PUBLIC JOINT STOCK COMPANY AEROFLOT – RUSSIAN AIRLINES

Condensed Consolidated Interim Financial Statements as at and for the 6 months ended 30 June 2017

Contents

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 judgments 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 Groups'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 respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the Groups's assets; and
- preventing and detecting fraud and other irregularities.

The Condensed consolidated interim financial statements as at and for 6 months ended 30 June 2017 were approved on 29 August 2017 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 June 2017 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

29 August 2017

Moscow, Russian Federation

A. Fegetsyn, certified auditor (licence no. K028209), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Aeroflot

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

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

119002, Russia, Moscow, 10 Arbat

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

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

AEROFLOT Russian Airlines

	Note	6m 2017	6m 2016
Traffic revenue	4	207,982	193,330
Other revenue	5	26,878	30,494
Revenue		**234,860**	**223,824**
Operating costs, excluding staff costs, depreciation and amortisation	6	(180,699)	(162,072)
Staff costs	7	(38,324)	(31,032)
Depreciation and amortisation		(7,004)	(6,115)
Other income and expenses, net		(1,136)	(1,355)
Operating costs		**(227,163)**	**(200,574)**
Operating profit		**7,697**	**23,250**
Result from disposal of subsidiaries	14	-	(5,726)
Loss from sale and impairment of investments, net		(70)	(3,429)
Finance income	8	4,783	7,890
Finance costs	8	(4,159)	(5,074)
Hedging result	8	(2,748)	(8,655)
Share of results of associates		34	(45)
Profit before income tax		**5,537**	**8,211**
Income tax expense	9	(2,647)	(5,744)
PROFIT FOR THE PERIOD		**2,890**	**2,467**
Attributable to:			
Shareholders of the Company		2,871	1,343
Non-controlling interest		19	1,124
PROFIT FOR THE PERIOD		**2,890**	**2,467**
Basic and diluted profit per share (in roubles per share)		**2.7**	**1.3**
Weighted average number of shares outstanding (millions)		**1,056.9**	**1,056.9**

Approved and signed on behalf of management

29 August 2017

V. G. Saveliev
General Director

Sh. R. Kurmashov
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 27.

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

	Note	6m 2017	6m 2016
Profit for the period		**2,890**	**2,467**
Other comprehensive profit :			
Items that may be reclassified subsequently to profit or loss:			
Profit from the change in fair value of derivative financial instruments	15	-	4,486
Effect from hedging revenue with foreign currency liabilities	18	5,866	23,231
Deferred tax related to the profit on cash flow hedging instruments		(1,173)	(5,617)
Other comprehensive profit for the period		**4,693**	**22,100**
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		**7,583**	**24,567**
Total comprehensive profit attributable to:			
Shareholders of the Company		7,564	23,443
Non-controlling interest		19	1,124
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		**7,583**	**24,567**

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

	Note	30 June 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents		81,055	31,476
Short-term financial investments		7,078	6,319
Accounts receivable and prepayments	10	93,068	78,172
Current income tax prepayment		1,648	2,679
Aircraft lease security deposits		336	320
Expendable spare parts and inventories		10,951	10,040
Assets classified as held for sale	13	4,076	1,140
Total current assets		**198,212**	**130,146**
Non-current assets			
Deferred tax assets		10,273	12,252
Investments in associates		132	98
Long-term financial investments		3,335	3,306
Aircraft lease security deposits		2,170	2,181
Prepayments for aircraft	11	10,724	27,830
Property, plant and equipment	12	99,386	104,897
Intangible assets		1,902	1,825
Goodwill		6,660	6,660
Other non-current assets		14,829	10,112
Total non-current assets		**149,411**	**169,161**
TOTAL ASSETS		**347,623**	**299,307**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	20	81,673	49,868
Unearned traffic revenue		73,328	39,044
Deferred revenue related to the frequent flyer programme	16	1,730	1,607
Provisions for liabilities	17	8,159	5,304
Finance lease liabilities	18	17,154	15,593
Short-term borrowings and current portion of long-term loans and borrowings	19	9,542	9,309
Liabilities related to assets held for sale	13	2,932	-
Total current liabilities		**194,518**	**120,725**
Non-current liabilities			
Long-term loans and borrowings	19	7,906	11,058
Finance lease liabilities	18	95,220	107,143
Provisions for liabilities	17	13,323	10,791
Deferred tax liabilities		42	39
Deferred revenue related to frequent flyer programme	16	3,900	3,623
Other non-current liabilities		4,045	5,159
Total non-current liabilities		**124,436**	**137,813**
TOTAL LIABILITIES		**318,954**	**258,538**
Equity			
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	(29,494)	(34,187)
Retained earnings		60,656	77,198
Equity attributable to shareholders of the Company		**30,604**	**42,453**
Non-controlling interest		(1,935)	(1,684)
TOTAL EQUITY		**28,669**	**40,769**
TOTAL LIABILITIES AND EQUITY		**347,623**	**299,307**

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 27.

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

	Note	6m 2017	6m 2016
Cash flows from operating activities:			
Profit before income tax		5,537	8,211
Adjustments for:			
Depreciation and amortisation		7,004	6,115
Change in impairment provision for accounts receivable and prepayments		(302)	2,137
Change in impairment provision for obsolete expendable spare parts and inventory		(41)	(22)
Loss on disposal of property, plant and equipment		688	111
Result on disposal of subsidiaries		-	5,726
Loss on sale and impairment of investments		70	3,429
Loss on change in the fair value of derivative financial instruments	8	-	53
Hedging result	8	2,748	8,655
Change in provisions for liabilities		5,085	1,683
Interest expense	8	3,906	4,935
Foreign exchange gain, net	8	(2,393)	(5,318)
Write-off of VAT recoverable		-	500
Other finance expenses/(income), net		253	(23)
Dividend income		(24)	(7)
Other operating (income)/expenses, net		(812)	2,142
Total operating cash flows before working capital changes		**21,719**	**38,327**
Increase in accounts receivable and prepayments		(16,893)	(6,302)
Increase in expendable spare parts and inventories		(870)	(1,119)
Increase in accounts payable and accrued liabilities		49,106	43,831
Total operating cash flows after working capital changes		**53,062**	**74,737**
Change in restricted cash		(14)	16
Income tax paid		(761)	(595)
Income tax refunded		17	1,123
Net cash flows from operating activities		**52,304**	**75,281**

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

	6m 2017	**6m 2016**
Cash flows from investing activities:		
Deposits return	6,321	2,947
Deposits placement	(6,658)	(4,030)
Proceeds from sale of property, plant and equipment	5	12
Proceeds from sale of assets held for sale	639	-
Purchases of property, plant and equipment and intangible assets	(2,445)	(3,519)
Dividends received	39	36
Prepayments for aircraft	(166)	(12,370)
Return of prepayments for aircraft	11,909	6,055
Repayment of operating lease security deposits	(229)	(1,758)
Return of operating lease security deposits	69	2,129
Net cash flows from/(used in) investing activities	**9,484**	**(10,498)**
Cash flows from financing activities:		
Proceeds from loans and borrowings	-	22,736
Repayment of loans and borrowings	(3,145)	(42,732)
Repayment of the principal element of finance lease liabilities	(5,591)	(13,298)
Interest paid	(3,390)	(4,033)
Payments from settlement of derivative financial instruments	-	(4,362)
Dividends paid	(55)	-
Net cash used in financing activities	**(12,181)**	**(41,689)**
Effect of exchange rate fluctuations on cash and cash equivalents	(28)	(1,790)
Net increase in cash and cash equivalents	**49,579**	**21,304**
Cash and cash equivalents at the beginning of the year	31,476	30,693
Cash and cash equivalents at the end of the period	**81,055**	**51,997**
Non-cash transactions as part of the investing activities:		
Property, plant and equipment acquired under finance leases	1,668	-

(All amounts are presented 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**
1 January 2016		**1,359**	**(1,912)**	**(5)**	**(64,720)**	**39,755**	**(25,523)**	**(10,597)**	**(36,120)**
Profit for the period		**-**	**-**	**-**	**-**	**1,343**	**1,343**	**1,124**	**2,467**
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15, 18	-	-	-	22,100	-	22,100	-	22,100
Total other comprehensive profit		-	-	-	-	-	**22,100**	**-**	**22,100**
Total comprehensive profit		-	-	-	-	-	**23,443**	**1,124**	**24,567**
Disposal of subsidiary	14	-	-	-	-	-	-	7,579	7,579
30 June 2016		**1,359**	**(1,912)**	**(5)**	**(42,620)**	**41,098**	**(2,080)**	**(1,894)**	**(3,974)**
1 January 2017		**1,359**	**(1,912)**	**(5)**	**(34,187)**	**77,198**	**42,453**	**(1,684)**	**40,769**
Profit for the period		**-**	**-**	**-**	**-**	**2,871**	**2,871**	**19**	**2,890**
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15, 18	-	-	-	4,693	-	4,693	-	4,693
Total other comprehensive profit		-	-	-	-	-	**4,693**	**-**	**4,693**
Total comprehensive profit		-	-	-	-	-	**7,564**	**19**	**7,583**
Dividends declared	22	-	-			(19,413)	(19,413)	(270)	(19,683)
30 June 2017		**1,359**	**(1,912)**	**(5)**	**(29,494)**	**60,656**	**30,604**	**(1,935)**	**28,669**

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's business activities in provision of international and domestic passenger and cargo air transportation services are subject to seasonal fluctuations, the peak of demand is in the second and third quarters of the year.

As at 30 June 2017 and 31 December 2016, the Government of the Russian Federation (the "RF") represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

(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 30 June 2017 (number of items):

Type of aircraft	Ownership	PSJC AEROFLOT	JSC AK ROSSIYA	JSC AK AURORA	LLC POBEDA	GROUP TOTAL
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		**-**	**-**	**7**	**-**	**7**
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
Total aircraft under finance leases		**33**	**15**	**-**	**-**	**48**
SSJ 100	Operating lease	30	-	-	-	30
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	69	5	-	-	74
Airbus A321	Operating lease	21	-	-	-	21
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	26	16	-	12	54
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	6	6	-	-	12
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
Total aircraft under operating leases		**166**	**53**	**18**	**12**	**249**
Total fleet		**199**	**68**	**25**	**12**	**304**

As at 30 June 2017, 6 An-148 aircraft and one An-24 aircraft were leased out.

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

2. BASIS OF PREPARATION

Basis of preparation

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 2016, 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:

	Official exchange rates	
	RUB / USD 1.00	**RUB / EUR 1.00**
As at 30 June 2017	59.09	67.50
Average rate for 6 months 2017	57.99	62.72
As at 31 December 2016	60.66	63.81
Average rate for 6 months 2016	70.26	78.37

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 2016 and as at this date.

New standards and interpretations

The following amendments and improvements to standards became effective from 1 January 2017:

- *Disclosure Initiative – Amendments to IAS 7;*
- *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12;*
- *Annual Improvements to IFRS 2014-2016 cycle.*

These 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 disclosed in the Consolidated Financial Statements for the year ended 31 December 2016, have not yet taken effect and have not been early adopted by the Group.

A number of new standards, amendments to standards and interpretations have been published, that are not yet effective as at 30 June 2017, and have not been early adopted by the Group:

- *IFRS 17 "Insurance Contracts"* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021);
- *IFRIC 23 "Uncertainty over Income Tax Treatments"* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

The Group is currently assessing the applicability of the mentioned changes in IFRS and their impact on its Consolidated Financial Statements and effective terms.

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

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

Critical accounting estimates and judgments

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 2016, and as at this date, except for changes in accounting estimates with respect to the amount of income tax expenses.

Income tax expense

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

	6m 2017	6m 2016
Scheduled passenger flights	188,416	181,096
Charter passenger flights	12,383	7,016
Cargo flights	7,183	5,218
Total traffic revenue	**207,982**	**193,330**

5. OTHER REVENUE

	6m 2017	6m 2016
Airline agreements revenue	15,333	18,005
Revenue from partners under frequent flyer programme	5,117	6,071
Sales of duty free goods	768	643
Ground handling and maintenance	718	609
In-flight catering services	676	621
Refuelling services	237	1,065
Hotel revenue	210	252
Other revenue	3,819	3,228
Total other revenue	**26,878**	**30,494**

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

6. OPERATING COSTS

	6m 2017	6m 2016
Aircraft servicing	37,128	33,458
Operating lease expenses	30,654	28,362
Aircraft maintenance	15,682	17,525
Passenger services	8,833	6,662
Administration and general expenses	7,688	6,859
Communication expenses	7,248	8,008
Sales and marketing	6,819	5,984
Food cost for in-flight catering	4,706	3,951
Insurance expenses	1,007	1,088
Custom duties	702	670
Cost of duty-free goods sold	436	310
Other expenses	3,579	4,405
Operating costs less aircraft fuel, staff costs, depreciation and amortisation	**124,482**	**117,282**
Aircraft fuel	56,217	44,790
Total operating costs less staff costs, depreciation and amortisation	**180,699**	**162,072**

7. STAFF COSTS

	6m 2017	6m 2016
Wages and salaries	30,009	24,198
Pension costs	6,213	5,241
Social security costs	2,102	1,593
Total staff costs	**38,324**	**31,032**

Pension costs include:

- compulsory payments to the RF Pension Fund,
- contributions to a non-government pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 6 months 2017, 20% for 6 months 2016) of the transfers made personally by the employees participating in the programme, and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under defined benefit pension plans.

	6m 2017	6m 2016
Payments to the RF Pension Fund	6,219	5,246
Defined benefit pension plan	(10)	(5)
Fixed-contribution pension plan	4	-
Total pension costs	**6,213**	**5,241**

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

8. FINANCE INCOME AND COSTS

	6m 2017	6m 2016
Finance income:		
Foreign exchange gain, net	2,393	5,318
Interest income	2,390	2,463
Other finance income	-	109
Total finance income	**4,783**	**7,890**
Finance costs:		
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 15)	-	(53)
Interest expense	(3,906)	(4,935)
Other finance costs	(253)	(86)
Total finance costs	**(4,159)**	**(5,074)**

	6m 2017	6m 2016
Hedging result:		
Realised loss on hedging derivative instruments (Note 15)	-	(3,994)
Effect of revenue hedging with liabilities in foreign currency (Note 18)	(2,748)	(4,661)
Total loss on hedging result	**(2,748)**	**(8,655)**

9. INCOME TAX

Income tax expense is 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 6 months 2017 equalled 15 – 29% (6 months 2016: 12 – 68%). Changes in expected rates are in general related to change in the amount of expenses not deductible for tax purposes.

Expected weighted average annual income tax rate applied to loss making Group companies for the 6 months 2017 equalled to 0 – 20% (6 months 2016: 1 – 20%). Changes in expected rates are in general related to non-recognition of the deferred tax asset for tax losses received by these companies.

	6m 2017	6m 2016
Income tax charge for the period	1,838	4,312
Deferred income tax expense	809	1,432
Total income tax expense	**2,647**	**5,744**

In the reporting period, the Group has utilised deferred tax assets from tax losses of its subsidiaries in amount of RUB 36 million.

In the reporting period, the Group did not recognise deferred tax assets from tax losses in the amount RUB 147 million.

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

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2017	31 December 2016
Trade accounts receivable	36,438	31,329
Other financial receivables	9,902	8,517
Less impairment provision	(11,327)	(11,807)
Total financial receivables	**35,013**	**28,039**
Prepayments for delivery of aircraft	33,452	26,341
VAT and other taxes recoverable	11,448	10,905
Prepayments to suppliers (excluding prepayments for delivery of aircraft)	11,008	10,504
Deferred customs duties related to imported aircraft under operating leases, current portion	499	579
Other receivables	2,207	2,339
Provision for doubtful accounts	(559)	(535)
Total accounts receivable and prepayments	**93,068**	**78,172**

Deferred customs duties of RUB 499 million as at 30 June 2017 (31 December 2016: RUB 579 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 June 2017 and 31 December 2016, the Group made sufficient impairment provision against accounts receivable and prepayments.

As at 30 June 2017 and 31 December 2016, the current part of prepayments for aircraft includes prepayments for the acquisition of the following aircraft:

		30 June 2017		31 December 2016	
Expected lease type	**Type of aircraft**	**Number of aircraft, units**	**Expected delivery date**	**Number of aircraft, units**	**Expected delivery date**
Undetermined	Boeing B787	22	2017	22	2017
Operating lease	Boeing B777	-		1	2017
Operating lease / Undetermined	Airbus A320	15	2017-2018	11	2017
Operating lease / Undetermined	Airbus A321	9	2017-2018	8	2017

11. PREPAYMENTS FOR AIRCRAFT

As at 30 June 2017 and 31 December 2016, the non-current portions of prepayments for aircraft was RUB 10,724 million and RUB 27,830 million, respectively. Changes in the non-current portion of prepayments are due to the 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 June 2017 and 31 December 2016, the non-current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

		30 June 2017		31 December 2016	
Expected lease type	**Type of aircraft**	**Number of aircraft, units**	**Expected delivery date**	**Number of aircraft, units**	**Expected delivery date**
Undetermined	Airbus A350	22	2019-2023	22	2018-2023
Undetermined	Airbus A320	2	2018	10	2018
Undetermined	Airbus A321	-	-	4	2018

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

12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2016	**4,494**	**106,777**	**10,445**	**20,416**	**4,871**	**147,003**
Additions	858	137	27	602	532	**2,156**
Capitalised expenditures	-	508	-	-	328	**836**
Disposals	(487)	-	(274)	(461)	(21)	**(1,243)**
Transfers to assets held for sale (Note 13)	-	(366)	-	-	-	**(366)**
Transfers	2,538	287	16	401	(3,242)	**-**
30 June 2016	**7,403**	**107,343**	**10,214**	**20,958**	**2,468**	**148,386**
1 January 2017	**8,147**	**112,942**	**10,131**	**23,937**	**4,721**	**159,878**
Additions	610	-	4	2,185	565	**3,364**
Capitalised expenditures	-	495	-	-	758	**1,253**
Disposals	(56)	(1,286)	-	(293)	(19)	**(1,654)**
Transfers to assets held for sale (Note 13)	(114)	(6,477)	-	-	-	**(6,591)**
Transfers (i)	2,797	1,209	10	244	(4,260)	**-**
30 June 2017	**11,384**	**106,883**	**10,145**	**26,073**	**1,765**	**156,250**
Accumulated depreciation						
1 January 2016	**(909)**	**(26,934)**	**(4,758)**	**(9,835)**	**(73)**	**(42,509)**
Charge for the period	(360)	(4,037)	(190)	(1,084)	-	**(5,671)**
Accrual of impairment provision	(1)	-	-	-	-	**(1)**
Disposals	89	-	100	319	-	**508**
Transfers to assets held for sale (Note 13)	-	277	-	-	-	**277**
30 June 2016	**(1,181)**	**(30,694)**	**(4,848)**	**(10,600)**	**(73)**	**(47,396)**
1 January 2017	**(1,511)**	**(36,756)**	**(4,970)**	**(11,671)**	**(73)**	**(54,981)**
Charge for the period	(583)	(4,238)	(114)	(1,548)	-	**(6,483)**
Accrual of impairment provision	4	-	-	-	-	**4**
Disposals	30	696	-	215	-	**941**
Transfers to assets held for sale (Note 13)	21	3,634	-	-	-	**3,655**
30 June 2017	**(2,039)**	**(36,664)**	**(5,084)**	**(13,004)**	**(73)**	**(56,864)**
Carrying amount						
1 January 2017	**6,636**	**76,186**	**5,161**	**12,266**	**4,648**	**104,897**
30 June 2017	**9,345**	**70,219**	**5,061**	**13,069**	**1,692**	**99,386**

(i) During 6 months 2017 transfers mainly relate to 2 DHC-8 aircraft that have been put into operation in JSC "AK Aurora".

Capitalised borrowing costs for 6 months 2017 amounted to RUB 757 million (6 months 2016: RUB 328 million). The capitalisation rate of interest expenses for the period was 3.2% p.a. (6 months 2016: 3.4% p.a.).

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

13. ASSETS CLASSIFIED AS HELD FOR SALE

As at 30 June 2017, 6 Airbus A321 aircraft (31 December 2016: 2 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 June 2017, the amount of net assets held for sale amounted to RUB 1,144 million (31 December 2016: RUB 1,140 million).

	Initial cost of property plant and equipment	Accumulated depreciation	Aircraft lease security deposits	Total assets	Total liabilities
1 January 2016	**18,539**	**(10,850)**	**43**	**7,732**	**(7,371)**
Additions (Note 12)	366	(277)	-	89	-
Disposals	(9,471)	6,096	(2)	(3,377)	3,680
30 June 2016	**9,434**	**(5,031)**	**41**	**4,444**	**(3,691)**

	Initial cost of fixed assets	Accumulated depreciation	Aircraft lease security deposits	Total assets	Total liabilities
01 January 2017	**3,049**	**(1,909)**	**-**	**1,140**	**-**
Additions (Note 12)	6,591	(3,655)	-	2,936	(2,932)
30 June 2017	**9,640**	**(5,564)**	**-**	**4,076**	**(2,932)**

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 and loss for 12 months of 2016. OJSC Vladivostok Avia did not conduct any significant operating activities in 2016.

Loss on disposal of subsidiary OJSC Vladivostok Avia includes the following components:

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

14. DISPOSAL OF SUBSIDIARIES (CONTINUED)

	OJSC Vladivostok Avia
Group's share in negative net assets of disposed company	10,326
Non-controlling interest share in negative net assets	7,579
Group's share in negative net assets of disposed company	2,747
Intragroup liabilities, including:	
Accounts payable from disposed subsidiary to the Group	(7,028)
Loan issued by the Group to disposed subsidiary	(1,445)
Loss from disposal	**(5,726)**

15. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2017, there were no derivative financial instruments in the Group's portfolio.

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 financial expenses.

At the end of 2016 the currency option contract, concluded with Russian bank, with fair value of nil was closed. Hedge accounting was not applied to this financial instrument.

During 6 months 2016 loss on change in fair value of this derivative financial instrument amounted to RUB 53 million and was recognized in profit or loss.

16. 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 June 2017 and 31 December 2016 represent the number of bonus miles earned when flying on the Group flights, but unused by the Aeroflot Bonus programme members and the number of promo-miles and bonus miles earned by programme members for using programme partners' services respectively, and are estimated at fair value.

	30 June 2017	**31 December 2016**
Deferred revenue related to the frequent flyer programme, current	1,730	1,607
Deferred revenue related to the frequent flyer programme, non-current	3,900	3,623
Other current liabilities related to frequent flyer programme (Note 20)	2,761	2,518
Other non-current liabilities related to frequent flyer programme	2,820	2,580
Total deferred revenue and other liabilities related to the frequent flyer programme	**11,211**	**10,328**

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

17. PROVISIONS FOR LIABILITIES

	Litigations	Tax risks	Regular repairs and maintenance works	Total provisions
1 January 2016	**3,662**	**53**	**10,721**	**14,436**
Charge of provision for the period	1,366	-	4,415	5,781
Use of provision for the period	(940)	-	(1,777)	(2,717)
Release of provision for the period	(585)	-	(3,514)	(4,099)
Unwinding of the discount	-	-	1,181	1,181
Foreign exchange profit, net	(190)	-	(1,143)	(1,333)
Other changes	(542)	-	-	(542)
30 June 2016	**2,771**	**53**	**9,883**	**12,707**
1 January 2017	**2,528**	**57**	**13,510**	**16,095**
Charge of provision for the period	1,723	6	5,458	7,187
Use of provision for the period	(5)	(25)	(426)	(456)
Release of provision for the period	(1,200)	(10)	(892)	(2,102)
Unwinding of the discount	-	-	1,039	1,039
Foreign exchange profit, net	(40)	-	(241)	(281)
30 June 2017	**3,006**	**28**	**18,448**	**21,482**

	30 June 2017	30 June 2016
Current liabilities	8,159	5,304
Non-current liabilities	13,323	10,791
Total provisions	**21,482**	**16,095**

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.

The Group made a provision of RUB 1,269 million for obligations to pay capitalized social payments stipulated by the legislation of the Russian Federation in connection with the start of a bankruptcy proceedings against JSC Donavia.

Tax risks

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

Regular repairs and maintenance works

As at 30 June 2017, the Group made a provision of RUB 18,448 million (31 December 2016: RUB 13,510 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

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

18. FINANCE LEASE LIABILITIES

The Group leases aircraft from third and related parties under finance lease agreements. The list of aircraft that the Group has operated under finance lease agreements as at 30 June 2017 is disclosed in Note 1.

	30 June 2017	31 December 2016
Total outstanding payments on finance lease contracts	124,817	137,395
Future finance lease interest expense	(12,443)	(14,659)
Total finance lease liabilities	**112,374**	**122,736**
Including:		
Current finance lease liabilities	17,154	15,593
Non-current finance lease liabilities	95,220	107,143
Total finance lease liabilities	**112,374**	**122,736**

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

As at 30 June 2017, finance lease liabilities and liabilities related to assets held for sale in the amount of RUB 107,415 million denominated in US dollars (31 December 2016: RUB 116,219 million) were designated as a hedging instrument for highly probable revenue forecasted for the period 2017 – 2026 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities match the future cash inflows on the revenue being hedged. As at 30 June 2017, accumulated foreign currency loss of RUB 36,868 million (before deferred income tax) on the finance lease liabilities (31 December 2016: RUB 42,734 million), representing an effective portion of the hedge, was recognised in the hedge reserve. The loss reclassified from the hedge reserve to profit or loss for 6 months 2017 was RUB 2,748 million (for 6 months 2016: RUB 4,661 million).

19. LOANS AND BORROWINGS

	30 June 2017	31 December 2016
Short-term bank loans and other borrowings:		
Short-term bank loans in euro	4,736	4,478
Short-term loans in Russian roubles	-	113
Current portion of loans and borrowings in Russian roubles	4,806	4,718
Total short-term loans and borrowings	**9,542**	**9,309**
Long-term bank loans and other borrowings:		
Long-term loans and borrowings in Russian roubles	12,324	15,381
Long-term loans and borrowings in US dollars	388	395
Less:		
Current portion of long-term bank loans and borrowings in Russian roubles	(4,806)	(4,718)
Total long-term loans and borrowings	**7,906**	**11,058**

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

19. LOANS AND BORROWINGS (CONTINUED)

The main changes in loans and borrowings during 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 30 June 2017, the outstanding amount of loan was RUB 9,524 million (including interest). As at 31 December 2016, the outstanding amount was RUB 12,694 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 RUB 6,000 million, which can be obtained in roubles, euro or US dollar. As at 30 June 2017 the outstanding amount was RUB 2,800 million (as at 31 December 2016 the outstanding amount was RUB 2,800 million). The loan is unsecured and issued for the period up to December 2021.

The Group has opened a credit line with PAO Bank VTB (floating interest rate) in the amount of USD 250 million, which can be obtained in roubles, euro or US dollar. As at 30 June 2017 the outstanding amount of the loan was EUR 70 million, which is equal to RUB 4,736 million including interest (as at 31 December 2016 the outstanding amount was RUB 4,478 million). The credit line is unsecured and issued for the period up to October 2018.

As at 30 June 2017, and 31 December 2016, the Group had no secured loans or borrowings.

As at 30 June 2017 and 31 December 2016, the fair values of loans and borrowings were not materially different from their carrying amounts.

Undrawn commitments

As at 30 June 2017, the Group was able to raise RUB 92,823 million in cash (31 December 2016: RUB 89,247 million) available under existing credit lines granted to the Group by various lending institutions.

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2017	**31 December 2016**
Accounts payable	30,335	23,659
Other financial payables	8,940	6,972
Dividends payable	19,628	-
Total financial payables	**58,903**	**30,631**
Staff and social funds related liabilities	13,573	11,929
Advances received (other than unearned traffic revenue)	2,834	1,147
Other taxes payable	2,642	2,865
Other current liabilities related to frequent flyer programme (Note 16)	2,761	2,518
Income tax payable	71	-
Other payables	889	778
Total accounts payable and accrued liabilities	**81,673**	**49,868**

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

21. SHARE CAPITAL

As at 30 June 2017 and 31 December 2016 share capital was equal to RUB 1,359 million.

	Number of ordinary shares authorised and issued (shares)	**Number of treasury shares (shares)**	**Number of ordinary shares outstanding (shares)**
31 December 2016	1,110,616,299	(53,716,189)	1,056,900,110
30 June 2017	1,110,616,299	(53,716,189)	1,056,900,110

All issued shares are fully paid. In addition to the shares that have been placed the Company is entitled to place 250,000,000 ordinary registered shares (31 December 2016: 250,000,000 shares) with par value of RUB 1 per share (31 December 2016: RUB 1 per share). Each ordinary share gives a right to one vote.

As at 30 June 2017 and 31 December 2016 LLC Aeroflot-Finance, 100%-owned subsidiary of the Group, owned 53,716,189 ordinary shares of the Company.

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

The Company's shares are listed on the Moscow Exchange ("MICEX"). As at 30 June 2017 and 31 December 2016, weighted average price was RUB 194.00 per share and RUB 152.96 per share, respectively.

The Company launched Global Depositary Receipts (GDRs) programme in December 2000. From January 2014 one GDR equates 5 ordinary shares.

22. DIVIDENDS

At the annual shareholders' meeting held on 26 June 2017 the shareholders approved dividends in respect of 2016 in the amount of RUB 17,4795 per share totalling to RUB 19,413 million for the Company's total declared and placed shares including treasury stock. All dividends are declared and paid in Russian roubles.

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

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

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 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.

Information for segments is presented on the basis of financial information under IFRS.

	Passenger traffic	**Other**	**Inter-segment sales elimination**	**Total Group**
6m 2017				
External sales	233,126	1,734	-	**234,860**
Inter-segment sales	-	9,158	(9,158)	**-**
Total revenue	**233,126**	**10,892**	**(9,158)**	**234,860**
Operating profit	**7,081**	**888**	**(272)**	**7,697**
Loss from sale and impairment of investments, net	-	-	-	**(70)**
Finance income	-	-	-	**4,783**
Finance costs	-	-	-	**(4,159)**
Hedging result	-	-	-	**(2,748)**
Share of financial results of associates	-	-	-	**34**
Profit before income tax	**-**	**-**	**-**	**5,537**
Income tax expense	-	-	-	**(2,647)**
Profit for the period	**-**	**-**	**-**	**2,890**

	Passenger traffic	**Other**	**Inter-segment sales elimination**	**Total Group**
6m 2016				
External sales	222,251	1,573	-	**223,824**
Inter-segment sales	-	7,211	(7,211)	**-**
Total revenue	**222,251**	**8,784**	**(7,211)**	**223,824**
Operating profit	23,044	173	33	**23,250**
Loss from sale and impairment of investments, net	-	-	-	**(3,429)**
Finance income	-	-	-	**7,890**
Finance costs	-	-	-	**(5,074)**
Hedging result	-	-	-	**(8,655)**
Share of financial results of associates	-	-	-	**(45)**
Result from disposal of subsidiaries	-	-	-	**(5,726)**
Profit before income tax	**-**	**-**	**-**	**8,211**
Income tax expense	-	-	-	**(5,744)**
Profit for the period	-	-	-	**2,467**

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

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, judgment is necessarily required to interpret market data necessary 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 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. 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.

Financial liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 30 June 2017 and 31 December 2016, the carrying and fair values of financial payables (Note 20), finance lease liabilities (Note 18) were not materially different. The fair values of loans and borrowings, are disclosed in Note 19. The fair value of stated financial instruments is categorised as Levels 2.

During 6 months of 2017 and 6 months 2016 there was no transfer between levels 1, 2 or 3 of the fair value hierarchy.

The classification of financial assets and liabilities as at 30 June 2017 is stated below:

	Loans and receivables	**Available-for sale financial assets**	**Total**
Cash and cash equivalents	81,055	-	**81,055**
Short-term financial investments	7,078	-	**7,078**
Financial receivables	35,013	-	**35,013**
Aircraft lease security deposits	2,506	-	**2,506**
Long-term financial investments	-	3,335	**3,335**
Other non-current assets	162	-	**162**
Total financial assets	**125,814**	**3,335**	**129,149**

	Other financial liabilities	**Total**
Financial payables	58,903	**58,903**
Finance lease liabilities	112,374	**112,374**
Loans and borrowings	17,448	**17,448**
Other long-term liabilities	296	**296**
Total financial liabilities	**189,021**	**189,021**

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

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The classification of financial assets and liabilities as at 31 December 2016 is stated below:

Assets	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Cash and cash equivalents	31,476	-	**31,476**
Short-term financial investments	6,318	1	**6,319**
Financial receivables	27,504	-	**27,504**
Aircraft lease security deposits	2,501	-	**2,501**
Derivative financial instruments	-	3,306	**3,306**
Other non-current assets	148	-	**148**
Total financial assets	**67,947**	**3,307**	**71,254**

	Other financial liabilities	**Total**
Financial payables	30,631	**30,631**
Finance lease liabilities	122,736	**122,736**
Loans and borrowings	20,367	**20,367**
Total financial liabilities	**173,734**	**173,734**

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 June 2017 and 31 December 2016, the outstanding balances with related parties and income and expense items with related parties for 6 months 2017 and 6 months 2016 were as follows:

Associates

As at 30 June 2017 and 31 December 2016, the outstanding balances with associates and income and expense items with associates for 6 months 2017 and 6 months 2016 were as follows:

	30 June 2017	**31 December 2016**
Assets		
Accounts receivable	-	25
Liabilities		
Accounts payable and accrued liabilities	130	120

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

	6m 2017	**6m 2016**
Transactions		
Sales to associates	3	4
Purchase from associates	865	730

Purchases from associates consist primarily of aviation security services.

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

25. RELATED-PARTY TRANSACTIONS (CONTINUED)

Government-related entities

As at 30 June 2017 and 31 December 2016, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% stake in the Company. As 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 organizations (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 has control, joint control or significant influence over such parties.

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

- banking services,
- transactions 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 Russian Far East.

In January 2017, the general meeting of shareholders of JSC Airport Sheremetyevo approved an agreement to join JSC International Airport Sheremetyevo, which resulted in the change of +the Group's share in the share capital of the merged company changed from 8.959% to 2.428% without changing its value.

Outstanding balances of cash at settlement, currency and deposit accounts in the government-related banks:

	30 June 2017	31 December 2016
Assets		
Cash and cash equivalents	37,086	13,048

The amounts of the Group’s finance and operating lease liabilities are disclosed in Notes 18 and 26. The share of liabilities to the government-related entities is approximately 72% for finance lease and 36% for operating lease (31 December 2016: 71% and 39%, respectively).

For 6 months 2017 the share of Group's transactions with government-related entities is about 23% of operating costs, and 2% of revenue (6 months 2016: more than 21% and about 3%, respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the airports as well as supplies of motor fuels from government-related entities.

As at 30 June 2017, the Group issued guarantees for the amount of RUB 437 million to a government entity to secure obligations under tender procedures (31 December 2016: RUB 1,225 million).

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

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

25. RELATED-PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The remuneration of directors and other members of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as short-term and mid-term compensation, amounted to RUB 879 million (6 months 2016: RUB 693 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 2016 the Group approved 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 4 tranches of cash payments. The amounts of payments depend on the level of increase in the Company's capitalisation, the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalisation by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 30 June 2017, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2017 till 30 June 2017 and amount of payment deferred till the end of the programmes.

Expenses related to the bonus programmes for 6 months 2017 were RUB 1,529 million (6 months 2016: RUB 274 million).The expenses are recorded in the Group's Condensed Consolidated Interim Statement of profit or loss. As at 30 June 2017, outstanding liability under these programmes was RUB 3,123 million (31 December 2016: RUB 1,594 million).

Cross shareholding

As at 30 June 2017 and 31 December 2016, LLC Aeroflot-Finance, 100%-owned subsidiary of the Group, owned 53,716,189 ordinary shares of 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:

	30 June 2017	**31 December 2016**
On demand or within 1 year	65,565	58,191
Later than 1 year and not later than 5 years	257,712	218,479
Later than 5 years	297,353	239,224
Total operating lease commitments	**620,630**	**515,894**

As at 30 June 2017, 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.

27. CAPITAL COMMITMENTS

As at 30 June 2017, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 385,755 million (31 December 2016: RUB 418,671 million).

These commitments mainly relate to purchase of 22 Boeing B-787 (31 December 2016: 22 aircraft), 22 Airbus A-350 (31 December 2016: 22 aircraft), 26 Airbus A-320/321 (31 December 2015: 33 aircraft) aircraft which are expected to be used under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

28. 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 2017 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. Condensed Consolidated Interim Financial statements reflect assessment of the Group's management of the impact of the Russian business environment on the operations and the financial position of the Group. The future business situation may differ from management's current expectations.

Seasonality

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

Tax contingencies

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

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

28. CONTINGENCIES (CONTINUED)

Tax contingencies (continued)

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.

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 coefficients: 1.84 for 2016, 2.08 for 2017.

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 30 June 2017 and 31 December 2016 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 Condensed Consolidated Interim 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.

As at 30 June 2017 the Group's subsidiaries AO Orenair and AO Donavia were within bankruptcy process, thus their assets of RUB 2,931 million have had limited availability to the Group as it is defined by Russian legislation.