<b>83,182</b>	<b>256,599</b>	<b>222,348</b>

**7. STAFF COSTS**

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Wages and salaries	13,539	10,509	37,737	31,843
Pension costs	2,699	2,297	7,940	6,952
Social security costs	848	602	2,441	1,848
<b>Total staff costs</b>	<b>17,086</b>	<b>13,408</b>	<b>48,118</b>	<b>40,643</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 9 months of 2016; 20% for 9 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.

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Payments to the RF Pension Fund	2,702	2,298	7,948	6,958
Refunds from non-governmental pension fund	(3)	(1)	(8)	(6)
<b>Total pension costs</b>	<b>2,699</b>	<b>2,297</b>	<b>7,940</b>	<b>6,952</b>

**8. FINANCE INCOME AND COSTS**

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
<i>Finance income:</i>				
Foreign exchange gain, net	9,689	-	15,007	2,437
Interest income	1,386	1,087	3,849	2,795
Gain on change in fair value of derivative instruments not subject to hedge accounting (Note 15)	-	4,115	-	2,727
Other finance income	-	-	4	28
<b>Total finance income</b>	<b>11,075</b>	<b>5,202</b>	<b>18,860</b>	<b>7,987</b>



**8. FINANCE INCOME AND COSTS (CONTINUED)**

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2015	30 September 2015
<i>Finance costs:</i>				
Interest expense	(2,254)	(2,046)	(7,189)	(5,465)
Foreign exchange loss, net	-	(2,967)	-	-
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 15)	-	-	(53)	-
Realised loss on derivative instruments not subject to hedge accounting (Note 15)	-	(8,014)	-	(10,635)
Other finance costs	(165)	(24)	(146)	(24)
<b>Total finance costs</b>	<b>(2,419)</b>	<b>(13,051)</b>	<b>(7,388)</b>	<b>(16,124)</b>
<i>Hedging result:</i>				
Realised loss on hedging derivative instruments (Note 15)	-	(4,796)	(3,994)	(12,536)
Ineffective portion of fuel hedging (Note 15)	-	(369)	-	1,226
Effect of revenue hedging with liabilities in foreign currency (Note 18)	(1,956)	(1,718)	(6,617)	(4,421)
<b>Total hedging result</b>	<b>(1,956)</b>	<b>(6,883)</b>	<b>(10,611)</b>	<b>(15,731)</b>

**9. INCOME TAX**

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

The expected weighted average annual income tax rate applied to profitable Group companies for the 9 months 2016 equalled 2–66% (9 months 2015: 24–53%).

The expected weighted average annual effective income tax rate applied to loss-making Group companies for the 9 months 2016 equalled 1–3% (9 months 2015: 11–34%).

Changes in expected rates are in general related to utilisation of unused tax losses which were not recognised as a deferred tax asset for such companies of the Group.

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Income tax charge for the period	9,278	4,197	13,590	4,996
Deferred income tax expense	134	1,652	1,566	1,098
<b>Total income tax expense</b>	<b>9,412</b>	<b>5,849</b>	<b>15,156</b>	<b>6,094</b>

In the reporting period, the Group recognised deferred tax assets from tax losses of subsidiaries in the amount of RUB 138 million.

In the reporting period, the Group did not recognise deferred tax assets from tax losses of its subsidiaries in the amount of RUB 1,269 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.

**10. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Trade accounts receivable	39,931	34,275
Other financial receivables	8,489	8,056
Less impairment provision	(11,545)	(10,609)
<b>Total financial receivables</b>	<b>36,875</b>	<b>31,722</b>
Prepayments to suppliers (excluding prepayments for delivery of aircraft)	12,481	8,784
VAT and other taxes recoverable	11,561	17,225
Prepayments for delivery of aircraft	21,552	16,734
Deferred customs duties related to imported aircraft under operating leases, current portion	602	705
Other receivables	1,383	1,147
<b>Accounts receivable and prepayments</b>	<b>84,454</b>	<b>76,317</b>

Deferred customs duties of RUB 602 million as at 30 September 2016 (31 December 2015: RUB 705 million) relate to the current portion of customs duties on imported aircraft under operating leases. These customs duties are recognised within the Group's operating costs over the term of the operating lease.

As at 30 September 2016 and 31 December 2015, the Group made sufficient impairment provisions against accounts receivable and prepayments.

As at 30 September 2016 and 31 December 2015, the current part of prepayments for aircraft includes prepayments for the acquisition of the following aircraft:

<b>Expected lease type</b>	<b>Type of aircraft</b>	<b>30 September 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 B787	8	2016-2017	2	2016
Operating lease	Boeing B777	1	2017	2	2016
Operating lease	Airbus A320	9	2017	9	2016
Operating lease	Airbus A321	7	2017	7	2016

The Company paid an advances in amount of RUB 5,831 million as part of initial payment for operating lease of 14 aircraft delivered during 9 months of 2016. Paid advances were recognised as part of non-current assets as at 30 September 2016. Carrying value of non-current assets to be written-off to operating lease expenses during operating lease contract period.

**11. PREPAYMENTS FOR AIRCRAFT**

As at 30 September 2016 and 31 December 2015, the non-current portions of prepayments for aircraft were RUB 30,563 million and RUB 35,291 million, respectively. Movements in the non-current portion of prepayments are due to approaching aircraft delivery dates as well as new non-current prepayments.

Prepayments made to purchase aircraft expected to be delivered within 12 months after the reporting date are recorded within accounts receivable and prepayments (Note 10).

As at 30 September 2016 and 31 December 2015, the non-current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

<u>Expected lease type</u>	<u>Type of aircraft</u>	<u>30 September 2016</u>		<u>31 December 2015</u>	
		<u>Number of aircraft, units</u>	<u>Expected delivery date</u>	<u>Number of aircraft, units</u>	<u>Expected delivery date</u>
Undetermined	Boeing B-787	14	2017-2019	20	2017-2019
Undetermined	Airbus A-350	22	2018-2023	22	2018-2023
Operating lease	Boeing B-777	-	-	1	2017
Operating lease	Airbus A-320	12	2017-2018	21	2017-2018
Undetermined/ Operating lease	Airbus A-321	5	2017-2018	12	2017-2018

**12. PROPERTY, PLANT AND EQUIPMENT**

	<u>Owned aircraft and engines</u>	<u>Leased aircraft and engines</u>	<u>Land and buildings</u>	<u>Transport, equipment and other</u>	<u>Construction in progress</u>	<u>Total</u>
<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	711	-	91	2,663	3,550	7,015
Capitalised expenditures	-	751	-	-	445	1,196
Disposals	(2,927)	-	(1,406)	(701)	5	(5,029)
Transfers to assets held for sale	(21)	(17,832)	-	(3)	-	(17,856)
Transfers	54	149	17	287	(507)	-
<b>30 September 2015</b>	<b>4,747</b>	<b>109,792</b>	<b>10,420</b>	<b>19,185</b>	<b>5,012</b>	<b>149,156</b>
<b>1 January 2016</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	1,278	148	20	1,020	2,903	5,369
Capitalised expenditures	-	508	-	-	520	1,028
Disposals	(785)	-	(84)	(664)	(11)	(1,544)
Transfers from assets held for sale (Note 13)	-	3,613	-	-	-	3,613
Transfers to assets held for sale (Note 13)	-	(366)	-	-	-	(366)
Transfers (i)	5,338	1,293	18	460	(7,109)	-
<b>30 September 2016</b>	<b>10,325</b>	<b>111,973</b>	<b>10,399</b>	<b>21,232</b>	<b>1,174</b>	<b>155,103</b>

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

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<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 period (Accrual)/release of impairment provision	(432)	(7,143)	(300)	(1,558)	-	(9,433)
Transfers to assets held for sale	166	-	(567)	15	-	(386)
Disposals	7	10,441	-	-	-	10,448
	2,703	-	821	560	-	4,084
<b>30 September 2015</b>	<b>(1,666)</b>	<b>(27,171)</b>	<b>(4,673)</b>	<b>(9,490)</b>	<b>(73)</b>	<b>(43,073)</b>
<b>1 January 2016</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 period (Accrual)/release of impairment provision	(589)	(6,073)	(277)	(1,643)	-	(8,582)
Transfers from assets held for sale (Note 13)	15	-	-	10	-	25
Transfers to assets held for sale (Note 13)	-	(1,338)	-	-	-	(1,338)
Disposals	-	277	-	-	-	277
	126	-	27	466	-	619
<b>30 September 2016</b>	<b>(1,357)</b>	<b>(34,068)</b>	<b>(5,008)</b>	<b>(11,002)</b>	<b>(73)</b>	<b>(51,508)</b>
<i>Carrying amount</i>						
<b>1 January 2016</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>30 September 2016</b>	<b>8,968</b>	<b>77,905</b>	<b>5,391</b>	<b>10,230</b>	<b>1,101</b>	<b>103,595</b>

(i) During 9 months 2016, transfers mainly relate to 5 DHC 8 aircraft that have been put into operation.

Capitalised borrowing costs for 9 months 2016 amounted to RUB 520 million (9 months 2015: RUB 611 million). The capitalisation rate of interest expenses for the period was 3.3% p.a. (9 months 2015: 3.1% p.a.).

As at 30 September 2016, property and land (including tenancy) with a total carrying value of RUB 526 million (31 December 2015: RUB 711 million) were pledged to third and related parties as security for the Group's loans and borrowings (Note 19).

### 13. ASSETS CLASSIFIED AS HELD FOR SALE

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.

As at 30 September 2016, 2 Airbus A321 aircraft 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 30 September 2016, the amount of net assets held for sale amounted to RUB 936 million.

	<b>Initial cost of property plant and equipment</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 (Note 12)	366	(277)	-	89	-
Disposals	(12,464)	7,880	(2)	(4,586)	7,371
Transfers from assets held for sale (Note 12)	(3,613)	1,338	(24)	(2,299)	-
<b>30 September 2016</b>	<b>2,828</b>	<b>(1,909)</b>	<b>17</b>	<b>936</b>	<b>-</b>

As at 30 September 2016, 6 An-148 aircraft were under delivery maintenance to sub-lessees, therefore, these aircraft were reclassified from assets held for sale to property, plant and equipment (Note 12).

During 9 months of 2016 the Group disposed of 2 Airbus A319 aircraft, 1 Airbus A320 aircraft and 6 Airbus A321 aircraft. Profit from disposal amounted to RUB 2,784 million.

### 14. 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 or loss for 9 months of 2016. OJSC Vladivostok Avia did not conduct any significant operating activities in 2016.

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 or loss for 9 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 or loss for 9 months of 2016. CJSC Aeroflot-Cargo did not conduct any significant operating activities in 2016.

Profit/loss on disposal includes the following components:

	<b>CJSC Aeroflot- Cargo</b>	<b>OJSC Vladivostok Avia</b>
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</b>	<b>639</b>	<b>(5,726)</b>

**15. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>30 September 2016</b>	<b>31 December 2015</b>
<b>Derivative financial instruments within assets</b>		
Current	-	53
<b>Total derivative financial instruments within assets</b>	<b>-</b>	<b>53</b>
<b>Derivative financial instruments within liabilities</b>		
Current	-	4,853
<b>Total derivative financial instruments within liabilities</b>	<b>-</b>	<b>4,853</b>

The Group analyses and assesses the fair value of derivative financial instruments on a regular basis for the purposes of consolidated interim financial statements or when so requested by management. Changes in the fair value of derivative financial instruments are determined using Level 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)	(7,908)
Settlements during the period (Note 8)		10,635
<i>Level 3 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	-	(4,732)
Settlements during the period (Note 8)	-	12,536
<i>Level 2 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	859	576
Settlements during the period (Note 8)	3,994	-
<b>30 September</b>	<b>-</b>	<b>(19,479)</b>
<i>Representing:</i>		
Assets	-	88
Liabilities	-	(19,567)
<b>30 September</b>	<b>-</b>	<b>(19,479)</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".

Up until the date of their expiration, the Group recognised a profit of RUB 492 million from revaluation of these derivative financial instruments within other comprehensive income together with a corresponding deferred tax liability 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.

During 9 months 2015, a profit of RUB 670 million from the change in fair value of similar financial instruments was presented in other comprehensive income together with a corresponding deferred tax liability of RUB 115 million.

**15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)***(b) Fuel options*

During 9 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 9 months 2015, the increase in fair value of fuel options amounted to a gain of RUB 3,982 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 9 months 2015 amounted to RUB 6,578 million and were reported in other comprehensive income together with corresponding deferred tax of RUB 1,316 million.

The ineffective part of RUB 1,226 million was recognised within profit or loss. For 9 months 2015, a loss realised on fuel options amounting to RUB 23,171 million was reported as a part of profit or loss.

*(c) Currency options*

As at 30 September 2016, the Group had only one currency option contract, concluded with a Russian bank, with a fair value of nil (as at 31 December 2015: asset in the amount of RUB 53 million within short-term derivative financial instruments). Hedge accounting was not applied to this financial instrument.

During 9 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 (9 months 2015: loss of RUB 1,255 million).

*Valuation principles for currency and fuel options*

Valuation of future fuel and currency options cash flows is 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.).

**16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>30 September 2016</u>	<u>31 December 2015</u>
Accounts payable	33,384	29,466
Dividends payable	5	1
Other financial payables	7,685	9,326
<b>Total financial payables</b>	<b>41,074</b>	<b>38,793</b>
Staff related liabilities	10,796	8,378
VAT payable on imported leased aircraft	9	265
Advances received (other than unearned traffic revenue)	835	1,502
Other taxes payable	3,282	2,667
Other current liabilities related to the frequent flyer programme (Note 17)	2,599	2,572
Income tax payable	3,341	30
Other payables	675	544
<b>Total accounts payable and accrued liabilities</b>	<b>62,611</b>	<b>54,751</b>

**17. DEFERRED REVENUE RELATED TO THE FREQUENT FLYER PROGRAMME**

Deferred revenue and other accrued liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 30 September 2016 and 31 December 2015 represent the number of bonus miles earned when flying on Group flights, but unused by 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 30 September 2016 and 31 December 2015, which represent the fair value of coupons for a discount on repeat purchase of tickets through Aeroflot's website.

	<u>30 September 2016</u>	<u>31 December 2015</u>
Deferred revenue related to the frequent flyer programme, current	1,588	1,307
Deferred revenue related to the frequent flyer programme, non-current	3,628	2,941
Other current liabilities related to the frequent flyer programme	2,599	2,572
Other non-current liabilities related to the frequent flyer programme	2,814	2,779
<b>Total deferred revenue and other liabilities related to the frequent flyer programme</b>	<b>10,629</b>	<b>9,599</b>

**18. FINANCE LEASE LIABILITIES**

The Group leases aircraft from third and related parties under finance lease agreements (Note 25). The aircraft that the Group has operated under finance lease agreements as at 30 September 2016 are listed in Note 1.

	<u>30 September 2016</u>	<u>31 December 2015</u>
Total outstanding finance lease liabilities	148,550	184,730
Future finance lease interest expense	(15,804)	(20,206)
<b>Total finance lease liabilities</b>	<b>132,746</b>	<b>164,524</b>
<i>Representing:</i>		
Current finance lease liabilities	18,168	19,504
Non-current finance lease liabilities	114,578	145,020
<b>Total finance lease liabilities</b>	<b>132,746</b>	<b>164,524</b>



**18. FINANCE LEASE LIABILITIES (CONTINUED)**

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

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 a cash flow hedge accounting model to this hedging relationship, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement".

As at 30 September 2016, finance lease liabilities in the amount of RUB 127,410 million, denominated in US dollars (31 December 2015: RUB 165,659 million), were designated as a hedging instrument of highly probable revenue forecasted for the period 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. As at 30 September 2016, an accumulated foreign currency translation loss of RUB 49,147 million (before deferred income tax) on the finance lease liabilities (31 December 2015: RUB 76,507 million), representing an effective portion of the hedge, was recognised in the hedging reserve. The loss reclassified from the hedging reserve to profit or loss for 9 months 2016 was RUB 6,617 million (for 9 months 2015: RUB 4,421 million).

**19. LOANS AND BORROWINGS**

	<b>30 September 2016</b>	<b>31 December 2015</b>
<i><b>Short-term loans, bonds and other borrowings:</b></i>		
Short-term loans in euro	8,845	-
Short-term loans in Russian roubles	1,392	-
Short-term loans in US dollars	632	31,550
Current portion of loans and borrowings in Russian roubles	4,846	3,190
Current portion of long-term bank loans in US dollars	209	14,242
Current portion of bonds in Russian roubles	-	5,103
<b>Total short-term loans and borrowings</b>	<b>15,924</b>	<b>54,085</b>
<i><b>Long-term loans, bonds and other borrowings:</b></i>		
Long-term loans in Russian roubles	14,209	17,565
Long-term loans and borrowings in US dollars	6,727	14,242
Long-term bonds in Russian roubles	-	5,103
Less:		
Current portion of loans and borrowings in Russian roubles	(4,846)	(3,190)
Current portion of long-term bank loans in US dollars	(209)	(14,242)
Current portion of bonds in Russian roubles	-	(5,103)
<b>Total long-term loans and borrowings</b>	<b>15,881</b>	<b>14,375</b>

*The main changes in loans and borrowings during the reporting period*

The Group has opened a credit line with PAO Bank VTB in the amount of USD 250 million, which can be obtained in Roubles, Euro or US Dollar. As at 30 September 2016 the outstanding amount of the loan is EUR 70 million, which is equal to RUB 4,974 million (including interest). The interest rate is 3m Euribor + 3.8% p.a. and issued for the period up to September 2017. The credit line is unsecured.

The Group has opened a credit line with AO Alfa-Bank in the amount of RUB 4,100 million, which can be obtained in Roubles, Euro or US Dollar. As at 30 September 2016 the outstanding amount of the loan is EUR 39.6 million, which is equal to RUB 2,808 million (including interest). The interest rate is 4% p.a. and issued for the period up to February 2017. The credit line is unsecured.

## 19. LOANS AND BORROWINGS (CONTINUED)

*The main changes in loans and borrowings during the reporting period (continued)*

The Group has opened a credit line with PAO Bank Vozrozhdenie in the amount of EUR 15 million. As at 30 September 2016, the outstanding amount was RUB 1,063 million. The interest rate is 3.95% p.a. The loan is unsecured and issued for the period up to June 2017.

The Group has received loan from Bank VTB (Austria) in the amount of USD 150 million. As at 31 December 2015 the outstanding amount was RUB 10,996 million (including interest). Interest rate is 3m Libor + 5.25% p.a. The loan is unsecured and issued for the period up to October 2016. As at 30 September 2016 the loan was repaid in full.

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 is equal to RUB 9,386 million. Interest rate is 3m Libor + 5% p.a. The loan is unsecured. As at 30 September 2016 the loan was repaid in full.

The Group has received loan from PJSC Moscow Credit Bank in the amount of USD 100 million. As at 31 December 2015 the outstanding amount is USD 100 million, which is equal to RUB 7,304 million (including interest). Interest rate is 5% p.a. The loan is unsecured and issued for the period up to December 2016. As at 30 September 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). Interest rate is 1m Libor + 4.5% p.a. As at 30 September 2016 the loan was repaid in full.

As at 30 September 2016, bank loans in the amount of RUB 1,500 million (31 December 2015: RUB 1,940 million) were secured by property, land (Note 12).

### *Bond issue*

As at 31 December 2015 the Group has 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. (31 December 2014: 11.3% p.a.). As at 30 September 2016 the bonds were repaid in full.

As at 30 September 2016 and 31 December 2015, the fair values of loans and borrowings were not materially different from their carrying amounts.

### *Undrawn commitments*

As at 30 September 2016, the Group was able to raise RUB 70,182 million in cash (31 December 2015: RUB 36,840 million) available under existing credit lines granted to the Group by various lending institutions.

## 20. IMPAIRMENT OF INVESTMENTS

As a result of the actualisation of macroeconomic and financial indicators, the Group revised the fair value of its long-term financial investment in JSC MASH and recognised an impairment in the amount of RUB 2,810 million.

The following factors had the most significant impact on the assessment of the fair value of this investment:

**20. IMPAIRMENT OF INVESTMENTS (CONTINUED)**

- (a) the weighted average cost of capital was actualised 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. A 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.

**21. SHARE CAPITAL**

As at 30 September 2016 and 31 December 2015, Aeroflot's 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
30 September 2016	1,110,616,299	(53,716,189)	1,056,900,110

All issued shares are fully paid. In addition to shares that have been placed, the Company is entitled to place another 250,000,000 ordinary registered shares (31 December 2015: 250,000,000 shares) with a par value of RUB 1 per share (31 December 2015: RUB 1 per share). Each ordinary share entitles the bearer to one vote.

As at 30 September 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. The voting rights of the Company's ordinary shares held by the entity within the Group are effectively controlled by the Group's management.

The Company's shares are listed on Moscow Exchange. As at 30 September 2016 and 31 December 2015, the weighted average price was RUB 117.55 per share and RUB 56.10 per share, respectively.

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 30 September 2016 and 31 December 2015, Aeroflot's GDRs were traded on the Frankfurt Stock Exchange at EUR 8.28 per GDR and EUR 3.41 per GDR, respectively.

**22. DIVIDENDS**

At the Group's Annual General Meeting of shareholders held on 27 June 2016, it was resolved not to declare and pay out any dividends for 2015.

At the Group's Annual General Meeting of shareholders held on 22 June 2015, it was resolved not to declare and pay out any dividends for 2014.

**23. OPERATING SEGMENTS**

The Group has a number of operating segments, but none of them, except for Passenger Traffic, meet the quantitative threshold for determining a reportable segment.

The operational performance of passenger traffic 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 data in evaluating the results.

	<b>Passenger traffic</b>	<b>Other</b>	<b>Inter-segment sales elimination</b>	<b>Total Group</b>
<b>9 months 2016</b>				
External sales	378,574	2,732	-	381,306
Inter-segment sales	-	11,598	(11,598)	-
<b>Total revenue</b>	<b>378,574</b>	<b>14,330</b>	<b>(11,598)</b>	<b>381,306</b>
<b>Operating profit</b>	<b>66,121</b>	<b>755</b>	<b>50</b>	<b>66,926</b>
Loss from sale and impairment of investments, net				(3,734)
Finance income				18,860
Finance costs				(7,388)
Hedging result				(10,611)
Result from disposal of subsidiaries				(5,099)
<b>Profit before income tax</b>				<b>58,954</b>
Income tax expense				(15,156)
<b>Profit for the period</b>				<b>43,798</b>

**23. OPERATING SEGMENTS (CONTINUED)**

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
<b>9 months 2015</b>				
External sales	307,409	2,101	-	<b>309,510</b>
Inter-segment sales	4	10,112	(10,116)	-
<b>Total revenue</b>	<b>307,413</b>	<b>12,213</b>	<b>(10,116)</b>	<b>309,510</b>
<b>Operating profit</b>	<b>36,005</b>	<b>836</b>	<b>(33)</b>	<b>36,808</b>
Loss from sale and impairment of investments, net				(4,992)
Finance income				7,987
Finance costs				(16,124)
Hedging result				(15,731)
Share of results of associates				(28)
<b>Profit before income tax</b>				<b>7,920</b>
Income tax expense				(6,094)
<b>Profit for the period</b>				<b>1,826</b>

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
<b>Three months ended 30 September 2016</b>				
External sales	156,323	1,159	-	157,482
Inter-segment sales	-	4,387	(4,387)	-
<b>Total revenue</b>	<b>156,323</b>	<b>5,546</b>	<b>(4,387)</b>	<b>157,482</b>
<b>Operating profit</b>	<b>43,077</b>	<b>582</b>	<b>17</b>	<b>43,676</b>
Loss from sale and impairment of investments, net				(305)
Finance income				11,075
Finance costs				(2,419)
Hedging result				(1,956)
Share of results of associates				45
Result from disposal of subsidiaries				627
<b>Profit before income tax</b>				<b>50,743</b>
Income tax expense				(9,412)
<b>Profit for the period</b>				<b>41,331</b>

**23. OPERATING SEGMENTS (CONTINUED)**

	<u>Passenger traffic</u>	<u>Other</u>	<u>Inter-segment sales elimination</u>	<u>Total Group</u>
<b>Three months ended 30 September 2015</b>				
External sales	132,153	890	-	133,043
Inter-segment sales	1	3,868	(3,869)	-
<b>Total revenue</b>	<b>132,154</b>	<b>4,758</b>	<b>(3,869)</b>	<b>133,043</b>
<b>Operating profit/(loss)</b>	<b>30,459</b>	<b>484</b>	<b>(1)</b>	<b>30,942</b>
Loss from sale and impairment of investments, net				(5,022)
Finance income				5,202
Finance costs				(13,051)
Hedging result				(6,883)
Share of results of associates				28
<b>Profit before income tax</b>				<b>11,216</b>
Income tax expense				(5,849)
<b>Profit for the period</b>				<b>5,367</b>

**24. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret the market data necessary for determining 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 the derivative financial instruments disclosed in Note 15.

**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. The carrying amounts of cash and cash equivalents, financial receivables (Note 10), investments, lease security deposits and other financial assets are approximately equal to their fair value, which belongs to Level 2 in the fair value hierarchy.

**Liabilities carried at amortised cost.** The fair value of financial instruments is measured based on current market quotes, if any. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 30 September 2016 and 31 December 2015, the carrying amount and fair values of financial payables (Note 16) and finance lease liabilities (Note 18) were not materially different. The fair values of loans and borrowings, including bonds, are disclosed in Note 19. The fair values of stated financial instruments are categorised as Level 2, while bonds are categorised as Level 1 in the fair value hierarchy.

**24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

During 9 months of 2016 and 9 months 2015, there were no transfers between Levels 1, 2 or 3 of the fair value hierarchy.

The classification of financial assets and liabilities as at 30 September 2016 is stated below:

	<b>Loans and receivables</b>	<b>Available-for sale financial assets</b>	<b>Total</b>
Cash and cash equivalents	52,121	-	52,121
Short-term financial investments	8,468	1	8,469
Financial receivables	36,875	-	36,875
Aircraft lease security deposits	3,382	-	3,382
Long-term financial investments	-	3,308	3,308
Other non-current assets	159	-	159
<b>Total financial assets</b>	<b>101,005</b>	<b>3,309</b>	<b>104,314</b>
	<b>Derivative financial instruments (hedging)</b>	<b>Other financial liabilities</b>	<b>Total</b>
Financial payables	-	41,074	41,074
Finance lease liabilities	-	132,746	132,746
Loans and borrowings	-	31,805	31,805
Other long-term liabilities	-	1,760	1,760
<b>Total financial liabilities</b>	<b>-</b>	<b>207,385</b>	<b>207,385</b>

The classification of financial assets and liabilities as at 31 December 2015 is stated below:

	<b>Loans and receivables</b>	<b>Available-for sale financial assets</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Total</b>
Cash and cash equivalents	30,693	-	-	30,693
Short-term financial investments	5,916	1	-	5,917
Financial receivables	31,722	-	-	31,722
Aircraft lease security deposits	4,790	-	-	4,790
Derivative financial instruments	-	-	53	53
Long-term financial investments	-	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>

	<b>Derivative financial instruments (hedging)</b>	<b>Other financial liabilities</b>	<b>Total</b>
Derivative financial instruments	4,853	-	4,853
Financial payables	-	38,793	38,793
Finance lease liabilities	-	164,524	164,524
Loans and borrowings	-	68,460	68,460
Other long-term liabilities	-	286	286
Liabilities for guarantees issued	-	1,517	1,517
<b>Total financial liabilities</b>	<b>4,853</b>	<b>273,580</b>	<b>278,433</b>

## 25. RELATED-PARTY TRANSACTIONS

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

As at 30 September 2016 and 31 December 2015, the outstanding balances with related parties and income and expense items with related parties for 9 months 2016 and 9 months 2015 were as follows:

### *Associates*

As at 30 September 2016 and 31 December 2015, outstanding balances with associates and income and expense items with associates for 9 months 2016 and 9 months 2015 were as follows.

	<u>30 September 2016</u>	<u>31 December 2015</u>
<b>Assets</b>		
Accounts receivable	-	1
<b>Liabilities</b>		
Accounts payable and accrued liabilities	<u>129</u>	<u>111</u>

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>30 September 2016</u>	<u>30 September 2015</u>	<u>30 September 2016</u>	<u>30 September 2015</u>
<b>Transactions</b>				
Sales to associates	3	2	7	18
Purchase from associates	<u>411</u>	<u>405</u>	<u>1,141</u>	<u>1,104</u>

Purchases from associates consist primarily of aviation security services.

### *Government-related entities*

As at 30 September 2016 and 31 December 2015, the Government of the RF, as represented by the Federal Agency for Management of State Property, owned a 51.17% stake in the Company. The Group operates in an economic environment where the entities are directly or indirectly controlled by the Government of the RF through the relevant government authorities, agencies, affiliations and other organisations (government-related entities).

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

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

- banking services;
- transactions, assets and liabilities with derivative financial instruments;
- investments in JSC MASH;
- purchases of air navigation and airport services; and



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

- government subsidies, including those provided for compensating losses from passenger flights under two government programmes, i.e. flights to and from European Russia for inhabitants of the Kaliningrad Region and the Russian Far East;
- finance and operating lease;
- guarantees on liabilities.

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

	<b>30 September 2016</b>	<b>31 December 2015</b>
<b>Assets</b>		
<i>Cash and cash equivalents</i>	20,205	8,060
<i>Derivative financial instruments</i>	-	53

The value of finance lease liabilities of the Group are disclosed in Note 18, the amount of future lease payments under operating leases are disclosed in Note 26. The share of liabilities to government-related entities is approximately 14% for finance lease and 5% for operating lease (31 December 2015: 12% and 6%, respectively).

For 9 months 2016, the share of the Group's transactions with government-related entities is approximately 11% of operating costs, and approximately 3% of revenue (9 months 2015: 11% and approximately 4%, respectively). These expenses primarily include the cost of air navigation and aircraft maintenance services at government-related airports as well as supplies of motor fuels from government-related entities.

As at 30 September 2016, the Group issued guarantees for the amount of RUB 777 million to a government-related entity to secure obligations under tender procedures (31 December 2015: RUB 627 million).

Transactions with the Russian Government also include payment of taxes, levies, customs duties, and charges, which are disclosed in Notes 6, 7, 9, 10 and 16.

*Compensation of key management personnel*

The remuneration of directors and other key management personnel (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 for the Group's key control and planning decisions), including salary and bonuses as well as short-term and mid-term compensation, amounted to RUB 1,116 million (9 months 2015: RUB 540 million).

These amounts are stated before personal income tax but exclude mandatory insurance contributions to non-budgetary funds. By Russian law, the Group makes contributions to the Russian Federation Pension Fund as part of the social insurance tax for all its employees, including key management personnel.

*Bonus programmes based on the Group's capitalisation*

In 2013, the Group approved bonus programmes for its key management personnel and members of the Company's Board of Directors. The programmes run for three years and are exercised in three tranches of cash payments. The amounts of payments depend both on the absolute increase in the Company's capitalisation and its capitalisation growth rates against peers based on the results of each reporting period and the achievement of target capitalisation by the end of the programmes. As at 30 September 2016 liabilities under the bonus programmes were included in accounts payable.

**25. RELATED-PARTY TRANSACTIONS (CONTINUED)*****Bonus programmes based on the Group's capitalization (continued)***

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 tranches of cash payments. 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 30 September 2016 was determined based on the expected payment amount for the reporting period from 1 January 2016 until 30 September 2016 and the amount of payments deferred until the end of the programmes.

Expenses related to the bonus programmes for 9 months 2016 were RUB 620 million (9 months 2015: RUB 144 million). These expenses are recorded within staff costs in the Group's condensed consolidated interim statement of profit or loss. As at 30 September 2016, the outstanding liability under the plans approved in 2013 and 2016 was RUB 1,072 million (31 December 2015: RUB 452 million).

***Cross shareholding***

As at 30 September 2016 and 31 December 2015, LLC Aeroflot-Finance, a wholly owned subsidiary of the Group, held 53,716,189 ordinary shares in the Company (Note 21).

**26. COMMITMENTS UNDER OPERATING LEASES**

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

	<b>30 September 2016</b>	<b>31 December 2015</b>
On demand or within 1 year	61,886	57,356
Later than 1 year and not later than 5 years	235,012	202,376
Later than 5 years	261,610	219,353
<b>Total operating lease commitments</b>	<b>558,508</b>	<b>479,085</b>

As at 30 September 2016, the Group had 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.

**27. CAPITAL COMMITMENTS**

As at 30 September 2016, the Group had entered into agreements for future acquisitions of property, plant and equipment with third parties amounting to RUB 438,038 million (31 December 2015: RUB 866,439 million). These commitments mainly relate to purchases of 1 Boeing B777 (31 December 2015: 3 aircraft), 22 Boeing B787 (31 December 2015: 22 aircraft), 22 Airbus A350 (31 December 2015: 22 aircraft) and 33 Airbus A320/321 (31 December 2015: 49 aircraft) aircraft. Group plans to use such aircraft under operating or finance lease agreements; therefore, no cash outflow on these agreements is expected.

## 28. CONTINGENCIES

### *Operating environment of the Group*

The Group's operations are primarily located in the RF. Consequently, the Group is exposed to risks specifically associated with the Russian economy and financial markets, which display characteristics of an emerging market. The legal and tax frameworks continue to develop, 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.

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 has been 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 the 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.

Management continues to monitor the situation and executes a set of measures to minimise the influence of possible risks on the Group's operating activity and financial position.

These Condensed Consolidated Interim Financial Statements reflect Group management's assessment of the impact of the Russian business environment on the Group's operations and financial position. The future business situation may differ from management's current expectations.

### *Seasonality*

The Group's business activities with respect to international and domestic passenger and cargo flights are subject to seasonal fluctuations; peak demand occurs in the second and third quarters of the year.

### *Tax contingencies*

The RF's taxation system continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear and contradictory and subject to varying interpretations 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. 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 stringent stance in their interpretation and enforcement of tax legislation.

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

Effective 1 July 2015, the Russian Government has decided to decrease VAT on domestic air passenger and luggage carriage to 10% for two years. This is aimed at improving the financial and economic position of those airlines serving domestic routes and destinations.

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

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

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

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 allows the 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 30 September 2016 and 31 December 2015 management estimates that the Group has no possible obligations from exposure to other than remote tax risks.

These 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 Condensed Consolidated Interim Financial Statements, if these are challenged by the tax authorities.

*Insurance*

The Group maintains insurance in accordance with applicable law. In addition, it insures risks under various voluntary insurance programmes, including management liability, Group liability, and the risk of the loss of aircraft under operating and finance leases.

*Litigation*

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