

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

**IFRS Consolidated Financial Statements
for the year ended 31 December 2015**

Contents

Statement of Management’s Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for 2015

Auditors’ Report

Consolidated Statement of Profit or Loss	1
Consolidated Statement of Comprehensive Income	2
Consolidated Statement of Financial Position	3
Consolidated Statement of Cash Flows.....	4
Consolidated Statement of Changes in Equity	6

Notes to the Consolidated Financial Statements

1. Nature of the business	7
2. Basis of preparation and summary of significant accounting policies.....	10
3. Critical accounting estimates and judgements in applying accounting policies	29
4. Adoption of new or revised standards and interpretations	30
5. Traffic revenue.....	32
6. Other revenue.....	32
7. Operating costs less staff costs and depreciation and amortisation	33
8. Staff costs.....	33
9. Other operating income and expenses, net.....	34
10. Finance income and costs	34
11. Income tax.....	35
12. Cash and cash equivalents	37
13. Aircraft lease security deposits	38
14. Accounts receivable and prepayments	39
15. Expendable spare parts and inventories	40
16. Financial investments.....	40
17. Other non-current assets	41
18. Prepayments for aircraft.....	41
19. Property, plant and equipment	42
20. Assets classified as held for sale	43
21. Intangible assets	43
22. Goodwill	44
23. Derivative financial instruments	45
24. Accounts payable and accrued liabilities	48
25. Deferred revenue and other liabilities related to frequent flyer programme.....	48
26. Provisions for liabilities	49
27. Finance lease liabilities	50
28. Loans and borrowings.....	51
29. Other non-current liabilities	53
30. Non-controlling interest	53
31. Share capital.....	54
32. Dividends	55
33. Operating segments.....	55
34. Presentation of financial instruments by measurement category	58
35. Risks connected with financial instruments	60
36. Fair value of financial instruments.....	65
37. Related parties transactions.....	66
38. Commitments under operating leases	69
39. Capital commitments	69
40. Contingencies.....	70

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out below, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of Public Joint Stock Company Aeroflot - Russian Airlines and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2015, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable;
- stating whether IFRS have been complied with, subject to any material departures being disclosed and explained in the notes to consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2015 (set out on pages 1-72) were approved on 29 February 2016 and signed on behalf of management by:



V.G. Saveliev

General Director



Sh.R. Kurmashov

Deputy General Director for Finance and Network and Revenue Management



Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Aeroflot

We have audited the accompanying consolidated financial statements of PJSC Aeroflot and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.



Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

AO PricewaterhouseCoopers Audit

29 February 2016

Moscow, Russian Federation

A.N. Korablev, Senior Manager (licence no. 01-000389), 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 2 August 2002 under registration № 1027700092661

Address of audited entity: 10 Arbat street, 119002, Russian Federation

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

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

PJSC AEROFLOT

Consolidated Statement of Profit or Loss

for the year ended 31 December 2015

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

	Note	2015	2014
Traffic revenue	5	359,205	277,354
Other revenue	6	55,968	42,417
Revenue		415,173	319,771
Operating costs, excluding staff costs and depreciation and amortisation	7	(304,214)	(239,327)
Staff costs	8	(55,619)	(52,148)
Depreciation and amortisation	19, 21	(13,306)	(12,136)
Other operating income and (expenses), net	9	2,073	(4,892)
Operating costs		(371,066)	(308,503)
Operating profit		44,107	11,268
Finance income	10	15,811	2,471
Finance costs	10	(37,715)	(28,399)
Hedging result	10	(23,746)	(1,723)
Share of results of associates		(17)	31
Loss before income tax		(1,560)	(16,352)
Income tax	11	(4,934)	(794)
Loss for the year		(6,494)	(17,146)
<i>Loss for the year attributable to:</i>			
Shareholders of the Company		(5,829)	(15,471)
Non-controlling interest		(665)	(1,675)
LOSS FOR THE YEAR		(6,494)	(17,146)
Loss per share - basic (in Roubles per share)		(5.5)	(14.6)
Loss per share - diluted (in Roubles per share)		(5.5)	(14.6)
Weighted average number of shares outstanding (millions)		1,056.9	1,056.9
Weighted average number of diluted shares outstanding (millions)		1,056.9	1,056.9

Approved on 29 February 2016 and signed on behalf of management



V. G. Saveliev

General Director



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

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

PJSC AEROFLOTConsolidated Statement of Comprehensive Income
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)*

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Loss for the year		(6,494)	(17,146)
Other comprehensive (loss)/profit:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Translation from the functional currency to the presentation currency		-	33
Gain/(loss) from the change in fair value of hedging derivative financial instruments	23	12,810	(16,793)
Effect from hedging revenue with foreign currency liabilities		(32,911)	(43,596)
Deferred tax related to the loss on cash flow hedging instruments	11	4,038	12,115
Other comprehensive loss for the year		<u>(16,063)</u>	<u>(48,241)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(22,557)</u>	<u>(65,387)</u>
<i>Total comprehensive loss attributable to:</i>			
Shareholders of the Company		(21,892)	(63,712)
Non-controlling interest		(665)	(1,675)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(22,557)</u>	<u>(65,387)</u>

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

PJSC AEROFLOT

Consolidated Statement of Financial Position

as at 31 December 2015

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

	Note	31 December 2015	31 December 2014
ASSETS			
Current assets			
Cash and cash equivalents	12	30,693	26,547
Short-term financial investments	16	5,917	961
Accounts receivable and prepayments	14	76,317	56,769
Current income tax prepayment		2,489	668
Aircraft lease security deposits	13	2,658	321
Expendable spare parts and inventories	15	7,447	6,516
Derivative financial instruments	23	53	431
Assets classified as held for sale	20	7,732	-
Total current assets		133,306	92,213
Non-current assets			
Deferred tax assets	11	21,632	18,540
Investments in associates		109	140
Long-term financial investments	16	6,118	6,115
Aircraft lease security deposits	13	2,132	2,110
Other non-current assets	17	2,762	3,759
Prepayments for aircraft	18	35,291	29,241
Property, plant and equipment	19	104,494	116,044
Intangible assets	21	2,690	2,762
Goodwill	22	6,660	6,660
Derivative financial instruments	23	-	134
Total non-current assets		181,888	185,505
TOTAL ASSETS		315,194	277,718
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	23	4,853	26,312
Accounts payable and accrued liabilities	24	54,751	48,952
Unearned traffic revenue		28,691	22,469
Deferred revenue related to frequent flyer programme	25	1,307	799
Provisions for liabilities	26	7,519	2,349
Finance lease liabilities	27	19,504	16,912
Short-term borrowings and current portion of long-term loans and borrowings	28	54,085	17,343
Liabilities related to assets held for sale	20	7,371	-
Total current liabilities		178,081	135,136
Non-current liabilities			
Long-term loans and borrowings	28	14,375	6,860
Finance lease liabilities	27	145,020	132,366
Provisions	26	6,917	4,845
Deferred tax liabilities	11	170	133
Deferred revenue related to frequent flyer programme	25	2,941	2,560
Derivative financial instruments	23	-	4,839
Other non-current liabilities	29	3,810	4,484
Total non-current liabilities		173,233	156,087
TOTAL LIABILITIES		351,314	291,223
Equity			
Share capital	31	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)
Hedging reserve	23, 27	(64,720)	(48,657)
Retained earnings		39,755	45,584
Equity attributable to shareholders of the Company		(25,523)	(3,631)
Non-controlling interest		(10,597)	(9,874)
TOTAL EQUITY		(36,120)	(13,505)
TOTAL LIABILITIES AND EQUITY		315,194	277,718

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

PJSC AEROFLOTConsolidated Statement of Cash Flows
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)*

	Note	2015	2014
Cash flows from operating activities:			
Loss before income tax		(1,560)	(16,352)
<i>Adjustments for:</i>			
Depreciation and amortisation	19, 21	13,306	12,136
Charge of impairment provision for doubtful accounts receivable	9	6,106	3,103
Loss on doubtful accounts write-off	9	589	33
Change in impairment provision for obsolete expendable spare parts and inventory		276	242
Charge of provision for impairment of property, plant and equipment	19	400	34
Loss/(gain) on disposal of property, plant and equipment		272	(1,907)
Gain on accounts payable write-off	9	(164)	(384)
Share of financial results of associates		17	(31)
Loss/(gain) on sale and impairment of investments and loans issued	10	9,159	(1)
(Gain)/loss from change in the fair value of derivative financial instruments	10	(11,885)	9,869
Hedging result	10	23,746	1,723
Change in provisions for liabilities	26	4,264	1,271
Interest expense	10	7,737	4,934
Foreign exchange loss	10	849	14,795
Write-off of VAT recoverable	9	90	-
Gain on recovery of VAT	9	(8,021)	(285)
Change in other provisions and other assets impairments		(17)	(46)
Other operating (income)/expenses, net		(573)	165
Other finance income, net		(36)	(449)
Loss on derivative financial instruments, net	10	19,803	2,813
Dividend income		(89)	(60)
Total operating cash flows before working capital changes		64,269	31,603
Change in accounts receivable and prepayments		(2,251)	4,658
Change in expendable spare parts and inventories		(1,216)	(1,831)
Change in accounts payable and accrued liabilities		14,705	8,452
Total operating cash flows after working capital changes		75,507	42,882
Restricted cash	12	18	(82)
Income taxes paid		(6,041)	(6,863)
Income tax refunded		180	40
Net cash flows from operating activities		69,664	35,977

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

PJSC AEROFLOTConsolidated Statement of Cash Flows
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)*

	Note	2015	2014
<i>Cash flows from investing activities:</i>			
Deposits return		6,375	1,869
Proceeds from sale of investments		30	-
Deposits placement		(11,741)	(2,486)
Purchases of investments and issue of loans		(8,652)	(66)
Proceeds from sale of property, plant and equipment		603	126
Purchases of property, plant and equipment and intangible assets		(9,196)	(6,160)
Dividends received		74	70
Prepayments for aircraft		(22,708)	(21,361)
Return of prepayments for aircraft		7,828	9,620
Payment of operating lease security deposits		(1,995)	(304)
Return of operating lease security deposits		612	200
Net cash flows used in investing activities		(38,770)	(18,492)
<i>Cash flows from financing activities:</i>			
Proceeds from loans and borrowings		73,331	18,398
Repayment of loans and borrowings		(36,267)	(9,870)
Repayment of the principal element of finance lease liabilities		(19,455)	(15,629)
Interest paid		(5,914)	(3,409)
Proceeds from disposal of treasury shares		-	2
Proceeds from sale of treasury shares to non-controlling shareholders		-	119
Dividends paid		(88)	(2,833)
Payments on settlement of derivative financial instruments, net		(39,682)	(1,451)
Net cash used in financing activities		(28,075)	(14,673)
Effect of exchange rate fluctuations on cash and cash equivalents		1,327	5,075
Net increase in cash and cash equivalents		4,146	7,887
Cash and cash equivalents at the beginning of the year		26,547	18,660
Cash and cash equivalents at the end of the year		30,693	26,547
<i>Non-cash transactions as part of the investing activities:</i>			
Property, plant and equipment acquired under finance leases		1,781	34,472

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

PJSC AEROFLOT

Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

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



Note	Equity attributable to shareholders of the Company							Non-controlling interest	Total equity
	Share capital	Accumulated result on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Accumulated currency translation reserve	Hedging reserve	Retained earnings	Total		
1 January 2014	1,359	(1,914)	(10)	(28)	(383)	61,122	60,146	(5,666)	54,480
Loss for the year	-	-	-	-	-	(15,471)	(15,471)	(1,675)	(17,146)
Translation from the functional currency to the presentation currency	-	-	5	28	-	-	33	-	33
Loss from the change in fair value of derivative financial instruments net of related deferred tax	-	-	-	-	(48,274)	-	(48,274)	-	(48,274)
Total other comprehensive loss	-	-	-	-	-	-	(48,241)	-	(48,241)
Total comprehensive loss	-	-	-	-	-	-	(63,712)	(1,675)	(65,387)
Disposal of treasury shares	-	2	-	-	-	-	2	-	2
Sale of shares to non-controlling shareholders	-	-	-	-	-	2,585	2,585	(2,283)	302
Dividends declared	-	-	-	-	-	(2,652)	(2,652)	(250)	(2,902)
31 December 2014	1,359	(1,912)	(5)	-	(48,657)	45,584	(3,631)	(9,874)	(13,505)
1 January 2015	1,359	(1,912)	(5)	-	(48,657)	45,584	(3,631)	(9,874)	(13,505)
Loss for the year	-	-	-	-	-	(5,829)	(5,829)	(665)	(6,494)
Loss from the change in fair value of derivative financial instruments net of related deferred tax	-	-	-	-	(16,063)	-	(16,063)	-	(16,063)
Total other comprehensive loss	-	-	-	-	-	-	(16,063)	-	(16,063)
Total comprehensive loss	-	-	-	-	-	-	(21,892)	(665)	(22,557)
Dividends declared	-	-	-	-	-	-	-	(58)	(58)
31 December 2015	1,359	(1,912)	(5)	-	(64,720)	39,755	(25,523)	(10,597)	(36,120)

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

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**1. NATURE OF THE BUSINESS**

Company Aeroflot – Russian Airlines (the “Company” or “Aeroflot”) was formed as an opened joint stock company following the Russian Government decree in 1992 (hereinafter - the "1992 decree"). The 1992 decree conferred all the rights and obligations of Aeroflot – Soviet Airlines and its structural units upon the Company, including inter-governmental bilateral agreements and agreements signed with foreign airlines and enterprises in the field of civil aviation. Following the Decree of the Russian President No. 1009 dated 4 August 2004, the Company was included in the List of Strategic Entities and Strategic Joint Stock Companies.

Beginning 1 July 2015 Open Joint Stock Company Aeroflot – Russian Airlines changed official title to Public Joint Stock Company Aeroflot – Russian Airlines (PJSC Aeroflot) due to legislation changes.

The principal activities of the Company are the provision of passenger and cargo air transportation services, both domestically and internationally, and other aviation-related services from Moscow Sheremetyevo Airport. The Company and its subsidiaries (the “Group”) also conduct activities comprising airline catering and hotel operations. Associated entities mainly comprise aviation security services and other ancillary services.

As at 31 December 2015 and 2014, 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.

The principal subsidiaries are:

<u>Company name</u>	<u>Registered address</u>	<u>Principal activity</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
JSC Donavia (“Donavia”)	Rostov-on-Don, RF	Airline	100.00%	100.00%
JSC Rossiya airlines (“AK Rossiya”)	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
OJSC Vladivostok Avia (“Vladavia”)	Primorsk Region, RF	Airline	26.60%	26.60%
JSC Aurora Airlines (“AK Aurora”)	Yuzhno-Sakhalinsk, RF	Airline	51.00%	51.00%
JSC Orenburg airlines (“Orenburgavia”)	Orenburg, RF	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo	Moscow, RF	Cargo transportation services	100.00%	100.00%
LLC Dobrolet (“Dobrolet”)	Moscow, RF	Airline	-	100.00%
LLC Pobeda Airlines (“Pobeda”)	Moscow, RF	Airline	100.00%	100.00%
LLC Aeroflot-Finance (“Aeroflot-Finance”)	Moscow, RF	Finance services	100.00%	100.00%
CJSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
CJSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%
LLC A-Technics	Moscow, RF	Technical maintenance	100.00%	-

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

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

On 16 September 2014 the Company registered legal entity LLC Low Cost Carrier, which was renamed to LLC Pobeda Airlines on 9 December 2014.

On 7 December 2015 LLC Aeroflot-Finance registered a new subsidiary LLC A-Technics in order to operate technical maintenance of the Group's aircraft fleet.

The Group's major associate is:

Company name	Registered address	Principal activity	31 December 2015	31 December 2014
CJSC AeroMASH-AB ("AeroMASH-AB")	Moscow Region, RF	Aviation security	45.00%	45.00%

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***1. NATURE OF THE BUSINESS (CONTINUED)**

The table below provides information on the Group's aircraft fleet as at 31 December 2015 (number of items):

TYPE OF AIRCRAFT	OWNERSHIP	AEROFLOT	DONAVIA	AK ROSSIYA	ORENBURGAVIA	AK AURORA	POBEDA	GROUP TOTAL
An-24	Owned	-	-	-	-	1	-	1
DHC 8-Q300	Owned	-	-	-	-	1	-	1
DHC 8-Q402	Owned	3	-	-	-	-	-	3
Total owned		3	-	-	-	2	-	5
Airbus A319	Finance lease	2	-	9	-	-	-	11
Airbus A320	Finance lease	1	-	-	-	-	-	1
Airbus A321	Finance lease	21	-	-	-	-	-	21
Airbus A330	Finance lease	8	-	-	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	-	-	10
An-148	Finance lease	-	-	6	-	-	-	6
Total finance lease		42	-	15	-	-	-	57
SSJ 100	Operating lease	24	-	-	-	-	-	24
Airbus A319	Operating lease	3	10	7	-	9	-	29
Airbus A320	Operating lease	62	-	7	-	-	-	69
Airbus A321	Operating lease	5	-	-	-	-	-	5
Airbus A330	Operating lease	14	-	-	-	-	-	14
Boeing B737	Operating lease	14	-	-	16	3	12	45
Boeing B767	Operating lease	-	-	1	-	-	-	1
Boeing B777	Operating lease	3	-	-	3	-	-	6
DHC 8-Q300	Operating lease	-	-	-	-	3	-	3
DHC 8-Q200	Operating lease	-	-	-	-	2	-	2
DHC 6-400	Operating lease	-	-	-	-	2	-	2
Total operating lease		125	10	15	19	19	12	200
Total fleet		170	10	30	19	21	12	262

As at 31 December 2015: 1 aircraft of type Boeing B737 and 1 aircraft of type Boeing B767 were not operating, 6 aircraft of type An-148 were under redelivery maintenance, 3 aircraft of type DHC 8-Q402 were under pre-operating maintenance.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with the Federal Law No. 208 – FZ “On consolidated financial reporting” dated 23 July 2010. The consolidated financial statements are presented in millions of Russian Roubles (“RUB million”), except where specifically noted otherwise.

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

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

Going concern

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

Functional and presentation currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. Since 1 January 2007, the functional currency of the Company and its subsidiaries is the Russian Rouble (“RUB” or “rouble”). Since 1 January 2013 the presentation currency of the Group’s consolidated financial statements is the Russian Rouble as well.

Consolidation

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

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

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

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

Consolidation (continued)

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

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

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

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

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

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

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

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

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

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

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

Purchases of non-controlling interests

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

Investments in associates

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

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

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

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

Disposals of subsidiaries or associates

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

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

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

Goodwill

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

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

Foreign currency translation

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

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

The table below presents official US Dollar and Euro to rouble exchange rates used for the translation:

	Official exchange rates	
	Roubles for 1 US Dollar	Roubles for 1 Euro
Average rate for 2015	60.96	67.78
31 December 2015	72.88	79.70
Average rate for 2014	38.42	50.82
31 December 2014	56.26	68.34

At 29 February 2016 the official exchange rates of US Dollar and Euro to rouble were 75.09 roubles for 1 US Dollar and 82.97 roubles for 1 Euro, respectively.

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

Revenue recognition

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

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

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

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

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

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

Segment information

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

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

Intangible assets

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

Property, plant and equipment

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

(a) Fleet

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

The Group's fleet assets have the following useful lives:

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

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

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

Property, plant and equipment (continued)

(b) Land, buildings and other plant and equipment

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

(c) Construction in progress

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

Gain or loss on disposal of property, plant and equipment

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

Finance lease

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

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

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

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

Non-current assets classified as held for sale

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

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

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

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

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

Capitalisation of borrowing costs

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

The capitalisation starts when the Group:

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

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

The Group capitalises borrowing costs related to capital expenditure made on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average

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

Capitalisation of borrowing costs (continued)

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

Impairment of property, plant and equipment

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

Operating leases

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

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

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

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

Aircraft lease security deposits

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

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

Classification of financial assets

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

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

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

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

Classification of financial liabilities

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

Financial instruments – key measurement terms

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

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

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

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

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

Financial instruments – key measurement terms (continued)

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

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

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

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

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

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

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

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

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

Financial instruments – key measurement terms (continued)

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

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets and liabilities

The Group derecognises financial assets when:

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

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

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

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

Offsetting financial instruments

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

Financial instruments and hedge accounting

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 23. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

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

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

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

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

Available-for-sale investments

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

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

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

Cash and cash equivalents

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

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

Loans and receivables

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

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

Impairment of financial assets carried at amortised cost

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

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

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

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

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

Prepayments

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

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

Trade and other payables

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

Loans and borrowings

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

Short-term loans and borrowings comprise:

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

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

Expendable spare parts and inventories

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

Value added taxes

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

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

Frequent flyer programme

Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot-Bonus. Subject to the programme's terms and conditions, the miles earned entitle members to a number of benefits such as free flights, flight class upgrades and redeem miles for special awards from programme partners. In accordance with IFRIC 13 *Customer Loyalty Programmes*, accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used. The fair value of miles accumulated on the Group's own flights is recognised under current and non-current deferred revenue related to frequent flyer programme (Note 25) within current and non-current liabilities, respectively, in the Group's consolidated statement of financial position. The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme, as well as the fair value of promo miles, is recognised as other current and non-current liabilities related to frequent flyer programme (Notes 24 and 29) in accounts payable, accrued liabilities and other non-current liabilities, respectively, in the Group's consolidated statement of financial position. Revenue is recognised upon the provision of services to Aeroflot-Bonus members.

Employee benefits

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

Provisions for liabilities

Provisions for liabilities are recognised if, and only if, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate (Note 26). Where the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax

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

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

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

Income tax (continued)

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

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

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

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

Uncertain income tax positions

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

Pensions

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

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

Pensions (continued)

The Group also participates in a defined contribution plan, under which the Group has committed to making additional contributions as a percentage (20% in 2015) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Share capital

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

Share-based compensation

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

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

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

Treasury shares purchased

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

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

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

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

Dividends

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

Earnings/loss per share

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Useful lives and residual value of property, plant and equipment

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

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

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

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

Frequent flyer programme

At the reporting date, the Group estimates and recognises the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 2) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value. The assessment of the fair value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus members, are a matter of management judgement. A change in these estimates may require the adjustment of deferred revenue, other current and non-current liabilities related to frequent flyer programme in the consolidated statement of financial position (Note 25) and adjustment to revenue in the consolidated statement of profit or loss (Note 5).

Compliance with tax legislation

Compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities (Note 40).

Classification of a lease agreement as operating and finance lease

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

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 22.

Deferred tax asset recognition

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

New standards and interpretations effective from 1 January 2015

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014);

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

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014);

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted:

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

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

IFRS 16 “Leases” (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the new standard on its financial statements;

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the amendments on its financial statements;

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

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

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

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

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

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

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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



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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

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

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

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

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

5. TRAFFIC REVENUE

	<u>2015</u>	<u>2014</u>
Scheduled passenger flights	343,428	253,613
Cargo flights	9,631	8,718
Charter passenger flights	6,146	15,023
Total traffic revenue	<u>359,205</u>	<u>277,354</u>

6. OTHER REVENUE

	<u>2015</u>	<u>2014</u>
Airline agreements revenue	31,596	21,605
Revenue from partners under frequent flyer programme	10,275	7,685
Refuelling services	2,535	2,815
Catering services on board	1,434	1,118
Sales of duty free goods	1,162	604
Ground handling	1,118	1,000
Hotel revenue	463	447
Other revenue	7,385	7,143
Total other revenue	<u>55,968</u>	<u>42,417</u>

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION**

	<u>2015</u>	<u>2014</u>
Aircraft servicing and ground handling	63,408	51,965
Operating lease expenses	44,415	23,834
Aircraft maintenance	32,042	19,224
Sales and marketing expenses	13,568	11,415
Communication expenses	12,890	7,784
Administration and general expenses	12,516	10,791
Passenger services	11,778	9,105
Food and beverages for catering services	7,766	5,980
Insurance expenses	1,941	1,358
Custom duties	1,290	1,435
Cost of duty free goods sold	599	362
Other expenses	7,619	8,875
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	209,832	152,128
Aircraft fuel	94,382	87,199
Total operating costs less staff costs and depreciation and amortisation	304,214	239,327

8. STAFF COSTS

	<u>2015</u>	<u>2014</u>
Wages and salaries	44,001	42,379
Pension costs	8,829	7,980
Social security costs	2,789	1,789
Total staff costs	55,619	52,148

Pension costs include:

- compulsory payments to the Pension Fund of the RF;
- 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% in 2015, 20% in 2014) of the transfers made personally by the employees participating in the programme; and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under a defined benefit pension plan due to service cost.

	<u>2015</u>	<u>2014</u>
Payments to the Pension Fund of the RF	8,843	7,904
Defined contribution pension plan	-	37
Defined benefit pension plan	(14)	39
Total pension costs	8,829	7,980

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***9. OTHER OPERATING INCOME AND EXPENSES, NET**

	<u>2015</u>	<u>2014</u>
Recovery of VAT (Note 14)	8,021	285
Reimbursement of fuel excise tax	4,658	-
Fines and penalties received from suppliers	614	307
Insurance compensation received	513	61
Gain on accounts payable write-off	164	384
Charge of impairment provision for doubtful accounts receivable (Note 14)	(6,106)	(3,103)
Accrual of provision for Group liabilities (Note 26)	(4,264)	(1,271)
(Loss)/gain on fixed assets disposal and impairment on fixed assets	(672)	1,872
Loss on accounts receivable write-off	(589)	(33)
Other expenses and income, net	(176)	(3,394)
Write-off of VAT	(90)	-
Total other operating income and (expenses), net	<u>2,073</u>	<u>(4,892)</u>

10. FINANCE INCOME AND COSTS

	<u>2015</u>	<u>2014</u>
<i>Finance income:</i>		
Gain on change in fair value of derivative instruments not subject to hedge accounting (Note 23)	11,885	-
Interest income on deposits and security deposits	3,723	958
Realised gain on derivative financial instruments (Note 23)	-	1,058
Gain on disposal of investments	-	1
Other finance income	203	454
Total finance income	<u>15,811</u>	<u>2,471</u>

	<u>2015</u>	<u>2014</u>
<i>Finance costs:</i>		
Realised loss on derivative financial instruments (Note 23)	(19,803)	(3,871)
Loss on sale and impairment of investments and loans issued (Note 16)	(9,159)	-
Interest expense	(7,737)	(4,934)
Foreign exchange loss	(849)	(9,720)
Loss on change in fair value of derivative financial instruments (Note 23)	-	(9,869)
Other finance costs	(167)	(5)
Total finance costs	<u>(37,715)</u>	<u>(28,399)</u>

	<u>2015</u>	<u>2014</u>
<i>Hedging result:</i>		
Realised loss on hedging derivative instruments (Note 23)	(18,654)	-
Ineffective portion of fuel hedging (Note 23)	1,187	(1,187)
Effect of revenue hedging with liabilities in foreign currency (Note 27)	(6,279)	(536)
Total loss on hedging	<u>(23,746)</u>	<u>(1,723)</u>

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**11. INCOME TAX**

	<u>2015</u>	<u>2014</u>
Current income tax charge	3,951	6,559
Deferred income tax expense/(benefit)	983	(5,765)
Total income tax	<u>4,934</u>	<u>794</u>

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

	<u>2015</u>	<u>2014</u>
Loss before income tax	(1,560)	(16,352)
Tax rate applicable in accordance with Russian legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with Russian legislation	312	3,270

Tax effect of items which are not deductible or assessable for taxation purposes:

Non-taxable income	1,790	737
Non-deductible expenses	(5,245)	(3,811)
Unrecognised current year tax losses	(587)	(477)
Recognition of previously unrecognised tax losses	490	54
Write-off of deferred tax assets	-	(201)
Prior years income tax adjustments	(1,644)	(219)
Deferred income tax, recognized as part of other comprehensive income	(50)	(147)
Total income tax	<u>(4,934)</u>	<u>(794)</u>

During 2014 the Group revised its estimates related to the possibility of usage of deferred tax assets of JSC “Orenburg airlines” and made a write-off in the amount of RUB 201 million.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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



11. INCOME TAX (CONTINUED)

	31 December 2015	Movements for the year	31 December 2014	Movements for the year	31 December 2013
<i>Tax effect of temporary differences:</i>					
Tax losses carried forward	73	(944)	1,017	560	457
Long-term financial investments	201	176	25	(6)	31
Accounts receivable	583	716	(133)	(177)	44
Property, plant and equipment and finance lease liabilities	16,138	6,205	9,933	8,700	1,233
Accounts payable	4,012	1,803	2,209	745	1,464
Derivative financial instruments	960	(5,157)	6,117	5,607	510
Deferred tax assets before tax set off	21,967	2,799	19,168	15,429	3,739
Tax set off	(335)	293	(628)	936	(1,565)
Deferred tax assets after tax set off	21,632	3,092	18,540	16,365	2,174
Property, plant and equipment	(117)	(25)	(92)	2,317	(2,409)
Customs duties related to the imported aircraft under operating leases	(335)	126	(461)	140	(601)
Long-term financial investments	(10)	5	(15)	-	(15)
Accounts receivable	(1)	163	(164)	(3)	(161)
Accounts payable	(42)	(13)	(29)	(3)	(26)
Deferred tax liabilities before tax set off	(505)	256	(761)	2,451	(3,212)
Tax set off	335	(293)	628	(936)	1,565
Deferred tax liabilities after tax set off	(170)	(37)	(133)	1,515	(1,647)
Movements for the year, net		3,055		17,880	
Less deferred tax recognised directly in equity		(4,038)		(12,115)	
Deferred income tax (expense)/benefit for the year		(983)		5,765	

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**11. INCOME TAX (CONTINUED)**

The Group has unrecognised deferred tax assets in respect of unused tax losses carried forward. These tax losses carried forward expire as follow:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Tax losses carried forward expiring by the end of:		
- 31 December 2018	631	1,989
- 31 December 2019	3,909	3,909
- 31 December 2021	915	915
- 31 December 2022	1,508	1,552
- 31 December 2023	72	96
- 31 December 2024	16	160
Total tax losses carried forward	<u>7,051</u>	<u>8,621</u>

Deferred tax asset in respect of cash flow hedge accounting applied by the Group of RUB 4,038 million (2014: RUB 12,115 million) has been recognised in these consolidated financial statements as a part of other comprehensive income.

Deferred tax liability in relation to temporary differences of RUB 205 million (2014: RUB 205 million) relating to investments in subsidiaries of the Group has not been recognised in these consolidated financial statements as the Group is able to control the timing of reversal of the temporary difference, and reversal is not expected in the foreseeable future.

Management believes that the deferred tax assets of RUB 14,974 million as at 31 December 2015 (31 December 2014: RUB 13,814 million) and deferred tax liabilities of RUB 250 million as at 31 December 2015 (31 December 2014: RUB 351 million) are recoverable after more than twelve months after the end of the reporting period.

12. CASH AND CASH EQUIVALENTS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Bank deposits denominated in roubles with maturity of less than 90 days	17,205	3,431
Cash on hand and bank accounts denominated in roubles	8,517	13,211
Bank accounts denominated in US Dollars	2,167	7,626
Bank accounts denominated in other currencies	1,793	1,350
Bank accounts denominated in Euro	449	778
Cash in transit	562	151
Total cash and cash equivalents	<u>30,693</u>	<u>26,547</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 35. Most of the Group's funds are held with a highly reliable state-controlled Russian bank – PJSC Sberbank with long-term credit rating BBB (Fitch rating agency) as at 31 December 2015 (as at 31 December 2014 Group's funds were held in two banks: PJSC Sberbank with long-term credit rating BBB (Fitch rating agency) and PJSC Bank BFA with long-term credit rating B according to S&P rating agency).

As at 31 December 2015 the Group had restricted cash of RUB 168 million (31 December 2014: RUB 186 million) recorded within other non-current assets in the Group's consolidated statement of financial position.

13. AIRCRAFT LEASE SECURITY DEPOSITS

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to three monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using an average market yield from 3.7% to 13.5% p.a. in 2015 (2014: from 3.7% to 9.5% p.a.).

	Aircraft lease security deposits	
	<u>1,493</u>	
1 January 2014		
Payment of security deposits		304
Amortisation charge for the year		127
Return of security deposits during the year		(372)
Foreign exchange difference		935
Deposit write-off		(56)
31 December 2014		<u>2,431</u>
Payment of security deposits		1,995
Amortisation charge for the year		346
Return of security deposits during the year		(696)
Foreign exchange difference		973
Deposit write-off		(216)
Reclassification to assets held for sale		(43)
31 December 2015		<u>4,790</u>
	31 December 2015	31 December 2014
Current portion of security deposits	2,658	321
Non-current portion of security deposits	2,132	2,110
Total aircraft lease security deposits	<u>4,790</u>	<u>2,431</u>

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

	31 December 2015	31 December 2014
	<u>2015</u>	<u>2014</u>
International lease companies	4,766	2,408
Russian lease companies	24	23
Total aircraft lease security deposits	<u>4,790</u>	<u>2,431</u>

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**14. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	31 December 2015	31 December 2014
Trade accounts receivable	34,275	29,683
Other financial receivables	8,056	5,119
Less: impairment provision	(10,609)	(4,532)
Total financial receivables	31,722	30,270
Prepayments to suppliers	8,784	9,284
VAT and other taxes recoverable	17,225	10,959
Prepayments for aircraft	16,734	4,498
Deferred customs duties related to the imported aircraft under operating leases, current portion	705	842
Other receivables	1,147	916
Accounts receivable and prepayments	76,317	56,769

Increase of VAT recoverable as at 31 December 2015 is mainly associated with recognition of VAT on code-sharing operations for 2013-2015 between companies of the Group of RUB 5,699 million.

As at 31 December 2015 the Group recognised impairment provision for accounts receivable from OJSC Transaero Airlines for passengers transportation, refuelling services, aircraft servicing and ground handling of RUB 6,403 million (31 December 2014: no impairment provision).

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

Deferred customs duties of RUB 705 million as of 31 December 2015 (31 December 2014: RUB 842 million) relate to the current portion of paid customs duties related to imported aircraft under operating leases. These customs duties are recognised within operating costs in the Group's consolidated statement of profit or loss over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 17.

Financial receivables are analysed by currencies in Note 35.

As at 31 December 2015 and 31 December 2014, sufficient impairment provision was made against accounts receivable and prepayments.

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

	Impairment provision
1 January 2014	2,440
Increase in impairment provision	3,550
Provision use	(1,011)
Release of provision	(447)
31 December 2014	4,532
Increase in impairment provision	7,716
Provision use	(589)
Release of provision	(1,022)
Disposal of the subsidiaries	(28)
31 December 2015	10,609

Financial receivables are analysed by credit quality in Note 35.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**15. EXPENDABLE SPARE PARTS AND INVENTORIES**

	31 December 2015	31 December 2014
Expendable spare parts	5,757	4,349
Fuel	341	714
Other inventories	2,301	2,129
Total expendable spare parts and inventories, gross	8,399	7,192
Less: impairment provision for obsolete expendable spare parts and inventories	(952)	(676)
Total expendable spare parts and inventories	7,447	6,516

16. FINANCIAL INVESTMENTS

	31 December 2015	31 December 2014
<i>Available-for-sale investments:</i>		
Available-for-sale securities	6,063	6,062
Mutual investment funds	-	15
SITA Investment Certificates	56	39
Total available-for-sale investments (before impairment provision)	6,119	6,116
Less: provision for impairment of long-term financial investments	(1)	(1)
Total long-term financial investments	6,118	6,115

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

The RF represented by the Federal Agency for State Property Management owns over 80% of the entity's shares (Note 37).

Management is unable to measure the fair value of the Group's investments in JSC MASH reliably, as this entity has not published its most recent financial information, its shares are not quoted and recent trade prices are not publicly accessible. As at 31 December 2015 the investments are recognised in the consolidated statement of financial position at their initial cost of RUB 6,013 million (31 December 2014: RUB 6,013 million).

	31 December 2015	31 December 2014
<i>Investments held for trading:</i>		
Corporate shares and bonds	-	30
Total investments held for trading (before impairment provision)	-	30
<i>Other short-term financial investments:</i>		
Loans issued and promissory notes of third parties	9,335	167
Deposits placed in banks for more than 90 days	5,917	960
Other short-term investments	5	5
Total other short-term financial investments (before impairment provision)	15,257	1,132
Less: provision for impairment of short-term financial investments	(9,340)	(201)
Total short-term financial investments	5,917	961

Increase in impairment provision was mainly due to accrual of provision for loans issued in 2015 by the Group to OJSC Transaero Airlines.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**17. OTHER NON-CURRENT ASSETS**

	31 December 2015	31 December 2014
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	1,119	2,083
VAT recoverable on acquisition of aircraft	-	328
Other non-current assets	1,643	1,348
Total other non-current assets	2,762	3,759

18. PREPAYMENTS FOR AIRCRAFT

As at 31 December 2015 and 31 December 2014 non-current portion of prepayments for aircraft were RUB 35,291 million and RUB 29,241 million, respectively. Change of non-current portion of prepayments is due to approaching the contractual period of delivery and payment of new non-current prepayments to suppliers.

As at 31 December 2015 and 31 December 2014 non-current prepayments include advance payments for the acquisition of the following aircraft:

Expected lease type	Aircraft type	31 December 2015		31 December 2014	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Not determined	Boeing B787	20	2017-2019	22	2016-2019
Not determined	Airbus A350	22	2018-2023	22	2018-2023
Not determined	Boeing B777	1	2017	3	2016
Not determined	Airbus A320	21	2017-2018	30	2016-2018
Not determined	Airbus A321	12	2017-2018	19	2016-2018

Prepayments made to purchase aircraft expected to be delivered within 12 months after the reporting date are recorded within accounts receivable and prepayments (Note 14).

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***19. PROPERTY, PLANT AND EQUIPMENT**

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<i>Cost</i>						
1 January 2014	6,414	94,597	11,088	14,098	1,862	128,059
Additions	1,358	33,672	249	2,624	1,027	38,930
Capitalised expenditures	-	1,473	-	-	172	1,645
Disposals	(902)	(3,218)	(16)	(661)	(7)	(4,804)
Transfers	60	200	397	878	(1,535)	-
31 December 2014	6,930	126,724	11,718	16,939	1,519	163,830
Additions (i)	1,588	-	78	3,895	3,389	8,950
Capitalised expenditures	-	991	-	-	816	1,807
Disposals (ii)	(4,075)	(477)	(1,422)	(977)	4	(6,947)
Transfers to assets held for sale (note 20)	(33)	(20,601)	-	(3)	-	(20,637)
Transfers	84	140	71	562	(857)	-
31 December 2015	4,494	106,777	10,445	20,416	4,871	147,003
<i>Accumulated depreciation</i>						
1 January 2014	(4,629)	(23,080)	(4,237)	(7,322)	(14)	(39,282)
Charge for the year (Accrual)/release of impairment provision	(382)	(8,851)	(396)	(1,711)	-	(11,340)
Disposals	884	1,462	6	518	-	2,870
31 December 2014	(4,110)	(30,469)	(4,627)	(8,507)	(73)	(47,786)
Charge for the year (Accrual)/release of impairment provision	(614)	(9,259)	(406)	(2,132)	-	(12,411)
Disposals (ii)	131	-	(567)	36	-	(400)
Disposals (ii)	3,666	477	842	768	-	5,753
Transfers to assets held for sale (note 20)	18	12,317	-	-	-	12,335
31 December 2015	(909)	(26,934)	(4,758)	(9,835)	(73)	(42,509)
<i>Carrying amount</i>						
31 December 2014	2,820	96,255	7,091	8,432	1,446	116,044
31 December 2015	3,585	79,843	5,687	10,581	4,798	104,494

- (i) During 2015 additions mainly relate to the purchase of 3 aircraft DHC 8-Q402 being under pre-operating maintenance.
- (ii) During 2015 disposals mainly relate to the disposal of 5 owned aircraft Il-96 of PJSC Aeroflot with carrying amount of RUB 51 million.

Capitalised borrowing costs for 12 months 2015 amounted to RUB 976 million (2014: RUB 362 million). Capitalisation rate of interest expenses and foreign exchange loss for the period was 3.2% p.a. and 5.8% p.a. respectively (2014: 2.9% p.a. and 4.3% p.a. respectively).

As at 31 December 2015 property and land (including tenancy) with the total carrying value of RUB 711 million (31 December 2014: RUB 713 million) were pledged to third and related parties as a security for the Group's loans and borrowings (Note 28).

As at 31 December 2015 the cost of fully depreciated property, plant and equipment was RUB 8,170 million (31 December 2014: RUB 7,793 million).

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

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

Based on the Group's management decision made during the reporting period, as at 31 December 2015 6 aircraft An-148, 2 Airbus A319, 1 Airbus A320 and 8 Airbus A321 operated under finance lease agreements are targeted for disposal, therefore at the end of reporting period the mentioned assets and related liabilities were classified as held for sale.

During 2015 the group disposed fixed assets classified as held for sale net book value of which amounted to RUB 613 million.

As at 31 December 2015 the amount of net assets held for sale amounted to RUB 361 million.

	<u>Initial cost of fixed assets</u>	<u>Accumulated depreciation</u>	<u>Aircraft lease security deposits</u>	<u>Total assets</u>	<u>Total liabilities</u>
1 January 2015	-	-	-	-	-
Additions (Note 13, 19)	20,637	(12,335)	43	8,345	(7,517)
Disposals	(2,098)	1,485	-	(613)	146
31 December 2015	18,539	(10,850)	43	7,732	(7,371)

21. INTANGIBLE ASSETS

	<u>Software</u>	<u>Licences</u>	<u>Investments in software and R&D</u>	<u>Trademark and client base</u>	<u>Other</u>	<u>Total</u>
<i>Cost</i>						
1 January 2014	2,607	134	1,048	1,686	2	5,477
Additions	296	-	157	-	-	453
Disposals	(637)	-	(21)	-	-	(658)
31 December 2014	2,266	134	1,184	1,686	2	5,272
Additions	785	-	49	-	37	871
Disposals	(25)	-	(32)	-	-	(57)
31 December 2015	3,026	134	1,201	1,686	39	6,086
<i>Accumulated amortisation</i>						
1 January 2014	(1,431)	(90)	-	(605)	(1)	(2,127)
Charge for the year	(553)	-	-	(243)	-	(796)
Disposals	412	1	-	-	-	413
31 December 2014	(1,572)	(89)	-	(848)	(1)	(2,510)
Charge for the year	(762)	-	-	(133)	-	(895)
Disposals	9	-	-	-	-	9
31 December 2015	(2,325)	(89)	-	(981)	(1)	(3,396)
<i>Carrying amount</i>						
31 December 2014	694	45	1,184	838	1	2,762
31 December 2015	701	45	1,201	705	38	2,690

22. GOODWILL

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

The aggregate carrying amount of goodwill, allocated to the Group entities as at 31 December 2014 is presented in the table below:

CGU name	31 December 2014
AK Rossiya	5,357
Orenburgavia	1,145
AK Aurora	158
Total	6,660

On October 1, 2015, the Board of Directors has made a decision of United AK “Rossiya” establishment. In the purpose of the goodwill impairment test, the following classification was adopted: business-unit “Sever” (head office in Saint-Petersburg, based on “AK “Rossiya”), business-unit “Moskva” (branch in Moscow, based on “Orenburgavia”), business-unit “Yug” (branch in Rostov-on-Don, based on OJSC “Donavia”), and business-unit “Charter” (based on Transaero’s fleet and on a part of Orenburgavia’s fleet).

The total carrying amount of AK Rossiya’s goodwill was attributed to business-unit “Sever”, the carrying amount of Orenburgavia’s goodwill was reallocated among business-units “Sever” and “Moskva”.

The aggregate carrying amount of goodwill, allocated to the Groups’ business-units as at 31 December 2015 is presented in the table below:

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

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

Key assumptions against which the recoverable amounts are estimated concerned the discount rate, the terminal growth rate (for the calculation of the terminal value), seat load factor.

Business-unit “Sever”

The discount rate calculation is based on weighted average cost of capital (WACC) and amounts to 14.5% p.a. (31 December 2014: 17.5% p.a. for 2015-2016 and 13.4% for subsequent periods).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 1.5% p.a. (2014: 2.3% p.a.).

22. GOODWILL (CONTINUED)***Business-unit “Sever” (continued)***

The calculation of the recoverable amount of this CGU is highly sensitive to the seat load factor which was set at the level lower than in the civil aviation of Russian Federation. For two previous years the seat load factor in the civil aviation of Russian Federation was 79.8% and 79.7% respectively. Should the seat load factor be lower by 5.37 p.p. with all other variables held constant, goodwill allocated to this CGU would be impaired in full.

Business-unit “Moskva”

The discount rate was assumed at 16.5% (31 December 2014: 17.5% p.a. for 2015-2016 and 13.4% for subsequent periods).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 1.5% (2014: 2.3% p.a.).

The calculation of the recoverable amount of this CGU is highly sensitive to the seat load factor which was set at the level lower than in the civil aviation of Russian Federation. For two previous years the seat load factor in the civil aviation of Russian Federation was 79.8% and 79.7% respectively. Should the seat load factor be lower by 5.04 p.p. with all other variables held constant, goodwill allocated to this CGU would be impaired in full.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Derivative financial assets		
including:		
Current	53	431
Non-current	-	134
Total derivative financial assets	<u><u>53</u></u>	<u><u>565</u></u>
Derivative financial liabilities		
including:		
Current	4,853	26,312
Non-current	-	4,839
Total derivative financial liabilities	<u><u>4,853</u></u>	<u><u>31,151</u></u>

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

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Derivative financial instruments	
	2015	2014
1 January	(30,586)	(2,551)
<i>Level 3 derivative financial instruments that are not subject to special hedge accounting rules</i>		
Change in fair value for the period	(7,918)	(12,220)
Additions for the period	-	(427)
Settlements during the period (Note 10)	19,803	2,779
<i>Level 3 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	(4,703)	(13,939)
Additions for the period		(12)
Settlements during the period (Note 10)	18,654	
<i>Level 2 derivative financial instruments that are subject to special hedge accounting rules</i>		
Change in fair value for the period	(50)	(4,250)
Settlements during the period (Note 10)		34
31 December	(4,800)	(30,586)
<i>Representing:</i>		
Assets	53	565
Liabilities	(4,853)	(31,151)
31 December	(4,800)	(30,586)

For the purpose of risk management the Group applies the following derivative financial instruments:

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

In April and May 2013, the Group entered into two cross-currency interest rate swap agreements with a Russian bank to hedge some of its Euro-denominated revenues from potential unfavourable RUB/EUR exchange rate fluctuations. As a result of the effectiveness test performed for these hedging instruments the profit for 2015 from the change in fair value of this derivative financial instrument of RUB 47 million was recorded within other comprehensive income together with the corresponding deferred tax of RUB 10 million.

Level 2 market inputs in the fair value hierarchy were used to assess the fair value of the financial instrument. The fair value was determined based on discounted contractual cash flows using MosPrime discount rate for cash flows in roubles and EURIBOR – for Euro-denominated cash flows. Cash flows under this agreement are expected through to the end of the first quarter of 2016.

(b) Interest rate swap with a fixed interest rate

During 2015, there were no new interest rate swap with a fixed interest rate. The results of closure of the transaction were reported within finance expenses in the amount of RUB 34 million in 2014.

(c) Fuel options

In the end of 2015 option agreements concluded in 2012-2014 with Russian banks to hedge price risk for a portion of its aircraft fuel demand were closed due to the contractual term expiration. Decrease in the fair value of these derivative financial instruments due to closure amounted to a profit of RUB 10,542 million for 2015, which is reported in the consolidated statement of profit or loss (2014: loss of RUB 9,364 million), excluding the instruments accounted for by the Group under the special hedge accounting rules.

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)*(c) Fuel options (continued)*

For certain option agreements concluded in 2014 the Group applies cash flow hedge accounting model according to IAS 39, "Financial Instruments: Recognition and Measurement" in order to decrease exposure to volatility of cash flows from change in fuel prices arising on purchases of fuel.

In 2014 loss from the change in fair value of these option agreements in the amount of RUB 12,763 million before income tax was reported in the other comprehensive income, ineffective part of this hedging relationship in the amount of RUB 1,187 million was recognised as loss in the hedging result line item in the consolidated statement of profit or loss. During 2015, these agreements matured and were closed. The realised loss from these financial instruments was reclassified from the hedging reserve to hedging result line item in the consolidated statement of profit or loss and amounted to RUB 18,654 million.

As at 31 December 2014 fuel options amounting to RUB 13,952 million were recognised within current liabilities. During 2014 due to maturity of the fuel derivative instrument the gain of RUB 26 million on the closure of this transaction was recorded within the finance income line item of the consolidated statement of profit or loss.

(d) Currency options

The Group entered into currency option agreements with a number of Russian banks to hedge the currency risk. The gain from the change in fair value of these derivative financial instruments in 2015 recorded in the consolidated statement of profit or loss amounted to RUB 1,343 million (2014: loss in amount of RUB 531 million).

For the year ended 31 December 2015, the loss on the currency and fuel options to which hedge accounting is not applied was RUB 19,803 million (2014: gain of RUB 1,058 million and loss of RUB 3,837 million) which was recorded within finance costs in the consolidated statement of profit or loss.

Valuation principles for currency and fuel options

The derivative financial instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the reporting period if hedge accounting is not applied. In case hedge accounting is applied the effective portion is accounted within hedge reserve.

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

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**24. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Accounts payable	29,466	27,097
Dividends payable	1	36
Other financial payables	9,326	5,906
Total financial payables	38,793	33,039
Staff related liabilities	8,378	6,906
VAT payable on imported leased aircraft	265	2,005
Advances received (other than unearned traffic revenue)	1,502	1,181
Other taxes payable	2,667	3,838
Other current liabilities related to frequent flyer programme (Note 25)	2,572	1,489
Income tax payable	30	72
Customs duties payable on imported leased aircraft	-	115
Other payables	544	307
Total accounts payable and accrued liabilities	54,751	48,952

As at 31 December 2015, staff related liabilities primarily include salary payable, as well as social contribution liabilities of RUB 5,596 million (31 December 2014: RUB 4,132 million) and the unused vacation accrual of RUB 2,696 million (31 December 2014: RUB 2,682 million).

As at 31 December 2015, accounts payable and accrued liabilities include the current portion of VAT payable of RUB 265 million (31 December 2014: current portion of VAT payable amounting to RUB 2,005 million and customs duties payable of RUB 115 million). These payables relate to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs. Long-term part of VAT and custom duties related to imported leased aircraft recognised within other non-current liabilities (Note 29).

Financial payables by currency are analysed in Note 35.

25. DEFERRED REVENUE AND OTHER LIABILITIES RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue and other liabilities related to frequent flyer programme (Aeroflot Bonus programme) as at 31 December 2015 and 31 December 2014 represent the number of bonus miles earned when flying on the Group flights, but unused by the Aeroflot Bonus programme members and the number of promo-miles and bonus miles earned by programme members for using programme partners' services, respectively, and are estimated at fair value. Deferred revenue and other accrued liabilities related to frequent flyer programme also include liabilities under the Company's discount programme as at 31 December 2015 and 31 December 2014, which represent the fair value of coupons for a discount on the repeated purchase of tickets at Aeroflot's web-site.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Deferred revenue related to frequent flyer programme, current	1,307	799
Deferred revenue related to frequent flyer programme, non-current	2,941	2,560
Other current liabilities related to frequent flyer programme (Note 24)	2,572	1,489
Other non-current liabilities related to frequent flyer programme (Note 29)	2,779	3,279
Total deferred revenue and other liabilities related to frequent flyer programme	9,599	8,127

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**26. PROVISIONS FOR LIABILITIES**

	<u>Litigations</u>	<u>Tax risks</u>	<u>Regular repairs and maintenance works</u>	<u>Total provisions</u>
1 January 2014	564	47	1,925	2,536
Additional provision for the year	1,055	-	2,224	3,279
Release of provision for the year	(440)	(47)	(1,521)	(2,008)
Unwinding of the discount	-	-	634	634
Foreign exchange loss, net	193	-	2,181	2,374
Other changes	-	-	379	379
31 December 2014	1,372	-	5,822	7,194
Additional provision for the year	2,438	53	3,117	5,608
Release of provision for the year	(218)	-	(1,126)	(1,344)
Unwinding of the discount	-	-	777	777
Foreign exchange loss, net	70	-	2,241	2,311
Other changes	-	-	(110)	(110)
31 December 2015	3,662	53	10,721	14,436

	<u>31 December 2015</u>	<u>31 December 2014</u>
Current liabilities	7,519	2,349
Non-current liabilities	6,917	4,845
Total provisions	14,436	7,194

Litigations

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 40).

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 (Note 40).

Regular repairs and maintenance works

As at 31 December 2015, the Group made a provision of RUB 10,721 million (31 December 2014: RUB 5,822 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

Liabilities for guarantees issued

As at 31 December 2015 the Group recognised provisions for compensations to the passengers of cancelled flights of OJSC Transaero Airlines of RUB 1,517 million in provisions for litigations. This amount represents management's expectation of future payments of accepted obligations.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**27. FINANCE LEASE LIABILITIES**

The Group leases aircraft from third and related parties under finance lease agreements (Note 37). The aircraft that the Group have operated under finance lease agreements as at 31 December 2015 are listed in Note 1.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Total outstanding payments on finance lease contracts	184,730	170,485
Future finance lease interest expense	(20,206)	(21,207)
Total finance lease liabilities	<u>164,524</u>	<u>149,278</u>
<i>Representing:</i>		
Current finance lease liabilities	19,504	16,912
Non-current finance lease liabilities	145,020	132,366
Total finance lease liabilities	<u>164,524</u>	<u>149,278</u>

	<u>31 December 2015</u>			<u>31 December 2014</u>		
	<u>Principal</u>	<u>Future interest expense</u>	<u>Total payments</u>	<u>Principal</u>	<u>Future interest expense</u>	<u>Total payments</u>
<i>Due for repayment:</i>						
On demand or within 1 year	19,504	4,337	23,841	16,912	4,191	21,103
Later than 1 year and not later than 5 years	78,536	11,927	90,463	65,406	11,832	77,238
Later than 5 years	66,484	3,942	70,426	66,960	5,184	72,144
Total	<u>164,524</u>	<u>20,206</u>	<u>184,730</u>	<u>149,278</u>	<u>21,207</u>	<u>170,485</u>

As at 31 December 2015 interest payable amounted to RUB 424 million (31 December 2014: RUB 480 million) is included in accounts payable and accrued liabilities.

The effective interest rate for finance lease during 2015 was 2.8% p.a. (in 2014: 3.0% p.a.). Fair value of finance lease liabilities approximate their carrying value.

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the finance lease liabilities denominated in the same currency. The Group applies cash flow hedge accounting model to these hedging relationships, in accordance with IAS 39. At 31 December 2015, finance lease liabilities including those related to assets held for sale in the amount of RUB 165,659 million denominated in US dollars are designated as a hedging instrument for highly probable revenue forecasted for the period of 2016 – 2026 denominated in US dollars. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the finance lease liabilities match the future cash inflows on the revenue being hedged. At 31 December 2015, accumulated foreign currency loss of RUB 76,507 million (before deferred income tax) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the equity (31 December 2014: RUB 43,596 million). The amount of loss reclassified from the hedging reserve to profit or loss in 2015 was RUB 6,279 million (2014: RUB 536 million).

In 2015 interest expense on finance leases was RUB 4,076 million (2014: RUB 2,966 million).

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

28. LOANS AND BORROWINGS

	31 December 2015	31 December 2014
<i>Short-term bank loans, bonds and other borrowings:</i>		
Short-term loans in US dollars	31,550	10,409
Short-term loans in Russian Roubles	-	1,603
Current portion of long-term bank loans in US dollars	14,242	1,154
Current portion of bonds in Russian Roubles	5,103	102
Current portion of loans and borrowings in Russian Roubles	3,190	4,075
Total short-term loans and borrowings	54,085	17,343
<i>Long-term bank loans, bonds and other borrowings:</i>		
Long-term loans in Russian Roubles	17,565	5,575
Long-term loans and borrowings in US dollars	14,242	1,514
Long-term bonds in Russian Roubles	5,103	5,102
Less:		
Current portion of long-term bank loans in US dollars	(14,242)	(1,514)
Current portion of bonds in Russian Roubles	(5,103)	(102)
Current portion of loans and borrowings in Russian Roubles	(3,190)	(4,075)
Total long-term loans and borrowings	14,375	6,860

Main changes in loans and borrowings during reporting period:

The Group has opened long-term revolving line of credit with PJSC AKB Sviaz-Bank in the amount of RUB 9,000 million, which can be obtained in Roubles or US Dollar. As at 31 December 2015 the principal 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 and issued for the period up to September 2016.

The Group has opened unsecured loan with 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., maturity – March 2016.

The Group has opened loan with PJSC Bank VTB in the amount of USD 250 million. As at 31 December 2015 the principal outstanding amount was USD 50 million, which is equal to RUB 3,657 million. (including interest). Interest rate is 3m Libor + 4.9% p.a. The loan is unsecured and issued for the period up to November 2016.

The Group has opened loan with PJSC Sovcombank in the amount of USD 100 million. As at 31 December 2015 the outstanding amount was RUB 7,288 million. Interest rate is 1m Libor + 5.25% p.a. The loan is unsecured and issued for the period up to October 2016.

The Group has opened loan with 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.

28. LOANS AND BORROWINGS (CONTINUED)

The Group has opened long-term loan with OJSC Moscow Credit Bank in the amount of USD 100 million. As at 31 December 2015 the outstanding amount of the loan is USD 100 million, which is equal to RUB 7,304 million (including interest). Interest rate is 5.0% p.a. The loan is unsecured and issued for the period up to December 2016.

The Group has opened long-term non-revolving credit line with PJSC Sberbank in the amount of RUB 12,602 million. As at 31 December 2015 the outstanding amount was RUB 12,581 million. Interest rate is 12.75% p.a. The loan is unsecured and issued for the period up to December 2018.

As at 31 December 2015 and 31 December 2014, the fair values of loans and borrowings was not materially different from their carrying amounts.

As at 31 December 2015 bank loans in the amount of RUB 1,940 million (31 December 2014: RUB 2,000 million) were secured by property and land (Note 19).

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. As at 31 December 2015 effective yield to maturity for these bonds was 10.99% p.a. (31 December 2014: 11.3% p.a.).

Undrawn credit facilities

As at 31 December 2015 the Group was able to attract RUB 36,840 million of cash (31 December 2014: RUB 21,562 million) available under existing credit lines granted to the Group by various lending institutions.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**29. OTHER NON-CURRENT LIABILITIES**

	31 December 2015	31 December 2014
Other non-current liabilities related to frequent flyer programme (Note 25)	2,779	3,279
VAT payable on imported leased aircraft	-	328
Defined benefit pension obligation, non-current portion	745	659
Customs duties payable on imported leased aircraft	-	54
Other non-current liabilities	286	164
Total other non-current liabilities	3,810	4,484

As at 31 December 2014 other non-current liabilities include the non-current portion of VAT payable of RUB 328 million and customs duties of RUB 54 million relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets are cleared through customs. As at 31 December 2015 the non-current portion of these liabilities didn't exist. Short-term portion of VAT and custom duties was recognised within accounts payable (Note 24).

30. NON-CONTROLLING INTEREST

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

	2015	2014
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
Loss attributable to non-controlling interest for the year	(828)	(1,356)
Accumulated losses attributable to non-controlling interests in subsidiary	(4,637)	(3,809)

The summarised financial information of AK Rossiya is presented below:

	31 December 2015	31 December 2014
Current assets	6,843	5,200
Non-current assets	9,363	11,431
Current liabilities	15,298	11,974
Non-current liabilities	19,454	19,892
	2015	2014
Revenue	38,771	35,655
Loss for the year	(3,312)	(5,449)
Comprehensive loss for the year	(3,312)	(5,449)

As at 31 December 2015 and 2014 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

**31. SHARE CAPITAL**

As at 31 December 2015 and 31 December 2014 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 2014	1,110,616,299	(53,716,189)	1,056,900,110
31 December 2015	1,110,616,299	(53,716,189)	1,056,900,110

All issued shares are fully paid. The total number of unissued ordinary shares is 250,000,000 shares (31 December 2014: 250,000,000 shares) with a par value of RUB 1 per share (31 December 2014: RUB 1 per share).

Ordinary shareholders are entitled to one vote per share.

As at 31 December 2015, treasury shares were held by wholly-owned subsidiaries of the Group:

	31 December 2015 (shares)	31 December 2014 (shares)
Aeroflot Finance	53,716,189	53,714,098
LLC Partner ("Partner")	-	2,091
Total number of treasury shares	53,716,189	53,716,189

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; as at 31 December 2015 and 31 December 2014, they were traded at RUB 56.1 per share and RUB 31.8 per share, respectively.

The Company launched Global Depositary Receipts (GDRs) programme in December 2000. From January 2014 one GDR equates 5 ordinary shares. As at 31 December 2015 and 31 December 2014 the GDRs were traded on the Frankfurt stock exchange at EUR 3.410 per GDR and EUR 2.639 per GDR, respectively.

32. DIVIDENDS

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

At the annual shareholders' meeting held on 27 June 2014 the shareholders approved dividends in respect of 2013 in the amount of RUB 2,4984 per share totaling to RUB 2,774 million for the Company's total declared and placed shares including treasury stock. All dividends are declared and paid in Russian Roubles.

33. OPERATING SEGMENTS

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

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

Segment information is presented based on financial information prepared in accordance with IFRS.

Group assets are located mainly in Russian Federation.

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***33. OPERATING SEGMENTS (CONTINUED)**

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2015				
External sales	412,174	2,999	-	415,173
Inter-segment sales		13,588	(13,588)	-
Total revenue	412,174	16,587	(13,588)	415,173
Operating profit	42,953	1,196	(42)	44,107
Finance income				15,811
Finance costs				(37,715)
Hedging result				(23,746)
Share of results of associates				(17)
Loss before income tax				(1,560)
Income tax				(4,934)
Loss for the year				(6,494)
31 December 2015				
Segment assets*	295,141	9,523	(13,698)	290,966
Investments in associates		109		109
Unallocated assets				24,119
Total assets				315,194
Segment liabilities*	351,056	5,269	(5,211)	351,114
Unallocated liabilities	444	33	(277)	200
Total liabilities				351,314
2015				
Capital expenditures and PP&E additions (Note 19)	10,349	408		10,757
Depreciation (Note 19)	12,127	284		12,411

* include assets held for sale and liabilities related to assets held for sale (Note 20).

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***33. OPERATING SEGMENTS (CONTINUED)**

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2014				
External sales	317,850	1,921	-	319,771
Inter-segment sales	2	11,645	(11,647)	-
Total revenue	317,852	13,566	(11,647)	319,771
Operating profit	11,225	344	(301)	11,268
Finance income				2,471
Finance costs				(28,399)
Hedging result				(1,723)
Share of results of associates				31
Loss before income tax				(16,352)
Income tax				(794)
Loss for the year				(17,146)
31 December 2014				
Segment assets	262,661	8,568	(12,860)	258,369
Investments in associates	-	140	-	140
Unallocated assets				19,209
Total assets				277,718
Segment liabilities	291,267	4,165	(4,413)	291,019
Unallocated liabilities				204
Total liabilities				291,223
2014				
Capital expenditures and PP&E additions (Note 19)	39,951	622	-	40,573
Depreciation (Notes 19)	11,118	222	-	11,340

Expenses of the Group mainly relate to passenger flights services.

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2015*(All amounts in millions of Russian Roubles, unless otherwise stated)***33. OPERATING SEGMENTS (CONTINUED)**

	<u>2015</u>	<u>2014</u>
Passenger revenue:		
<i>International flights from the RF to:</i>		
CIS	10,098	8,184
Europe	42,563	33,691
Middle East and Africa	8,992	7,012
Asia	26,651	17,352
North America	9,934	7,934
Total passenger revenue from flights from the RF	<u>98,238</u>	<u>74,173</u>
<i>International flights to the RF from:</i>		
CIS	9,480	7,881
Europe	42,615	34,292
Middle East and Africa	9,366	7,148
Asia	28,289	18,074
North America	9,907	7,921
Total passenger revenue from flights to the RF	<u>99,657</u>	<u>75,316</u>
Domestic flights	145,378	104,009
Other international flights	155	115
Total passenger traffic revenue	<u>343,428</u>	<u>253,613</u>

34. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

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

	<u>Note</u>	<u>Loans and receivables</u>	<u>Available-for-sale financial assets</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Total</u>
Cash and cash equivalents	12	30,693	-	-	30,693
Short-term financial investments		5,916	1	-	5,917
Financial receivables	14	31,722	-	-	31,722
Aircraft lease security deposits	13	4,790	-	-	4,790
Derivative financial instruments	23	-	-	53	53
Long-term financial investments	16	-	6,118	-	6,118
Other non-current assets		168	-	-	168
Total financial assets		<u>73,289</u>	<u>6,119</u>	<u>53</u>	<u>79,461</u>

34. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	23	-	4,853	-	4,853
Financial payables	24	-	-	38,793	38,793
Finance lease liabilities	27	-	-	164,524	164,524
Loans and borrowings	28	-	-	68,460	68,460
Other non-current liabilities	29	-	-	286	286
Liabilities for guarantees issued	26	-	-	1,517	1,517
Total financial liabilities		-	4,853	273,580	278,433

Financial assets and liabilities are classified by measurement categories as at 31 December 2014 as follows:

Assets	Note	Loans and receivables	Available-for-sale financial assets	Assets at fair value through profit or loss	Derivative financial instruments (hedging)	Total
Cash and cash equivalents	12	26,547	-	-	-	26,547
Short-term financial investments		960	1	-	-	961
Financial receivables	14	30,270	-	-	-	30,270
Aircraft lease security deposits	13	2,431	-	-	-	2,431
Derivative financial instruments	23	-	-	529	36	565
Long-term financial investments	16	-	6,115	-	-	6,115
Other non-current assets		186	-	-	-	186
Total financial assets		60,394	6,116	529	36	67,075

	Note	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Derivative financial instruments	23	(12,360)	(18,791)	-	(31,151)
Financial payables	24	-	-	(33,039)	(33,039)
Finance lease liabilities	27	-	-	(149,278)	(149,278)
Loans and borrowings	28	-	-	(24,203)	(24,203)
Other non-current liabilities	29	-	-	(546)	(546)
Total financial liabilities		(12,360)	(18,791)	(207,066)	(238,217)

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

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

Liquidity risk

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

The following are the Group's financial liabilities as at 31 December 2015 and 31 December 2014 by contractual maturity (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

	Average interest rate		0–12 months	1–2 years	2–5 years	Over 5 years	Total
	Contractual rate	Effective rate					
31 December 2015							
Loans and borrowings in foreign currency	5.5%	5.5%	47,456	-	-	-	47,456
Loans and borrowings in roubles	13.4%	13.4%	5,345	9,393	6,953	-	21,691
Bonds denominated in roubles	8.3%	8.3%	5,206	-	-	-	5,206
Finance lease liabilities	2.7%	2.8%	23,841	24,235	66,228	70,426	184,730
Financial payables			38,793	-	-	-	38,793
Derivative financial instruments			4,761	-	-	-	4,761
Liabilities for guarantees issued			1,517	-	-	-	1,517
Total future payments, including future interest payments			126,919	33,628	73,181	70,426	304,154
	Average interest rate		0–12 months	1–2 years	2–5 years	Over 5 years	Total
	Contractual rate	Effective rate					
31 December 2014							
Loans and borrowings in foreign currency	5.3%	5.3%	11,798	366	-	-	12,164
Loans and borrowings in roubles	11.8%	11.8%	6,511	194	1,635	-	8,340
Bonds denominated in roubles	8.3%	8.3%	517	5,102	-	-	5,619
Finance lease liabilities	2.9%	3.0%	21,103	21,045	56,193	72,144	170,485
Financial payables			33,039	-	-	-	33,039
Derivative financial instruments			28,852	4,085	-	-	32,937
Total future payments, including future interest payments			101,820	30,792	57,828	72,144	262,584

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)*Liquidity risk (continued)*

As of 31 December 2015 net short-term liabilities of the Group amounted to RUB 44,775 million (31 December 2014: net short-term liabilities in the amount of RUB 42,923 million). Loss for 2015 amounted to RUB 6,494 million (2014: loss in the amount of RUB 17,146 million). Financial result for 2015 was materially affected by foreign exchange differences which are related to decrease of exchange rate of Russian rouble to US Dollar and revaluation of derivative financial instruments (Note 10). In 2015 cash flows from operating activities were positive and amounted to RUB 69,664 million (2014: RUB 35,977 million).

The treasury function of the Group provides flexibility of financing through available credit lines. As at 31 December 2015, the Group was able to attract RUB 36,840 million of cash (31 December 2014: RUB 21,562 million) available under credit lines granted by various lending institutions. Additionally for the improvement of liquidity the management is planning to increase operational effectiveness of the Group and further increase of cash flows from operating activities.

Currency risk

The Group is exposed to currency risk in relation to revenue as well as purchases and borrowings that are denominated in a currency other than rouble. The currencies in which these transactions are primarily denominated are Euro and US Dollar.

The Groups analyses the exchange rate trends on a regular basis. To hedge the risk of negative changes in the exchange rates the Group entered into financial derivative contracts with a number of Russian banks.

The Group uses long-term lease liabilities nominated in US Dollars as hedging instrument for risk of change in US Dollar exchange rate in relation to revenue (Note 27).

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

<i>In millions of Russian Roubles</i>	Note	31 December 2015				31 December 2014			
		US Dollar	Euro	Other currency	Total	US Dollar	Euro	Other currency	Total
Cash and cash equivalents	12	2,167	449	1,793	4,409	7,626	778	1,350	9,754
Financial receivables		18,560	4,062	4,502	27,124	21,820	3,618	3,560	28,998
Aircraft lease security deposits		4,504	-	-	4,504	2,408	-	-	2,408
Derivative financial instruments	23	53	-	-	53	529	36	-	565
Other assets		94	71	3	168	66	52	68	186
Total assets		25,378	4,582	6,298	36,258	32,449	4,484	4,978	41,911
Financial payables		13,691	5,419	2,071	21,181	9,444	4,085	785	14,314
Finance lease liabilities	27	164,519	-	-	164,519	146,436	-	-	146,436
Short-term loans and borrowings and current portion of long-term loans and borrowings	28	45,792	-	-	45,792	11,563	-	-	11,563
Long-term loans and borrowings	28	-	-	-	-	360	-	-	360
Derivative financial instruments		-	4,853	-	4,853	17,325	4,839	-	22,164
Total liabilities		224,002	10,272	2,071	236,345	185,128	8,924	785	194,837
Total (liabilities)/assets, net		(198,624)	(5,690)	4,227	(200,087)	(152,679)	(4,440)	4,193	(152,926)

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

The Group also expects that payments of Euro 126 million related to the cross-currency interest rate swap with a fixed interest rate disclosed in Note 23, will be made in March 2016. Strengthening or weakening of listed below currencies against rouble as at 31 December 2015 and 31 December 2014, would change profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	31 December 2015		31 December 2014	
	Percent of change in rate of currency versus rouble	Effect on loss after tax ((increase)/decrease)	Percent of change in rate of currency versus rouble	Effect on loss after tax ((increase)/decrease)
Increase in the rate of currency versus rouble:				
US Dollar	50%	(13,642)	50%	(55,491)
Euro	50%	(335)	50%	145
Other currencies	50%	1,691	50%	1,677
Decrease in the rate of currency versus rouble:				
US Dollar	50%	13,642	50%	55,941
Euro	50%	335	50%	(145)
Other currencies	50%	(1,691)	50%	(1,677)

As of 31 December 2015 the effect on the Group's equity would be RUB 79,450 million considering immaterial effect from change in exchange rates of other currencies.

Interest rate risk

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

As at 31 December 2015 and 31 December 2014, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2015	31 December 2014
<i>Fixed rate financial instruments:</i>		
Financial assets	17,767	3,582
Financial liabilities	(34,266)	(38,112)
Total fixed rate financial instruments	(16,499)	(34,530)
<i>Variable rate financial instruments:</i>		
Variable rate financial liabilities	(198,137)	(135,225)

As at 31 December 2015 and 31 December 2014 the Group had loans and finance lease with variable interest rates. If the variable part of interest rates on loans as at 31 December 2015 and 31 December 2014 were 20% higher or lower than the actual variable part of interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2014: would not have changed significantly).

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Aircraft fuel price risk

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

Given as at 31 December 2015 the deals were closed due to ensuing of the period of performance change in value of underlying asset as at the reporting date would not have any significant impact of financial results and equity of the Group. In case as at 31 December 2014 price for Brent crude oil was 50% higher or lower than its actual price, with all other variables remaining constant (including forecast of crude oil price), the effect of change in crude oil price on the Group's equity and result would not be materially different.

Capital management risk

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

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

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

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

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

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

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

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

The ratios are as follows:

	As at and for the year ended 31 December 2015	As at and for the year ended 31 December 2014
Total debt	233,729	174,309
Cash and cash equivalents and short-term financial investments	(36,610)	(27,508)
Net debt	197,119	146,801
Equity attributable to shareholders of the Company	(25,523)	(3,631)
Total capital	171,596	143,170
EBITDA	58,703	24,840
Net debt/Total capital	1.1	1.0
Total debt/EBITDA	4.0	7.0
Net debt/EBITDA	3.4	5.9

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

There were no changes in the Group's approach to capital management in 2015 and 2014.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements in 2015 and 2014, except for minimal share capital according to the legislation.

Credit risk

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

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

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

As at 31 December 2015 the total amount of investments into securities was RUB 6,063 million (31 December 2014: RUB 6,062 million), major part of financial receivables amounted to RUB 15,079 million relates to receivables regulated by clearing house (31 December 2014: RUB 17,314 million).

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

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

	31 December 2015	31 December 2014
Cash and cash equivalents (excluding petty cash) (Note 12)	30,626	26,477
Financial receivables (Note 14)	31,722	30,270
Short-term financial investments	5,917	961
Long-term financial investments (Note 16)	6,118	6,115
Aircraft lease security deposits (Note 13)	4,790	2,431
Other non-current assets	168	186
Total financial assets exposed to credit risk	79,341	66,440

Analysis by credit quality of financial receivables is as follows:

	31 December 2015	31 December 2014
<i>Past due but not impaired</i>		
- less than 90 days overdue	30	58
- 91 days to 2 years overdue	-	32
Total past due but not impaired receivables	30	90

Credit risk concentration

As at 31 December 2015 a large portion of the cash as well as long-term financial investments of the Group was placed in one bank with long-term credit rating BBB (as at 31 December 2014: two banks with long-term credit rating BBB and B) and invested in one company (as at 31 December 2014: one company), respectively, which causes the credit risk concentration for the Group.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial instruments carried at fair value. This category includes only derivative financial instruments disclosed in Note 23.

Financial assets carried at amortised cost. The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of financial receivables (Note 14), lease security deposits (Note 13) and loans issued (Note 16) approximate their fair values, which belong to Level 2 in the fair value hierarchy. Cash and cash equivalents belong to level 1 and are carried at amortised cost which is approximately equal to their fair value.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2015 and 31 December 2014, the fair values of financial payables (Note 24), finance lease liabilities (Note 27), loans, borrowings and bonds (Note 28) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

37. RELATED PARTIES TRANSACTIONS

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

As at 31 December 2015 and 31 December 2014, the outstanding balances with related parties and income and expense items with related parties for the years ended 31 December 2015 and 31 December 2014 were disclosed below:

Associates

As at 31 December 2015 and 31 December 2014, the outstanding balances with associates and income and expense items with associates for the years ended 31 December 2015 and 31 December 2014 were as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Assets		
Accounts receivable	1	1
Liabilities		
Accounts payable and accrued liabilities	<u>111</u>	<u>140</u>
The amounts outstanding to and from related parties will be settled mainly in cash.		
	<u>2015</u>	<u>2014</u>
Transactions		
Sales to associates	25	19
Purchase from associates	<u>1,469</u>	<u>1,372</u>

Purchases from associates consist primarily of aviation security services.

37. RELATED PARTIES TRANSACTIONS (CONTINUED)*Government-related entities*

As at 31 December 2015 and 31 December 2014, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Group operates in an economic environment where the entities are directly or indirectly controlled by the Government of the RF through its government authorities, agencies, associations and other organizations, collectively referred to as government-related entities.

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

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

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

Outstanding balances of derivative financial instruments and cash at current rouble and foreign currency accounts in the government-related banks:

	31 December 2015	31 December 2014
Assets		
<i>Cash and cash equivalents</i>	8,060	15,781
<i>Derivative financial instruments</i>		
PJSC Sberbank of Russia	53	529
Liabilities		
<i>Derivative financial instruments</i>		
PJSC Sberbank of Russia	-	(9,887)
PJSC VTB	-	(4,613)

37. RELATED PARTIES TRANSACTIONS (CONTINUED)***Government-related entities (continued)***

The amounts of the Group's finance lease liabilities are disclosed in Note 27. The share of liabilities to the government-related entities is approximately 3% for finance lease (31 December 2014: 12%). The share of the government-related entities in the amount of the future minimum lease payments under non-cancellable operating leases agreements (note 38) is approximately 6% (31 December 2014: 7%). The share of interest expenses on finance lease is approximately 30% and 1% for operating lease expenses (2014: 30% and 2%, respectively).

For the year ended 31 December 2015 the share of the Group's transactions with government-related entities was less than 10% of operating costs, and less than 3% of revenue (2014: less than 12% and less than 3%, respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the government-related airports and also supplies of fuel by government-related entities.

As at 31 December 2015 the Group issued guarantees for the amount of RUB 627 million to a government-related entity to secure obligations under tender procedures (31 December 2014: RUB 398 million).

As at 31 December 2015 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group amounted to RUB 4,623 million (31 December 2014: RUB 3,862 million).

Transactions with the state also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 8, 9, 11, 14, 17, 24 and 29.

Compensation of key management personnel

The remuneration of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as other compensation, amounted to RUB 748 million (2014: RUB 953 million).

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

Bonus programmes for key management based on the Company's capitalisation

In 2013, the Group approved bonus programmes for the Group's key management personnel and members of the Company's Board of Directors. These programmes run for three years and are exercised in three tranches of cash payments. The amounts of payments depend both on the absolute increase in the Company's capitalisation and the Company's capitalisation growth rates against its peers based on the results of the reporting year. The fair value of the liabilities under the bonus programmes was determined based on the Company's capitalisation growth in 2015.

In 2015, expenses related to the bonus programmes were RUB 205 million and were recorded within staff costs and other financial costs in the Group's consolidated statement of profit or loss (2014: RUB 566 million). As at 31 December 2015, outstanding liability under these plans was RUB 452 million (as at 31 December 2014 it was RUB 247 million).

37. RELATED PARTIES TRANSACTIONS (CONTINUED)***Cross shareholding***

As at 31 December 2015 Aeroflot-Finance, 100%-owned subsidiary of the Group, owned 53,716,189 ordinary shares of the Company (31 December 2014: Aeroflot-Finance and Partner, 100%-owned subsidiaries of the Group, owned 53,714,098 ordinary shares and 2,091 ordinary shares of the Company, respectively) (Note 31).

38. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 37) are as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
On demand or within 1 year	57,356	42,694
Later than 1 year and not later than 5 years	202,376	179,654
Later than 5 years	219,353	209,804
Total operating lease commitments	<u>479,085</u>	<u>432,152</u>

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the amounts.

The aircraft that the Group has operated under operating lease agreements as at 31 December 2015 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 2 to 16 years. The agreements are extendable.

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

39. CAPITAL COMMITMENTS

As at 31 December 2015, the Group entered into agreements on acquisition of property, plant and equipment with third parties for the total of RUB 958,048 million (31 December 2014: RUB 776,579 million). These commitments mainly relate to 3 Boeing B777 (31 December 2014: 6), 22 Boeing B787 (31 December 2014: 22), 22 Airbus A350 (31 December 2014: 22) and 62 Airbus A320/321 (31 December 2014: 62) aircraft. The Group plans to use the mentioned aircraft under operating or finance lease agreements, thus does not expect cash outflow under the corresponding agreements.

40. 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 2015 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. The consolidated financial statements reflect assessment of the Group's management of the impact of the Russian business environment on the operations and the financial position of the Group. The future business situation may differ from management's current expectations.

In October 2015, the Company's Board of Directors approved the use of funds of PJSC Aeroflot and LLC Aeroflot-Finance to finance the OJSC Transaero's operating activities until its air operator's certificate is cancelled, loans and guarantees issue, carriage of passengers on the Group's flights. In the end of October 2015, the Group obtained temporary access to 56 air routes of OJSC Transaero Airlines.

Tax contingencies

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

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

40. 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: 2 for 2015, 1.84 for 2016.

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

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

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

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

In addition to the above matters, as at 31 December 2015 and 31 December 2014 management estimates that the Group has no possible obligations from exposure to other than remote tax risks. The risks represent estimates arising from uncertainties in the interpretation of Russian tax legislation and related requirements for documentation. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these consolidated financial statements, if these are challenged by the tax authorities.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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



40. CONTINGENCIES (CONTINUED)

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.