

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

**IFRS Consolidated Financial Statements
for the year ended 31 December 2017**

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PJSC AEROFLOT

Statement of management's responsibilities for the preparation and approval of the Consolidated Financial Statements as at and for the year ended 31 December 2017



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

Management is responsible for the preparation of Consolidated Financial Statements that present fairly the consolidated financial position of the Group as at 31 December 2017, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

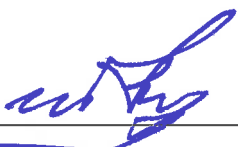
Management is also responsible for:

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

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2017 (set out on pages 1-68) were approved on 28 February 2018 and signed on behalf of management by:



V.G. Saveliev
General Director



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



Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Aeroflot:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Aeroflot and its subsidiaries (together – the “Group”) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

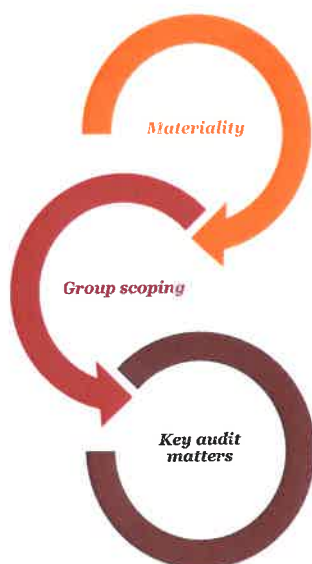
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall group materiality: Russian roubles (“RUB”) 5,340 million, which represents 1% of revenue for the reporting year.
- We conducted our audit work at three companies of the Group: PJSC Aeroflot, JSC Rossiya Airlines and CJSC Aeromar;
- We also performed audit procedures over individual significant items of the financial statements for LLC Pobeda Airlines;
- In respect of the other Group companies, we primarily performed analytical procedures;
- Our audit scope addressed 99% of the Group’s revenue and 96% of the Group’s profit before tax.
- Key audit matter 1: classification of aircraft lease arrangements;
- Key audit matter 2: evaluation of goodwill impairment.

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

Materiality

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

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

Overall group materiality	RUB 5,340 million
How we determined it	1% of revenue for the reporting year



Rationale for the materiality benchmark applied

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

Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Classification of aircraft lease arrangements

See Notes 2, 28 and 40

The Group's companies purchase and use aircraft under financial and operating leases.

As at 31 December 2017, the Group's statement of financial position includes liabilities and assets related to aircraft finance lease arrangements in the amount of RUB 96,265 million and RUB 66,485 million, respectively.

The undiscounted future minimum lease payments under non-cancellable aircraft operating leases arrangements at the reporting date amounted to RUB 660,581 million.

To classify leases, the Group reviews the contract terms under the criteria set by IAS 17, *Leases*. The Group performs this analysis for each contract.

Factors taken into account by the Group when classifying lease arrangements include but are not limited to the following:

- Transfer of ownership of aircraft to the Group by the end of the lease term;
- The option to purchase the aircraft at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

Management assessed new aircraft lease arrangements entered in 2017 as operating or finance leases and provided us with the results of the assessment. We reviewed management's assessment and analysed the lease arrangements entered during the reporting period selected on a sample basis for:

- transfer of the ownership of aircraft to the Group at the end of the lease term;
- the Group's option to purchase the aircraft at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the aircraft lease term represents a major part of the aircraft's economic life.

We performed independent calculations to assess whether the interest rate implicit in the lease or the Group's incremental borrowing rate of interest had been reasonably determined. We reviewed whether the present value of minimum lease payments amounted to 90% or more of the fair value of the leased asset.

To verify the fair value of Airbus A320s and A321s leased by the Group in 2017, management engaged an external independent appraiser. Based on information on the fair value of the

Key audit matter

How our audit addressed the key audit matter

Classification of aircraft lease arrangements (continued)

- Whether the lease term covers the major part of the economic life of the aircraft even if the title is not transferred;
- Whether the present value of the minimum lease payment amounts to at least substantially all of the fair value of the leased asset at the inception of the lease. For classifying lease agreements as operating leases this ratio should not exceed determined threshold during classification test performed by the Group.

As a basic measure of the fair value of the aircraft, the Group uses the value of the aircraft agreed upon in the respective lease agreement if there are no indicators that it should not be used.

For new 2017 lease agreements in which there were indicators that the aircraft value defined in the contract differs from the fair value, the Group involved an independent expert to determine the fair value of the aircraft.

We focused on this matter because the classification of leases involves applying significant judgements and estimates regarding the classification criteria underlined above.

aircraft provided by the independent appraiser and analysis of other information, the Group classified these arrangements as operating leases. We assessed the competence and objectivity of the independent appraiser, as well as the adequacy of the scope of work done. In particular, we performed the following procedures:

- review of the methodology used to determine the aircraft value, taking external factors into account;
- analysis of the conformity of the technical characteristics of the evaluated aircraft and similar aircraft;
- verification of the mathematical correctness of the calculations;
- test of the input data (type and production date) on aircraft and the cost of installed additional equipment (provided by management to the external expert).

For these items, if the ratio of the minimal lease payment to the fair value of the aircraft was between 80% and 95%, we performed a detailed analysis of all the terms of the lease agreements based on the criteria specified in IAS 17, *Leases*.

We verified that the related disclosures in the consolidated financial statements were consistent with the requirements of IAS 17, *Leases*.

None of the above procedures revealed any inconsistencies in the classification of the lease agreements or any other errors in the presentation of related information in the consolidated financial statements.

Evaluation of goodwill impairment *See Note 23*

As at 31 December 2017, the Group recognised goodwill in the amount of RUB 6 660 million, including RUB 6,502 million allocated to JSC Rossiya Airlines.

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

Management performed an impairment test and presented us with the outcome. The testing applied the value-in-use model based on discounted cash flows for the relevant CGU. We performed the following procedures in respect of the impairment model:

- We tested the mathematical accuracy of the allocation of goodwill to the Group's companies and the consistency of such

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="263 492 694 555"><i>Evaluation of goodwill impairment (continued)</i></p> <p data-bbox="263 555 813 683">As at 31 December 2017, the Group performed a test for the impairment of goodwill. As a result of the test, there was no need to recognise any impairment loss.</p> <p data-bbox="263 712 821 907">We focused on this matter due to the value of the goodwill as well as because the test for impairment involves applying significant judgements and estimates regarding the future results of business operations for each cash generating unit (CGU).</p>	<p data-bbox="909 488 1428 548">allocation with the requirements of IAS 36, <i>Impairment of Assets</i>.</p> <ul style="list-style-type: none"> <li data-bbox="853 582 1428 772">• We evaluated and challenged the composition of management’s forecasts of future cash flows and the process of their preparation. In particular, we specifically focused on whether all relevant CGUs were identified. <li data-bbox="853 806 1452 929">• We compared the estimated seat occupancy rates, yield and cost of available seat-kilometre (CASK) rates to the actual rates for 2017. <li data-bbox="853 963 1452 1153">• We assessed the reasonableness of the methodology for cash flow estimation applied to testing and checked the calculations for mathematical accuracy and consistency with the methodology set by IAS 36, <i>Impairment of Assets</i>. <li data-bbox="853 1187 1452 1579">• We analysed the key assumptions applied by management to their estimations through their benchmarking against available market data: <ul style="list-style-type: none"> <li data-bbox="917 1310 1444 1444">○ aviation fuel prices, exchange rates and assumed long-term growth rate, by comparing them with independent projections; <li data-bbox="917 1444 1452 1579">○ discount rate, by assessing the weighted average cost of capital for the Group companies and for their peers, subject to required adjustments. <li data-bbox="853 1612 1444 1915">• We identified that the results of testing are most sensitive to assumptions in respect of yield, seat occupancy and discount rate. We checked the sensitivity analysis of the key assumptions performed by management to come to the general conclusion on the absence of impairment, by analysing the results with the application of assumptions that, in our opinion, are sufficiently conservative. <li data-bbox="853 1948 1452 2016">• We checked the disclosures included in Note 23 to the consolidated financial statements,



Key audit matter

How our audit addressed the key audit matter

in terms of their completeness and consistency with the requirements imposed by IAS 36, *Impairment of Assets*.

As a result of these procedures, we came to the conclusion that the key assumptions applied by management for testing goodwill impairment and their conclusion that there was no impairment of goodwill as at the reporting date do not require any adjustments for the presentation of information in the consolidated financial statements.

How we tailored our group audit scope

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

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

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

The work in respect of material components was performed by the engagement team of AO PricewaterhouseCoopers Audit. We additionally performed substantive testing in respect of revenue for the reporting year for LLC Pobeda Airlines.

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

Other information

Management is responsible for the other information. The other information includes the Annual Report and Issuer's Report for the first quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report and Issuer's Report for the first quarter of 2018 will be available to us after the date of the auditor's report.

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

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



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

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

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

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

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

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

AO PricewaterhouseCoopers Audit

28 February 2018

Moscow, Russian Federation



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

Audited entity: PJSC Aeroflot

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

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

119002, Russia, Moscow, 10 Arbat

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Member of Self-regulated organisation of auditors «Russian Union of
auditors» (Association)
ORNZ 11603050547 in the register of auditors and audit
organisations

PJSC AEROFLOT
 Consolidated Statement of Comprehensive Income
 for the year ended 31 December 2017

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

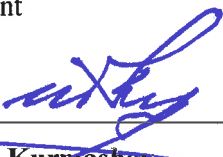


	Note	2017	2016
Traffic revenue	5	474,916	433,966
Other revenue	6	58,018	61,914
Revenue		532,934	495,880
Operating costs, excluding staff costs and depreciation and amortisation	7	(394,528)	(354,022)
Staff costs	8	(82,801)	(64,682)
Depreciation and amortisation	19, 22	(14,084)	(13,395)
Other operating income /(expenses), net	9	(1,110)	(527)
Operating costs		(492,523)	(432,626)
Operating profit		40,411	63,254
Loss from sale and impairment of investments, net	17	(144)	(2,935)
Finance income	10	7,127	19,802
Finance costs	10	(8,225)	(9,443)
Hedging result	10	(5,613)	(12,310)
Share of results of associates		170	12
Result from disposal of subsidiaries	21	-	(5,099)
Profit before income tax		33,726	53,281
Income tax	11	(10,666)	(14,455)
PROFIT FOR THE YEAR		23,060	38,826
<i>Profit for the year attributable to:</i>			
Shareholders of the Company		22,872	37,443
Non-controlling interest		188	1,383
PROFIT FOR THE YEAR		23,060	38,826
Profit per share – basic and diluted (in Roubles per share)		21.3	35.4
Weighted average number of shares outstanding (millions)	32	1,071.9	1,056.9

Approved on 28 February 2018 and signed on behalf of management



V.G. Saveliev
 General Director



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

The Consolidated Statement of Profit or Loss should be read in conjunction with the notes set out on pages 7 to 68 which are forming part of the Consolidated Financial Statements

PJSC AEROFLOTConsolidated Statement of Comprehensive Income
for the year ended 31 December 2017*(All amounts in millions of Russian Roubles, unless otherwise stated)*

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Profit for the year		23,060	38,826
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Profit from the change in fair value of hedging derivative financial instruments	24	-	4,485
Effect from hedging revenue with foreign currency liabilities	28	11,285	33,773
Deferred tax related to the effect on cash flow hedging instruments recognized in other comprehensive income	11	<u>(2,257)</u>	<u>(7,725)</u>
Other comprehensive income for the year		<u>9,028</u>	<u>30,533</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>32,088</u>	<u>69,359</u>
<i>Total comprehensive income attributable to:</i>			
Shareholders of the Company		31,900	67,976
Non-controlling interest		<u>188</u>	<u>1,383</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>32,088</u>	<u>69,359</u>

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes set out on pages 7 to 68 which are forming part of the Consolidated Financial Statements

PJSC AEROFLOT
Consolidated Statement of Financial Position
as at 31 December 2017



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

	Note	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	12	45,978	31,476
Short-term financial investments	17	8,931	6,319
Accounts receivable and prepayments	14	92,932	78,172
Current income tax prepayment		3,580	2,679
Aircraft lease security deposits	13	423	320
Expendable spare parts and inventories	16	12,811	10,040
Assets classified as held for sale	20	3,125	1,140
Other current assets	42	422	-
Total current assets		168,202	130,146
Non-current assets			
Property, plant and equipment	19	97,932	104,897
Prepayments for aircraft	15	13,089	27,830
Deferred tax assets	11	10,396	12,252
Goodwill	23	6,660	6,660
Long-term financial investments	17	3,338	3,306
Intangible assets	22	2,054	1,825
Aircraft lease security deposits	13	1,602	2,181
Investments in associates		329	98
Other non-current assets	18	19,728	10,112
Total non-current assets		155,128	169,161
TOTAL ASSETS		323,330	299,307
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	25	67,953	49,868
Unearned traffic revenue		43,695	39,044
Deferred revenue related to frequent flyer programme	26	1,720	1,607
Provisions for liabilities	27	9,433	5,304
Finance lease liabilities	28	16,015	15,593
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	-	9,309
Liabilities related to assets held for sale	20	2,210	-
Total current liabilities		141,026	120,725
Non-current liabilities			
Long-term loans and borrowings	29	3,181	11,058
Finance lease liabilities	28	84,674	107,143
Provisions for liabilities	27	16,949	10,791
Deferred tax liabilities	11	68	39
Deferred revenue related to frequent flyer programme	26	3,842	3,623
Other non-current liabilities	30	6,291	5,159
Total non-current liabilities		115,005	137,813
TOTAL LIABILITIES		256,031	258,538
Equity			
Share capital	32	1,359	1,359
Treasury shares reserve		-	(3,571)
Accumulated profit on disposal of treasury shares	32	7,864	1,659
Investment revaluation reserve		(5)	(5)
Hedging reserve	24, 28	(25,159)	(34,187)
Retained earnings		81,476	77,198
Equity attributable to shareholders of the Company		65,535	42,453
Non-controlling interest		1,764	(1,684)
TOTAL EQUITY		67,299	40,769
TOTAL LIABILITIES AND EQUITY		323,330	299,307

The Consolidated Statement of Financial Position should be read in conjunction with the notes set out on pages 7 to 68 which are forming part of the Consolidated Financial Statements

PJSC AEROFLOT

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

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



	Note	2017	2016
Cash flows from operating activities:			
Profit before income tax		33,726	53,281
<i>Adjustments for:</i>			
Depreciation and amortisation	19,22	14,084	13,395
Change in impairment provision for accounts receivable and prepayment	9	(338)	2,217
Change in impairment provision for obsolete expendable spare parts and inventory		(99)	216
Change in provision for impairment of property, plant and equipment	19	(24)	(36)
Loss on disposal of property, plant and equipment		852	885
Loss on disposal of subsidiaries	21	-	5,099
Loss on sale and impairment of investments, net		144	2,935
Loss on change in the fair value of derivative financial instruments	10	-	53
Realised hedging	10	5,613	12,310
Change in provisions for liabilities	9,27	11,190	6,628
Interest expense	10	8,179	8,907
Interest income	10	(4,718)	(4,169)
Foreign exchange gain	10	(2,409)	(15,597)
Other finance expense/(income), net	10	46	447
Dividend income		(88)	(29)
Gain on disposal of assets classified as held for sale		(182)	(2,784)
Other operating income, net		(646)	(1,764)
Total operating cash flows before working capital changes		65,330	81,994
Change in accounts receivable and prepayments		(27,816)	(6,191)
Change in expendable spare parts and inventories		(2,672)	(2,809)
Change in accounts payable and accrued liabilities		24,964	13,387
Total operating cash flows after working capital changes		59,806	86,381
Change in restricted cash	42	(435)	20
Income tax paid		(13,019)	(13,943)
Income tax refunded		1,080	1,189
Net cash flows from operating activities		47,432	73,647

The Consolidated Statement of Cash Flows should be read in conjunction with the notes set out on pages 7 to 68 which are forming part of the Consolidated Financial Statements

PJSC AEROFLOT

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

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



	Note	2017	2016
Cash flows from investing activities:			
Deposits return		13,649	9,840
Deposits placement		(16,300)	(10,435)
Proceeds from sale of property, plant and equipment		88	84
Proceeds from sale of subsidiary		-	9
Proceeds from sale of assets held for sale		1,856	6,471
Purchases of property, plant and equipment and intangible assets	19,22	(7,681)	(10,222)
Interest received		4,241	3,065
Dividends received		59	62
Prepayments for aircraft	18	(7,931)	(18,806)
Return of prepayments for aircraft	18	26,274	29,362
Payment of operating lease security deposits	13	(211)	(2,504)
Return of operating lease security deposits	13	325	3,405
Net cash flows from investing activities		14,369	10,331
Cash flows from financing activities:			
Proceeds from loans and borrowings	29	-	30,885
Repayment of loans and borrowings	29	(17,417)	(72,991)
Proceeds from sale of own shares		9,730	-
Repayment of the principal element of finance lease liabilities	28	(15,513)	(27,024)
Interest paid		(4,762)	(6,954)
Dividends paid		(18,859)	(49)
Repayment on settlement of derivative financial instruments, net	24	-	(4,362)
Net cash used in financing activities		(46,821)	(80,495)
Effect of exchange rate fluctuations on cash and cash equivalents		(478)	(2,700)
Net increase in cash and cash equivalents		14,502	783
Cash and cash equivalents at the beginning of the year	12	31,476	30,693
Cash and cash equivalents at the end of the year	12	45,978	31,476
Non-cash transactions as part of the investing activities:			
Property, plant and equipment acquired under finance leases		1,872	2,170

The Consolidated Statement of Cash Flows should be read in conjunction with the notes set out on pages 7 to 68 which are forming part of the Consolidated Financial Statements

PJSC AEROFLOT

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

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



Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2016		1,359	(1,912)	(5)	(64,720)	39,755	(25,523)	(10,597)	(36,120)
Profit for the year						37,443	37,443	1,383	38,826
Profit from the change in fair value of derivative financial instruments and the effect of hedge net of related deferred tax	24,28	-	-	-	30,533	-	30,533	-	30,533
Total other comprehensive income		-	-	-	-	-	30,533	-	30,533
Total comprehensive income		-	-	-	-	-	67,976	1,383	69,359
Subsidiary company disposal	21	-	-	-	-	-	-	7,579	7,579
Dividends declared		-	-	-	-	-	-	(49)	(49)
31 December 2016		1,359	(1,912)	(5)	(34,187)	77,198	42,453	(1,684)	40,769
1 January 2017		1,359	(1,912)	(5)	(34,187)	77,198	42,453	(1,684)	40,769
Profit for the year						22,872	22,872	188	23,060
Profit from the change in fair value of derivative financial instruments and the effect of hedge net of related deferred tax	24,28	-	-	-	9,028	-	9,028	-	9,028
Total other comprehensive income		-	-	-	-	-	9,028	-	9,028
Total comprehensive income		-	-	-	-	-	31,900	188	32,088
Disposal of treasury shares		-	9,776	-	-	-	9,776	-	9,776
Sale of shares to holders of non-controlling interest		-	-	-	-	-	-	3,589	3,589
Dividends declared		-	-	-	-	(18,594)	(18,594)	(329)	(18,923)
31 December 2017		1,359	7,864	(5)	(25,159)	81,476	65,535	1,764	67,299

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes set out on pages 7 to 68 which are forming part of the Consolidated Financial Statements

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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



1. NATURE OF THE BUSINESS

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

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

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

As at 31 December 2017 and 2016, the Government of the Russian Federation (the “RF”) as 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 2017</u>	<u>31 December 2016</u>
JSC Rossiya airlines (“AK Rossiya”)	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
LLC Pobeda Airlines (“Pobeda”)	Moscow, RF	Airline	100.00%	100.00%
JSC Aurora Airlines (“AK Aurora”)	Yuzhno-Sakhalinsk, RF	Airline	51.00%	51.00%
LLC Aeroflot-Finance (“Aeroflot-Finance”)	Moscow, RF	Finance services	100.00%	100.00%
CJSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
JSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%
LLC A-Technics	Moscow, RF	Technical maintenance	100.00%	100.00%
JSC Orenburg airlines (“Orenburgavia”)	Orenburg, RF	Airline	100.00%	100.00%
JSC Donavia (“Donavia”)	Rostov-on-Don, RF	Airline	100.00%	100.00%

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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

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

The Group's major associate is:

<u>Company name</u>	<u>Registered address</u>	<u>Principal activity</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
CJSC Sheremetyevo Bezопасnost	Moscow Region, RF	Aviation security	45.00%	45.00%

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

(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 2017 (number of items):

Type of aircraft	Ownership	PJSC AEROFLOT	AK ROSSIYA	AK AURORA	AK POBEDA	GROUP TOTAL
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		-	-	7	-	7
Airbus A319	Finance lease	-	9	-	-	9
Airbus A321	Finance lease	13	-	-	-	13
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
An-148	Finance lease	-	6	-	-	6
Total aircraft under finance leases		31	15	-	-	46
SSJ 100	Operating lease	37	-	-	-	37
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	75	5	-	-	80
Airbus A321	Operating lease	25	-	-	-	25
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	36	16	-	16	68
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	6	5	-	-	11
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
Total aircraft under operating leases		193	52	18	16	279
Total fleet		224	67	25	16	332

As at 31 December 2017, 6 An-148 and 1 An-24 aircraft were leased out.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of presentation

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

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

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

Going concern

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

Functional and presentation currency

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

Consolidation

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

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

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

2. BASIS OF PREPARATION AND 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 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 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 recovered. 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 of monetary assets and liabilities into foreign currencies:

	Official exchange rates	
	Roubles for 1 US Dollar	Roubles for 1 Euro
Average rate for 2017	58.35	65.90
31 December 2017	57.60	68.87
Average rate for 2016	67.03	74.23
31 December 2016	60.66	63.81

2. BASIS OF PREPARATION AND 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 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 and other fixed 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 ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

(b) Land, buildings and other plant and equipment

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

(c) Construction in progress

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

Gain or loss on disposal of property, plant and equipment

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Group's Consolidated Statement of Profit or Loss within operating income or expenses.

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 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 on disposal. Held for sale property, plant and equipment are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the Consolidated Statement of Financial Position.

Capitalisation of borrowing costs

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

The capitalisation starts when the Group:

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Capitalisation of borrowing costs (continued)

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

Impairment of property, plant and equipment

At each reporting date the management reviews its property, plant and equipment to determine whether there is any indication of impairment of those assets. If any such indication exists, the recoverable amount of the asset is estimated by management as the higher of: an asset's fair value less costs 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 customs 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 capital 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Financial instruments – key measurement terms (continued)

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 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Financial instruments – key measurement terms (continued)

The effective interest rate discounts cash flows of variable interest instruments to the next interest 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 ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

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

Financial instruments and hedge accounting

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

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Profit 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 Statement of Profit or Loss. 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.

The hedging result in the Consolidated Statement of Profit or Loss is the change in the fair value of the hedging derivative financial instruments (realized hedging) and the reverse effect of the hedging risk impact on the related hedge transactions recorded in operating activities.

2. BASIS OF PREPARATION AND 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.

Cash flows arising from the receipt of interests are classified as cash flows from investing activities in the Statement of Cash Flows.

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 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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Loans and borrowings

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

Short-term loans and borrowings comprise:

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

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

Expendable spare parts and inventories

Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower.

The costs are determined as the actual acquisition cost of spare parts for aircraft maintenance and as the cost of other inventories on the first-in, first-out (“FIFO”) basis.

The Group writes off the full amount of obsolete inventories which the Group does not plan to continue using in its operations.

Value added taxes

Value added tax (“VAT”) related to sales of goods or provision of services is recorded as a liability to the tax authorities on an accruals basis. Domestic flights in general are subject to VAT at 10% 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.

Frequent flyer programme

Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot-Bonus. Subject to the programme’s terms, to stimulate interest in using the Company’s services, Aeroflot-Bonus miles are awarded for the use of the Group’s services and its partners, as well as free promo miles to encourage participation in the programme. 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 if the additional conditions of the programme are met.

In accordance with IFRIC 13 *Customer Loyalty Programmes*, the fair value of miles accumulated on the Group’s own flights but not used by Aeroflot-Bonus participants is recognised under current and non-current deferred revenue related to frequent flyer programme (Note 26) within current and non-current liabilities, respectively, in the Group’s Consolidated Statement of Financial Position.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Frequent flyer programme (continued)

The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme is recognised as other current and non-current liabilities related to frequent flyer programme (Notes 25 and 30) in accounts payable and accrued liabilities in the Group's Consolidated Statement of Financial Position.

The fair value of the accumulated bonus miles is the same for the miles earned by the participants on the Group's own flights and the accumulated by the participants for using the services of the programme partners.

Other accrued liabilities related to promo miles accumulated but not used, the cost of which reflects the best estimate of the cost required to settle an existing liability in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" are recognised within accounts payable and accrued liabilities, respectively, in the Group's Consolidated Statement of Financial Position.

With the use of bonus miles, revenue from the loyalty programme is recognized when services are provided to program participants by reducing current deferred revenue and other current liabilities.

Employee benefits

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

Provisions for liabilities

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

Income tax

Income taxes have been provided for in the Consolidated Financial Statements in accordance with legislation using tax rates and legislative regulations enacted or substantively enacted at the end of the reporting period. Income tax expense/benefit comprises current and deferred tax and is recognised in the Consolidated Statement of Profit 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 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 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 2017) 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 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 members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value. The assessment of the fair value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus members, are a matter of management judgement. A change in these estimates may require the adjustment of deferred revenue, other current and non-current liabilities related to frequent flyer programme in the Consolidated Statement of Financial Position (Note 26) and adjustment to revenue in the Consolidated Statement of Profit 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 42).

Classification of a lease agreement as operating and finance lease

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

Estimated impairment of goodwill

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

Deferred tax asset recognition

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

New standards and interpretations effective from 1 January 2017

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 Jan 2016 and effective for the periods beginning on or after 1 January 2017). The Group has disclosed the required information in Note 37 of these Consolidated Financial Statements;

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for the periods beginning on or after 1 January 2017);

Annual Improvements to IFRS 2014 – 2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12.

New Accounting standards and Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted:

IFRS 9 “Financial Instruments: Classification and Measurement” (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The main differences between the new standard, which may affect the Group's Consolidated Financial Statements at the date of application, are as follows: investments in equity instruments should always be measured at fair value. In this case, management can make a decision that can not be revised on the reflection of changes in fair value in other comprehensive income, if the instrument is not intended for trade. If an equity instrument is held for trade, changes in fair value are recognized in profit or loss. IFRS 9 introduces a new model for recognition of impairment losses: a model of expected credit losses. There is a "three-step" approach based on changing the credit quality of financial assets from the moment of initial recognition. In practice, the new rules mean that organizations, upon initial recognition of financial assets, will immediately recognize losses in the amount of expected credit losses for the 12 months that are not credit impairment losses (or in the amount of expected credit losses for the entire period of the financial instrument for trade receivables). If there has been a significant increase in credit risk, the impairment is estimated based on expected credit losses for the entire life of the financial instrument, rather than on the basis of expected credit losses for 12 months. The model provides for operational simplification of trade receivables and finance lease receivables.

The hedge accounting requirements have been adjusted to be more consistent with accounting of risk management. The standard provides organizations with the option to choose between accounting policies applying the hedge accounting requirements of IFRS 9 and continuing the application of IAS 39 to all hedging instruments, as the standard does not currently include accounting for macro hedging events.

According to IFRS 9, financial assets are to be classified in three valuation categories: subsequently measured at amortized cost, subsequently measured at fair value through profit or loss, which are recognized in Other Comprehensive Income, and measured at fair value through profit or loss. The classification of debt instruments depends on the business model of the organization for the management of financial assets and on whether the contractual cash flows are only payments to the principal and interest.

The Group is currently assessing the impact of this standard on its Consolidated Financial Statements. The assessment will be completed by the release of the Group's Condensed Consolidated Interim Financial Statements for the 1st quarter of 2018.

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

New Accounting standards and Pronouncements (continued)

IFRS 15 “Revenue from contracts with customers” with amendments made on 12 April 2016 (issued on 28 May 2014, effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. It is expected that this standard will not have a significant impact on the Group's Consolidated Financial Statements.

IFRIC 22 “Foreign currency transactions and advance consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements;

IFRS 16 “Leases” (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements;

IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021); The Group is currently assessing the impact of the new standard on its financial statements;

IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements;

It is expected that this standard will not have a significant impact on the Group's Consolidated Financial Statements;

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

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

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

New Accounting standards and Pronouncements (continued)

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning

on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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

Annual Improvements to IFRS 2014 – 2016 cycle - Amendments to IAS 1 and IAS 28 (issued on 8 December 2016 and effective for the periods beginning on or after 1 January 2018).

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 19 "Employee Benefits" (issued on February 7, 2018 and effective for annual periods beginning on or after 1 January 2019).

5. TRAFFIC REVENUE

	<u>2017</u>	<u>2016</u>
Scheduled passenger flights	427,529	403,760
Charter passenger flights	30,861	17,617
Cargo flights	16,526	12,589
Total traffic revenue	<u>474,916</u>	<u>433,966</u>

6. OTHER REVENUE

	<u>2017</u>	<u>2016</u>
Airline agreements revenue	33,196	35,923
Revenue from partners under frequent flyer programme	11,588	11,846
Refuelling services	199	2,515
In-flight catering services	1,670	1,429
Sales of duty free goods	1,530	1,349
Ground handling and maintenance	1,253	1,382
Hotel revenue	448	491
Other revenue	8,134	6,979
Total other revenue	<u>58,018</u>	<u>61,914</u>

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2017*(All amounts in millions of Russian Roubles, unless otherwise stated)***7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION**

	<u>2017</u>	<u>2016</u>
Aircraft servicing and ground handling	76,332	70,908
Operating lease expenses	65,793	59,563
Aircraft maintenance	36,433	38,236
Sales and marketing expenses	17,749	13,887
Communication expenses	14,795	14,697
Administration and general expenses	18,390	16,407
Passenger services expenses	20,086	16,319
Food cost for in-flight catering	10,425	8,714
Insurance expenses	2,025	2,059
Customs duties	1,520	1,355
Cost of duty-free goods sold	836	732
Other expenses	7,459	9,563
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	271,843	252,440
Aircraft fuel	122,685	101,582
Total operating costs less staff costs and depreciation and amortisation	394,528	354,022

8. STAFF COSTS

	<u>2017</u>	<u>2016</u>
Wages and salaries	63,842	50,885
Pension costs	12,669	10,577
Social security costs	6,290	3,220
Total staff costs	82,801	64,682

Pension costs include:

- compulsory payments to the Pension Fund of the RF;
- contributions to a non-governmental pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 12 months of 2017; 20% for 12 months of 2016) of the transfers made personally by employees participating in the programme; and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under defined benefit pension plans.

	<u>2017</u>	<u>2016</u>
Payments to the RF Pension Fund	12,650	10,574
Change in liabilities for pension plans	19	3
Total pension costs	12,669	10,577

PJSC AEROFLOTNotes to the Consolidated Financial Statements
for the year ended 31 December 2017*(All amounts in millions of Russian Roubles, unless otherwise stated)***9. OTHER OPERATING INCOME AND EXPENSES, NET**

	<u>2017</u>	<u>2016</u>
Reimbursement of fuel excise tax	7,889	5,972
Profit on disposal of assets classified as held for sale	182	2,784
Fines and penalties received from suppliers	661	753
Insurance compensation received	49	297
Gain on accounts payable write-off	62	34
Recovery/(accrual) of provision for doubtful accounts receivable (Note 14)	338	(2,217)
Accrual of provision for regular repair and maintenance (Note 27)	(11,986)	(5,261)
Recovery/(accrual) of provision for Group other liabilities (Note 27)	796	(1,367)
Loss on fixed assets disposal and impairment on fixed assets	(828)	(849)
Loss on accounts receivable write-off	(24)	(4)
Other income/(expense), net	1,751	(669)
Total other operating expenses, net	<u>(1,110)</u>	<u>(527)</u>

10. FINANCE INCOME AND COSTS

	<u>2017</u>	<u>2016</u>
<i>Finance income:</i>		
Interest income on deposits and security deposits	4,718	4,169
Gain on foreign exchange, net	2,409	15,597
Other finance income	-	36
Total finance income	<u>7,127</u>	<u>19,802</u>
	<u>2017</u>	<u>2016</u>
<i>Finance costs:</i>		
Interest expense	(8,179)	(8,907)
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 24)	-	(53)
Other finance costs	(46)	(483)
Total finance costs	<u>(8,225)</u>	<u>(9,443)</u>
	<u>2017</u>	<u>2016</u>
<i>Realised hedging result:</i>		
Realised loss on hedging derivative instruments (Note 24)	-	(3,994)
Effect of revenue hedging with liabilities in foreign currency (Note 28)	(5,613)	(8,316)
Total result on hedging	<u>(5,613)</u>	<u>(12,310)</u>

11. INCOME TAX

	<u>2017</u>	<u>2016</u>
Current income tax charge	11,038	12,931
Deferred income tax	(372)	1,524
Total income tax	<u>10,666</u>	<u>14,455</u>

11. INCOME TAX (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
Profit before income tax	33,726	53,281
Tax rate applicable in accordance with Russian legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with Russian legislation	(6,745)	(10,656)
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Non-taxable income	759	1,076
Non-deductible expenses	(5,052)	(5,042)
Unrecognised current year tax losses	(449)	(1,514)
Recognition of previously unrecognised tax losses	160	1,263
Prior years income tax adjustments	661	418
Total income tax	<u>(10,666)</u>	<u>(14,455)</u>

	<u>31 December 2017</u>	<u>Changes for the year</u>	<u>31 December 2016</u>	<u>Changes for the year</u>	<u>31 December 2015</u>
<i>Tax effect of temporary differences:</i>					
Tax losses carried forward	20	(123)	143	70	73
Long-term financial investments	18	(241)	259	58	201
Accounts receivable	67	54	13	(570)	583
Property, plant and equipment	124	(96)	220	191	29
Finance lease liabilities	20,216	(4,345)	24,561	(8,348)	32,909
Accounts payable	8,215	3,321	4,894	882	4,012
Derivative financial instruments	-	-	-	(960)	960
Deferred tax assets before tax set off	<u>28,660</u>		<u>30,090</u>		<u>38,767</u>
Tax set off	(18,264)		(17,838)		(17,135)
Deferred tax assets after tax set off	<u>10,396</u>		<u>12,252</u>		<u>21,632</u>
Property, plant and equipment	(14,699)	1,677	(16,376)	541	(16,917)
Customs duties related to the imported aircraft under operating leases	(105)	106	(211)	124	(335)
Long-term financial investments	(43)	(18)	(25)	(15)	(10)
Accounts receivable	(3,485)	(2,245)	(1,240)	(1,239)	(1)
Accounts payable	-	25	(25)	17	(42)
Deferred tax liabilities before tax set off	<u>(18,332)</u>		<u>(17,877)</u>		<u>(17,305)</u>
Tax set off	18,264		17,838		17,135
Deferred tax liabilities after tax set off	<u>(68)</u>		<u>(39)</u>		<u>(170)</u>
Movements for the year, net		(1,885)		(9,249)	
Less deferred tax recognised directly in other comprehensive income		2,257		7,725	
Deferred income tax income/ (expense) debt for the year		<u>372</u>		<u>(1,524)</u>	

11. INCOME TAX (CONTINUED)

As at 31 December 2017 the Group recognised deferred tax assets from tax losses of subsidiaries in the amount of RUB 20 million (31 December 2016: RUB 143 million).

As at 31 December 2017, the Group did not recognize deferred tax liabilities for temporary differences in the amount of RUB 5,661 million (31 December 2016: RUB 3,970 million) related to investments in subsidiaries, as the Group can control reimbursement periods of these temporary differences and does not plan to reimburse them for the foreseeable future.

Since 1 January 2017, previously existing restriction of 10 years losses carried forward use was cancelled (which means that the losses incurred since 2007 can be carried forward until complete use). Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been introduced in Russian legislation. In accordance with the new rules, the amount of used tax loss carry forwards can't exceed 50% of the tax base of relevant year. These changes will not have material impact for the Group's Consolidated Financial Statements.

12. CASH AND CASH EQUIVALENTS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Bank deposits denominated in roubles with maturity of less than 90 days	30,093	23,444
Cash on hand and bank accounts denominated in Roubles	12,727	4,639
Cash on hand and bank accounts denominated in US Dollars	1,971	2,293
Cash on hand and bank accounts denominated in Euro	419	317
Cash on hand and bank accounts denominated in other currencies	375	418
Cash in transit	393	365
Total cash and cash equivalents	<u>45,978</u>	<u>31,476</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 36.

About 49% of the Group's funds are held in 2 highly reliable state-controlled Russian banks – PJSC VTB Bank with long-term credit rating BB+ (S&P rating agency) and PJSC Sberbank (hereinafter "Sberbank") with long-term credit rating BBB- (Fitch rating agency) as at 31 December 2017 (as at 31 December 2016 35% of Group's cash was held in PJSC VTB Bank with long-term credit rating BB+ (S&P rating agency) and "Sberbank" with long-term credit rating BBB- (Fitch rating agency).

The remaining part of the Group's cash is also located primarily in the largest Russian banks with a stable long-term credit rating according to international rating agencies.

As at 31 December 2017 the Group had restricted cash of RUB 583 million (31 December 2016: RUB 148 million) recorded as part of other non-current assets in the amount RUB 161 million and as part of other current assets in the amount RUB 422 million 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 0.1% to 12.6% p.a. in 2017 depending on the currency of the security deposit (2016: from 1.9% to 12.6% p.a.).

	Aircraft lease security deposits	
1 January 2016		4,790
Payment of security deposits		2,504
Amortisation charge for the year		380
Return of security deposits during the year		(3,405)
Set off against accounts payable		(983)
Foreign exchange difference		(886)
Reclassification to assets held for sale		20
Other		81
31 December 2016		2,501
Payment of security deposits		211
Amortisation charge for the year		137
Return of security deposits during the year		(325)
Set off against accounts payable		(380)
Foreign exchange difference		(119)
31 December 2017		2,025
	31 December 2017	31 December 2016
Current portion of security deposits	423	320
Non-current portion of security deposits	1,602	2,181
Total aircraft lease security deposits	2,025	2,501

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

	31 December 2017	31 December 2016
Major international lease companies	1,994	2,477
Russian lease companies	31	24
Total aircraft lease security deposits	2,025	2,501

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**14. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	31 December 2017	31 December 2016
Trade accounts receivable	36,853	31,329
Other financial receivables	9,486	8,517
Less: impairment provision	(11,348)	(11,807)
Total financial receivables	34,991	28,039
Prepayments for delivery of aircraft	25,285	26,341
VAT and other taxes recoverable	15,842	10,905
Prepayments to suppliers	13,803	10,504
Deferred customs duties related to the imported aircraft under operating leases, current portion	397	579
Other receivables	3,152	2,339
Less: impairment provision	(538)	(535)
Accounts receivable and prepayments	92,932	78,172

As at 31 December 2017 the Group recognised impairment provision for accounts receivable from OJSC Transaero Airlines for passengers transportation, refuelling services, aircraft servicing and ground handling of RUB 7,014 million (31 December 2016: 7,286 million).

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 397 million as of 31 December 2017 (31 December 2016: RUB 579 million) relate to the current portion of paid customs duties on 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 18.

Financial receivables are analysed by currencies in Note 36.

As at 31 December 2017 and 31 December 2016, sufficient impairment provision was made against accounts receivable and prepayments.

As at 31 December 2017 and 31 December 2016, the current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

Type of aircraft	31 December 2017		31 December 2016	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Boeing B787	22	-	22	2017
Boeing B777	1	2018	1	2017
Airbus A320	10	2018	11	2017
Airbus A321	5	2018	8	2017

As at 31 December 2017, the expected type of lease for these aircraft is not defined.

As at 31 December 2017 possible options for settling on agreement for delivery of 22 Boeing B787 aircraft were under consideration by the Group's management.

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Notes to the Consolidated Financial Statements
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**14. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)**

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

	Impairment provision
1 January 2016	10,609
Increase in impairment provision	4,040
Provision use	(484)
Release of provision	(1,823)
31 December 2016	12,342
Increase in impairment provision	709
Provision use	(118)
Release of provision	(1,047)
31 December 2017	11,886

Financial receivables are analysed by credit quality in Note 36.

15. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 31 December 2017 and 31 December 2016 non-current portion of prepayments for aircraft were RUB 13,089 million and RUB 27,830 million, respectively. Change of non-current portion of prepayments is due to approaching the contractual period of delivery and payment of new non-current prepayments to suppliers.

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

As at 31 December 2017 and 31 December 2016 non-current prepayments include advance payments for the acquisition of the following aircraft:

Type of aircraft	31 December 2017		31 December 2016	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Airbus A350	22	2019-2023	22	2018-2023
Boeing B777	5	2019-2021	-	-
Airbus A320	-	-	10	2018
Airbus A321	-	-	4	2018

As at 31 December 2017, the expected type of lease for these aircraft is not defined.

16. EXPENDABLE SPARE PARTS AND INVENTORIES

	31 December 2017	31 December 2016
Expendable spare parts	9,805	7,633
Fuel	738	855
Other inventories	3,337	2,720
Total expendable spare parts and inventories, gross	13,880	11,208
Less: written-off obsolete expendable spare parts and inventories	(1,069)	(1,168)
Total expendable spare parts and inventories	12,811	10,040

17. FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
<i>Available-for-sale investments:</i>		
Available-for-sale securities	3,252	3,252
SITA Investment Certificates	54	52
Total available-for-sale investments	3,306	3,304
Other long-term investments		
Other	32	2
Total long-term financial investments	3,338	3,306

As at 31 December 2017 and 31 December 2016, available-for-sale securities are mainly represented by the value of the Group's investment in JSC MASH in the share of 2.428%, 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.

Due to the market quotes absence the Group's investment in JSC MASH is measured at historical cost less accumulated impairment losses and recognised in the Consolidated Statement of Financial position in amount 3,203 million as at 31 December 2017 (31 December 2016: RUB 3,203 million).

The following factors taken into account by the Group in assessing the possible impairment of investment in JSC MASH has the most significant impact on the assessment of recoverable value of this investment:

- (a) the weighted average cost of capital equal to 13.7% in 2017 (in 2016:16.7%) based on public capital markets data, data about peer companies and the actual cost of capital of JSC MASH determined based on the effective rate in financial statements;
- (b) forecasts for macro assumptions based on an Economist Intelligence Unit forecast;
- (c) passenger traffic growth rates based on data from public sources distributed over the forecast period in accordance with the average annual growth rate of passenger traffic, taking into account the growth of up to 80 million passengers till 2026.

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

As at 31 December 2017, a reasonably possible change in the weighted average cost of capital and passenger traffic growth for JSC MASH does not result in an additional impairment of this investment.

	31 December 2017	31 December 2016
<i>Other short-term financial investments:</i>		
Loans issued and promissory notes of third parties	9,435	9,458
Deposits placed in banks for more than 90 days	8,931	6,319
Other short-term investments	5	5
Total other short-term financial investments (before impairment provision)	18,371	15,782
Less: provision for impairment of short-term financial investments	(9,440)	(9,463)
Total short-term financial investments	8,931	6,319

The provision for impairment is primarily related to the accrual in of a provision for impairment of loans issued by the Group companies in favor of OJSC Transaero Airlines during 2015.

As at 31 December 2017, deposits with maturity for more than 90 days are placed in the largest Russian commercial banks with long-term credit rating not lower than B1 according to Moody's credit rating agency.

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**18. OTHER NON-CURRENT ASSETS**

	31 December 2017	31 December 2016
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	162	559
Prepaid expenses for operating lease transactions	15,427	5,697
Other non-current assets	4,139	3,856
Total other non-current assets	19,728	10,112

The Group paid advances in amount of RUB 11,688 million for operating lease of 18 aircraft delivered during 12 months of 2017 (during 12 months of 2016: RUB 6,468 million, 14 aircraft). The above mentioned advances were recognised as part of non-current assets. These assets should be written off to operating lease expenses over the term of the operating lease agreements.

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 2016	4,494	106,777	10,445	20,416	4,871	147,003
Additions (i)	2,134	32	26	3,603	4,138	9,933
Capitalised expenditures	-	1,810	-	-	632	2,442
Disposals	(988)	-	(392)	(1,141)	(3)	(2,524)
Transfers from assets classified as held for sale (note 20)	-	3,613	-	-	-	3,613
Transfers to assets held for sale (note 20)	-	(366)	-	-	(223)	(589)
Transfers	2,507	1,076	52	1,059	(4,694)	-
31 December 2016	8,147	112,942	10,131	23,937	4,721	159,878
Additions (ii)	2,178	-	28	3,937	2,180	8,323
Capitalised expenditures	-	699	-	-	1,216	1,915
Disposals	(272)	(1,314)	(91)	(691)	(7)	(2,375)
Transfers to assets classified as held for sale (note 20)	(122)	(6,476)	-	-	-	(6,598)
Transfers (iii)	2,652	1,325	83	423	(4,483)	-
31 December 2017	12,583	107,176	10,151	27,606	3,627	161,143

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<i>Accumulated depreciation</i>						
1 January 2016	(909)	(26,934)	(4,758)	(9,835)	(73)	(42,509)
Charge for the year	(762)	(8,761)	(355)	(2,569)	-	(12,447)
Recovery of impairment provision	25	-	-	11	-	36
Disposals	135	-	143	722	-	1,000
Transfers from assets classified as held (note 20)	-	(1,338)	-	-	-	(1,338)
Transfers to assets classified as held for sale (note 20)	-	277	-	-	-	277
31 December 2016	(1,511)	(36,756)	(4,970)	(11,671)	(73)	(54,981)
Charge for the year	(1,561)	(8,283)	(264)	(3,242)	-	(13,350)
Recovery/(accrual) of impairment provision	21	-	-	5	(2)	24
Disposals	141	705	65	524	-	1,435
Transfers to assets classified as held for sale (note 20)	18	3,643	-	-	-	3,661
31 December 2017	(2,892)	(40,691)	(5,169)	(14,384)	(75)	(63,221)
<i>Carrying amount</i>						
31 December 2016	6,636	76,186	5,161	12,266	4,648	104,897
31 December 2017	9,691	66,485	4,982	13,222	3,552	97,932

- (i) During 2016 additions mainly relate to the purchase of 2 aircraft DHC-8 for JCS Avrora and purchase of equipment in finance leases.
- (ii) During 2017 additions mainly relate to the purchase of equipment in finance leases as well as the spare parts for aircraft, used for capital repairs.
- (iii) During 2017 transfers primarily relate to 2 aircraft DHC 8 for JCS Avrora.

Capitalised borrowing costs for 12 months 2017 amounted to RUB 1,216 million (2016: RUB 632 million). Capitalisation rate of interest expenses and forex for the period was 4.2% p.a. (2016: 3.2%).

As at 31 December 2017 the cost of fully depreciated property, plant and equipment was RUB 10,033 million (31 December 2016: RUB 6,990 million).

20. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2017, 4 Airbus A321 aircraft (31 December 2016: 2 aircraft) operated under finance lease agreements were targeted for disposal; therefore, at the end of the reporting period these assets and related liabilities were classified as held for sale.

As at 31 December 2017, the amount of net assets held for sale amounted to RUB 915 million (31 December 2016: RUB 1,140 million).

20. ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

	Initial cost of fixed assets	Accumulated depreciation and impairment	Aircraft lease security deposits	Total assets	Total liabilities
1 January 2016	18,539	(10,850)	43	7,732	(7,371)
Additions	589	(277)	-	312	-
Disposals	(12,466)	7,880	(2)	(4,588)	4,702
Transfers to property, plant, equipment	(3,613)	1,338	(41)	(2,316)	2,669
31 December 2016	3,049	(1,909)	-	1,140	-

	Initial cost of fixed assets	Accumulated depreciation and impairment	Total assets	Total liabilities
1 January 2017	3,049	(1,909)	1,140	-
Additions (Note 19)	6,598	(3,661)	2,937	(2,736)
Disposals	(2,888)	1,916	(972)	465
Increase/release of impairment	-	20	20	-
Revaluation	-	-	-	61
31 December 2017	6,759	(3,634)	3,125	(2,210)

During 12 months 2017 the Group disposed of 2 Airbus A321 aircraft (during 12 months 2016: 2 Airbus A319 aircraft, 1 Airbus A320 aircraft and 6 Airbus A321 aircraft), profit from disposal of mentioned aircraft amounted to RUB 201 million (during 12 months 2016: to RUB 2,784 million).

21. DISPOSAL OF SUBSIDIARIES

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

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

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

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

	CJSC Aeroflot- Cargo	OJSC Vladivostok Avia
Negative net assets of disposed company	5,219	10,326
Non-controlling interest share in negative net assets	-	7,579
Group's share in negative net assets of disposed company	5,219	2,747
Intragroup liabilities, including:		
<i>Accounts payable from disposed subsidiary to the Group</i>	(4,483)	(7,028)
<i>Loan issued by the Group to disposed subsidiary</i>	(97)	(1,445)
Profit/(loss) from disposal	639	(5,726)

22. INTANGIBLE ASSETS

	Software	Licences	Investments in software and R&D	Trademarks and client base	Other	Total
<i>Cost</i>						
1 January 2016	3,026	134	1,201	1,686	39	6,086
Additions	131	-	133	-	3	267
Disposals	(317)	-	(142)	(56)	(6)	(521)
31 December 2016	2,840	134	1,192	1,630	36	5,832
Additions	552	-	145	-	37	734
Disposals	(14)	-	(3)	-	(3)	(20)
Transfer	415	-	(442)	-	27	-
31 December 2017	3,793	134	892	1,630	97	6,546
<i>Accumulated amortisation</i>						
1 January 2016	(2,325)	(89)	-	(981)	(1)	(3,396)
Charge for the year	(714)	-	-	(229)	(5)	(948)
Disposals	260	-	-	71	6	337
31 December 2016	(2,779)	(89)	-	(1,139)	-	(4,007)
Charge for the year	(476)	-	(103)	(135)	(20)	(734)
Disposals	13	-	-	234	2	249
31 December 2017	(3,242)	(89)	(103)	(1,040)	(18)	(4,492)
<i>Carrying amount</i>						
31 December 2016	61	45	1,192	491	36	1,825
31 December 2017	551	45	789	590	79	2,054

23. GOODWILL

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

The aggregate carrying amount of goodwill, allocated to the Groups' business-units as at 31 December 2017 and as at 31 December 2016 is presented in the table below:

CGU name	31 December 2017	31 December 2016
AK Rossiya	6,502	6,502
AK Aurora	158	158
Total	6,660	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 CGU's operations.

Key assumptions against which the recoverable amounts are estimated concerned the discount rate, the rate of return and the 1 growth rate for the calculation of the terminal value.

23. GOODWILL (CONTINUED)

AK Rossiya

The discount rate calculation is based on weighted average cost of capital (WACC) and amounts to 12.8% p.a. for the entire forecast period (31 December 2016: 15.8% p.a.).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 2.7% p.a. (2016: 1.5% p.a.).

The budget for 2018 of “AK Rossiya” was adopted as a basis to forecasting the cash flows.

The Group's management has conducted a sensitivity analysis of the goodwill impairment test results to changes in rates of return as the most sensitive indicator. In case of decrease of this rate by 13% even though all other variables held constant, it would result in an impairment of CGU's goodwill in the full amount. The results of the impairment test for goodwill are also sensitive to assumptions regarding seat occupancy and discount rates.

24. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2017, there were no derivative financial instruments in the Group's portfolio.

In early 2016, the Group closed cross-currency interest rate swap agreement upon their maturity. For these instruments, the Group applied a cash flow hedge accounting model according to IAS 39, “Financial Instruments: Recognition and Measurement”. Up until the date of their expiration during 12 months 2016, the Group recognised profit of RUB 491 million from revaluation of these derivative financial instruments within other comprehensive income together with a corresponding deferred tax liability of RUB 98 million. As a result of the termination of this transaction, accumulated loss of RUB 3,994 million was recognised within financial expenses (Note 10).

At the end of 2016 the currency option contract was closed. Hedge accounting was not applied to this financial instrument. During 12 months 2016 loss on change in fair value of this derivative financial instrument amounted to RUB 53 million and was recognized in Consolidated Statement of Profit or Loss (Note 10).

25. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2017	31 December 2016
Accounts payable	34,095	23,659
Other financial payables	6,880	6,971
Dividends payable	65	1
Total financial payables	41,040	30,631
Staff related liabilities	19,434	11,929
Advances received (other than unearned traffic revenue)	1,451	1,147
Other taxes payable	2,626	2,865
Other current liabilities related to frequent flyer programme (Note 26)	2,566	2,518
Other payables	836	778
Total accounts payable and accrued liabilities	67,953	49,868

As at 31 December 2017, staff related liabilities primarily include salary payable, as well as social contribution liabilities of RUB 13,270 million (31 December 2016: RUB 9,106 million) and the unused vacation accrual of RUB 6,071 million.

Financial payables by currency are analysed in Note 36.

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

Deferred revenue and other accrued liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 31 December 2017 and 31 December 2016 represent the number of bonus miles earned when flying on Group flights, but unused by Aeroflot Bonus programme members, and the number of bonus miles earned by programme members for using programme partners' services, respectively; they are estimated at fair value in accordance with IFRIC 13 "Customer loyalty programmes". Other accrued liabilities related to the frequent flyer programme also include the number of accumulated but not used bonus miles, which value reflects the best estimate of the expenditure, necessary to settle the existing obligation in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets".

	31 December 2017	31 December 2016
Deferred revenue related to frequent flyer programme, current	1,720	1,607
Deferred revenue related to frequent flyer programme, non-current	3,842	3,623
Other current liabilities related to frequent flyer programme (Note 25)	2,566	2,518
Other non-current liabilities related to frequent flyer programme (Note 30)	2,563	2,580
Total deferred revenue and other liabilities related to frequent flyer programme	10,691	10,328

27. PROVISIONS FOR LIABILITIES

	Regular repairs and maintenance works	Other provisions	Total provisions
1 January 2016	10,721	3,715	14,436
Additional provision for the year	6,150	2,348	8,498
Release of provision for the year	(1,757)	(1,668)	(3,425)
Recovery of provision for the year	(889)	(981)	(1,870)
Unwinding of the discount	1,562	-	1,562
Foreign exchange gain, net	(2,277)	(286)	(2,563)
Other changes	-	(543)	(543)
31 December 2016	13,510	2,585	16,095
Additional provision for the year	13,197	1,725	14,922
Release of provision for the year	(2,814)	(36)	(2,850)
Recovery of provision for the year	(1,211)	(2,521)	(3,732)
Unwinding of the discount	2,807	-	2,807
Foreign exchange gain, net	(835)	(25)	(860)
31 December 2017	24,654	1,728	26,382

	31 December 2017	31 December 2016
Current liabilities	9,433	5,304
Non-current liabilities	16,949	10,791
Total provisions	26,382	16,095

27. PROVISIONS FOR LIABILITIES (CONTINUED)

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 42).

The Group also made a provision of RUB 1,666 million for obligations to pay capitalized social payments stipulated by the legislation of the Russian Federation in connection with the start of a bankruptcy proceedings against JSC Donavia.

Tax risks

The Group makes a provision for contingent liabilities, including accrued fines and penalties based on the best management's estimate of the amount of additional taxes that may be required to be paid (Note 42).

Regular repairs and maintenance works

As at 31 December 2017, the Group made a provision of RUB 24,654 million (31 December 2016: RUB 13,510 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

28. FINANCE LEASE LIABILITIES

The Group leases aircraft from third and related parties under finance lease agreements (Note 38). The aircraft that the Group have operated under finance lease agreements as at 31 December 2017 are listed in Note 1.

	<u>31 December 2017</u>	<u>31 December 2016</u>
Total outstanding payments on finance lease contracts	111,270	137,395
Future finance lease interest expense	(10,581)	(14,659)
Total finance lease liabilities	<u>100,689</u>	<u>122,736</u>

Representing:

Current finance lease liabilities	16,015	15,593
Non-current finance lease liabilities	84,674	107,143
Total finance lease liabilities	<u>100,689</u>	<u>122,736</u>

	<u>31 December 2017</u>			<u>31 December 2016</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	16,015	2,841	18,856	15,593	3,662	19,255
Later than 1 year and not later than 5 years	60,435	6,723	67,158	65,792	8,912	74,704
Later than 5 years	24,239	1,017	25,256	41,351	2,085	43,436
Total	<u>100,689</u>	<u>10,581</u>	<u>111,270</u>	<u>122,736</u>	<u>14,659</u>	<u>137,395</u>

As at 31 December 2017, the total amount of the finance lease liability relating to leased aircraft and aircraft engines amounted to RUB 96,265 million (31 December 2016 – RUB 118,686 million).

28. FINANCE LEASE LIABILITIES (CONTINUED)

As at 31 December 2017, interest payable amounted to RUB 391 million (31 December 2016: RUB 80 million) is included in accounts payable and accrued liabilities.

The effective interest rate for finance lease during 2017 was 3.0% p.a. (in 2016: 2.9% 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 2017, finance lease liabilities including those related to assets held for sale in the amount of RUB 96,271 million denominated in US dollars (31 December 2016: RUB 116,219 million) are designated as a hedging instrument for highly probable revenue forecasted for the period of 2017 – 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 2017, accumulated foreign currency loss of RUB 31,449 million (before deferred income tax) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the equity (31 December 2016: RUB 42,734 million). The amount of loss reclassified from the hedging reserve to profit or loss in 2017 was RUB 5,613 million, in 2016 was RUB 8,316 million (Note 10).

In 2017 interest expense on finance leases was RUB 4,073 million (2016: RUB 4,070 million).

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

29. LOANS AND BORROWINGS

	31 December 2017	31 December 2016
<i>Short-term loans and other borrowings:</i>		
Short-term loans in Euro	-	4,478
Short-term loans in Russian Roubles	-	113
Current portion of long-term loans and borrowings in Russian Roubles	-	4,718
Total short-term loans and borrowings	-	9,309
<i>Long-term loans and other borrowings:</i>		
Long-term loans in Russian Roubles	2,800	15,381
Long-term loans and borrowings in US dollars	381	395
Less:		
Current portion of long-term loans and borrowings in Russian Roubles	-	(4,718)
Total long-term loans and borrowings	3,181	11,058

The main changes in loans and borrowings during reporting period

The Group has opened a non-revolving credit line with PJSC Sberbank (floating interest rate) in the amount of RUB 12,581 million. As at 31 December 2017 payables for mentioned credit line were paid in full (as at 31 December 2016, the outstanding amount was RUB 12,694 million).

The Group has opened a credit line with PJSC Sovcombank (floating interest rate) in the amount of RUB 6,000 million, which can be obtained in Russian Roubles, euro or US dollars. As at 31 December

2017 the outstanding amount was RUB 2,800 million (as at 31 December 2016 the outstanding amount was RUB 2,800 million). The credit line was unsecured and issued for the period up to November 2021.

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

The Group has opened a credit line with PJSC Bank VTB (floating interest rate) in the amount of US Dollars 250 million, which can be obtained in Russian Roubles, euro or US Dollars. As at 31 December 2017 the loan was paid in full (as at 31 December 2016 the outstanding amount was RUB 4,478 million). The credit line is unsecured and issued for the period up to October 2018.

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

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

Exchange bonds program

In December 2017, the Board of Directors of PJSC Aeroflot approved the Program of Exchange-Traded Bonds of the P01-BO series. At the end of January 2018 the Program was registered by PJSC Moskovskaya Birzha MMVB-RTS. The maximum amount of nominal values of exchange bonds that can be placed under the program is RUB 24,650 million with a maximum maturity of 3,640 days inclusive from the start date of placement. The expected dates and volume of bonds placement as of the date of this Consolidated Financial Statements are not determined

Undrawn commitments

As at 31 December 2017, the Group was able to raise RUB 103,175 million in cash (31 December 2016: RUB 89,247 million) available under existing credit lines granted to the Group by various lending institutions.

30. OTHER NON-CURRENT LIABILITIES

	31 December 2017	31 December 2016
Other non-current liabilities related to frequent flyer programme (Note 26)	2,563	2,580
Defined benefit pension obligation, non-current portion	922	805
Other non-current liabilities	2,806	1,774
Total other non-current liabilities	6,291	5,159

31. NON-CONTROLLING INTEREST

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

	2017	2016
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
(Loss)/Profit attributable to non-controlling interest for the year	(532)	948
Accumulated losses attributable to non-controlling interests in subsidiary	(4,221)	(3,689)

31. NON-CONTROLLING INTEREST (CONTINUED)

The summarised financial information of AK Rossiya is presented below:

	31 December 2017	31 December 2016
Current assets	18,539	12,589
Non-current assets	13,371	13,149
Current liabilities	24,854	17,442
Non-current liabilities	23,938	23,051
	2017	2016
Revenue	94,816	73,193
(Loss)/Income for the year	(2,127)	3,790
Comprehensive income for the year	(2,127)	3,790

As at 31 December 2017 and 2016 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

32. SHARE CAPITAL

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

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

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

In September 2017, the Company sold 53,716,189 its own shares, previously bought out by the subsidiary LLC Aeroflot Finance. These ordinary shares carry voting rights in the same proportion as other ordinary shares.

The Company's shares are listed on Moscow Exchange. As at 31 December 2017 and 31 December 2016, the weighted average price was RUB 139.10 per share and RUB 152.96 per share, respectively.

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 31 December 2017 and 31 December 2016, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 9.91 per GDR and EUR 11.6 per GDR, respectively.

33. DIVIDENDS

At the annual shareholders' meeting held on 26 June 2017 the shareholders approved dividends in respect of 2016 in the amount of RUB 17.4795 per share. All dividends are declared and paid in Russian Roubles.

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

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**34. OPERATING SEGMENTS**

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

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

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

Group assets are located mainly in Russian Federation

The realisation between the segments is carried out on market terms and is eliminated upon consolidation.

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2017				
External sales	528,782	4,152	-	532,934
Inter-segment sales	618	19,675	(20,293)	-
Total revenue	529,400	23,827	(20,293)	532,934
Operating profit	38,041	2,370	-	40,411
Loss from sale and impairment of investments, net				(144)
Finance income				7,127
Finance costs				(8,225)
Hedging result				(5,613)
Share in financial results of associated companies				170
Subsidiaries disposal				-
Profit before income tax				33,726
Income tax				(10,666)
Profit for the year				23,060
31 December 2017				
Segment assets	305,156	16,104	(12,235)	309,025
Investments in associates	-	329	-	329
Unallocated assets				13,976
Total assets				323,330
Segment liabilities	255,027	5,362	(4,426)	255,963
Unallocated liabilities				68
Total liabilities				256,031
2017				
Capital expenditures and PP&E additions (Note 19)	9,417	821	-	10,238
Depreciation (Notes 19)	12,985	365	-	13,350

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**34. OPERATING SEGMENTS (CONTINUED)**

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

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**34. OPERATING SEGMENTS (CONTINUED)**

	<u>2017</u>	<u>2016</u>
Passenger revenue:		
<i>International flights from the RF to:</i>		
CIS	11,364	10,446
Europe	57,133	53,244
Middle East and Africa	10,982	9,772
Asia	31,854	32,923
America	12,869	13,144
Total scheduled passenger revenue from flights from the RF	<u>124,202</u>	<u>119,529</u>
<i>International flights to the RF from:</i>		
CIS	10,992	10,835
Europe	57,523	53,355
Middle East and Africa	10,865	9,665
Asia	34,589	30,695
America	12,966	13,245
Total scheduled passenger revenue from flights to the RF	<u>126,935</u>	<u>117,795</u>
Domestic scheduled passenger flights	176,141	166,227
Other international flights	251	209
Total scheduled passenger traffic revenue	<u>427,529</u>	<u>403,760</u>

35. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

Financial assets and liabilities are classified by measurement categories as at 31 December 2017 as follows:

	<u>Note</u>	<u>Loans and receivables</u>	<u>Available-for-sale financial assets</u>	<u>Total</u>
Cash and cash equivalents	12	45,978	-	45,978
Short-term financial investments	17	8,931	-	8,931
Financial receivables	14	34,991	-	34,991
Aircraft lease security deposits	13	2,025	-	2,025
Long-term financial instruments	17	32	3,306	3,338
Other current assets		422	-	422
Other non-current assets		161	-	161
Total financial assets		<u>92,540</u>	<u>3,306</u>	<u>95,846</u>
			<u>Other financial liabilities</u>	<u>Total</u>
Financial payables	25	-	41,040	41,040
Finance lease liabilities	28	-	100,689	100,689
Loans and borrowings	29	-	3,181	3,181
Other non-current liabilities	30	-	306	306
Total financial liabilities			<u>145,216</u>	<u>145,216</u>

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

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

Assets	Note	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	12	31,476	-	31,476
Short-term financial investments	17	6,318	1	6,319
Financial receivables	14	28,039	-	28,039
Aircraft lease security deposits	13	2,501	-	2,501
Long-term financial instruments	17	2	3,304	3,306
Other non-current assets		148	-	148
Total financial assets		68,484	3,305	71,789
		Note	Other financial liabilities	Total
Financial payables		25	30,631	30,631
Finance lease liabilities		28	122,736	122,736
Loans and borrowings		29	20,367	20,367
Total financial liabilities			173,734	173,734

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

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

Liquidity risk

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

The following are the Group's financial liabilities as at 31 December 2017 and 31 December 2016 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:

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

31 December 2017	Average interest rate		0–12 months	1–2 years	2–5 years	Over 5 years	Total
	Contractual rate	Effective rate					
Loans and borrowings in foreign currency	3.1%	3.1%	-	-	-	431	431
Loans and borrowings in Roubles	11.3%	11.3%	240	224	3,200	-	3,664
Finance lease liabilities	2.9%	3.0%	18,856	17,593	49,565	25,256	111,270
Financial payables			41,040	-	-	-	41,040
Liabilities for guarantees issued			1,618	-	-	-	1,618
Total future payments, including future interest payments			61,754	17,817	52,765	25,687	158,023

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

Currency risk

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

The Groups analyses the exchange rate trends on a regular basis.

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

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

In millions of Russian Roubles	Note	31 December 2017				31 December 2016			
		US Dollar	Euro	Other currencies	Total	US Dollar	Euro	Other currencies	Total
Cash and cash equivalents	12	1,971	419	375	2,765	2,293	317	418	3,028
Financial receivables		18,669	4,106	3,068	25,843	17,915	3,653	3,575	25,143
Aircraft lease security deposits		1,630	-	-	1,630	2,179	-	-	2,179
Other assets		99	68	4	171	83	62	3	148
Total assets		22,369	4,593	3,447	30,409	22,470	4,032	3,996	30,498
Financial payables		13,858	7,144	3,884	24,886	12,348	5,110	2,558	20,016
Finance lease liabilities		98,513	-	-	98,513	120,254	-	-	120,254
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	-	-	-	-	-	4,478	-	4,478
Long-term loans and borrowings	29	381	-	-	381	395	-	-	395
Total liabilities		112,752	7,144	3,884	123,780	132,997	9,588	2,558	145,143
Total (liabilities)/assets, net		(90,383)	(2,551)	(437)	(93,371)	(110,527)	(5,556)	1,438	(114,645)

Strengthening or weakening of listed below currencies against rouble as at 31 December 2017 and 31 December 2016, 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 2017		31 December 2016	
	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/decrease)	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/decrease)
Increase in the rate of currency versus rouble:				
US Dollar	20%	1,301	20%	1,556
Euro	20%	(408)	20%	(889)
Other currencies	20%	(70)	20%	230
Decrease in the rate of currency versus rouble:				
US Dollar	20%	(1,301)	20%	(1,556)
Euro	20%	408	20%	889
Other currencies	20%	70	20%	(230)

As at 31 December 2017 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 14,461 million. The change of other currencies would have no material impact on equity. As at 31 December 2016 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 17,684 million. The change of other currencies would have no material impact on equity.

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 on 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.

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

As at 31 December 2017 and 31 December 2016, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2017	31 December 2016
<i>Fixed rate financial instruments:</i>		
Financial assets	39,417	30,127
Financial liabilities	(6,621)	(19,098)
Total fixed rate financial instruments	32,796	11,029
<i>Variable rate financial instruments:</i>		
Financial liabilities	(97,052)	(123,679)
Variable rate financial liabilities	(97,052)	(123,679)

As at 31 December 2017 and 31 December 2016 the Group had loans and finance lease with variable interest rates. If the variable part of interest rates on loans as at 31 December 2017 and 31 December 2016 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 (2016: would not have changed significantly).

Aircraft fuel price risk

The results of the Group's operations are significantly impacted by changes in the price of aircraft fuel.

The increase or decrease in prices for aircraft fuel as at 31 December 2017 and as at 31 December 2016 would result in a change in the financial result in the amounts presented below:

	31 December 2017		31 December 2016	
	Percent of change in price	Effect on profit after tax ((increase)/ decrease)	Percent of change in price	Effect on profit after tax ((increase)/ decrease)
Increase in the price of aircraft fuel:	10%	9,815	10%	8,127
Decrease in the price of aircraft fuel:	10%	(9,815)	10%	(8,127)

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.

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

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

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

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

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

The ratios are as follows:

	As at and for the year ended 31 December 2017	As at and for the year ended 31 December 2016
Total debt	104,792	143,908
Cash and cash equivalents and short-term financial investments	(54,909)	(37,795)
Net debt	49,883	106,113
Equity attributable to shareholders of the Company	65,535	42,453
Total capital	115,418	148,566
EBITDA	56,015	78,004
Net debt/Total capital	0.4	0.7
Total debt/EBITDA	1.9	1.8
Net debt/EBITDA	0.9	1.4

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

There were no changes in the Group's approach to capital management in 2017 and 2016.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements in 2017 and 2016, 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 regulated through the IATA clearing house, in particular for agency sales using BSP and CASS settlement systems, and ARC for part of US agents. Regular settlements ensure that the exposure to credit risk is mitigated to the greatest extent possible.
- (iii) Credit risk arising from dealing with government institutions and banks is assessed as low.

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

- (iv) 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.
- (v) When working with banks, a system of credit limits is implemented, taking into account that the credit risks that arise when working with banks are limited, and are assessed as low

As at 31 December 2017 the total amount of investments into securities was RUB 3,252 million (31 December 2016: RUB 3,252 million), major part of financial receivables amounted to RUB 21,140 million relates to receivables regulated by clearing house (31 December 2016: RUB 19,054 million).

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

	31 December 2017	31 December 2016
Cash and cash equivalents (excluding petty cash) (Note 12)	45,891	31,387
Financial receivables (Note 14)	34,991	28,039
Short-term financial investments (Note 17)	8,931	6,319
Long-term financial investments (Note 17)	3,338	3,306
Aircraft lease security deposits (Note 13)	2,205	2,501
Non-current assets	583	148
Total financial assets exposed to credit risk	95,759	71,700

Analysis by credit quality of financial receivables is as follows:

	31 December 2017	31 December 2016
<i>Past due impaired receivables</i>		
- less than 45 days overdue	4	89
- 46 days to 90 days overdue	41	75
- 91 days to 2 years overdue	3,571	7,995
- more than 2 years overdue	8,270	4,183
Total impaired receivables	11,886	12,342
	31 December 2017	31 December 2016
<i>Past due but not impaired</i>		
- less than 90 days overdue	35	33
Total past due but not impaired receivables	35	33

Accounts receivable by category of external credit rating are presented in the table below:

	31 December 2017	31 December 2016
Accounts receivable with investment rating	5,237	3,967
Accounts receivable with non-investment rating	3,510	2,894
Accounts receivable without external rating	26,209	21,145
Total not overdue and not impaired receivables	34,956	28,006

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Payables of counterparties with investment rating includes payables with a rating at least BBB- (Fitch and S&P rating agencies) or Baa3 (Moody` rating agency). Payables of counterparties having a rating below the "investing" are classified as "Non-investment rating ". Non-rated payables consist mainly of airline debt, as well as agents BSP, CASS, ARC and direct agents.

Other measures to manage credit risk in the Group are as follows:

- Applying a system of limits. The limits reflect the Group's willingness to bear the credit risk within reasonable limits in order to maintain competitiveness and achievement of business objectives. The limit can be set for any source of risk or an individual counterparty. Qualitative factors that take into account the ownership structure (including the presence of an external investment rating), the period of work with the Group, the existence of lawsuits and quantitative coefficients based on the reporting are applied to establish limits.
- Assessment of credit quality of counterparties (credit ratings). The Group applies the internal credit rating system primarily, but not limited to, for agents that sale of passenger and freight traffic. The counterparty's credit rating is updated on a monthly basis and allows timely response to deteriorating credit quality of the counterparty. The credit rating affects the required amount of financial security under the contract, the recalculation of which also takes place on a monthly basis.
- Regular monitoring of credit risk indicators. Indicators of credit risks allow to reveal in advance the growth of the credit risk of an individual counterparty (a group of counterparties). As a result, the Group may take the necessary actions to prevent financial losses in the event of default of the counterparty. Indicators are applied at the ERP system level. When developing indicators, the company applies methods of quantitative statistical analysis, predictive models, as well as expert indicators.
- Regular reporting on credit risk. Providing regular reporting is an essential component that allows interested persons to observe the efficiency of risk reduction measures and the dynamics of its evaluation. The reporting is provided to the management of the Group, interested structural units, audit commissions, and also to the Board of Directors.

Credit risk concentration

As at 31 December 2017 and as at 31 December 2016, a large portion of cash was placed in two banks, which causes the credit risk concentration for the Group (Note 12).

37. CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

The table below summarizes the changes in the Group's liabilities arising from financial activities for each of the periods presented. Cash flows for these liabilities are reflected in the Statement of Cash Flows as part of financial activities:

	Borrowings	Finance lease liabilities	Other liabilities arising from financing activities	Total
1 January 2017	20,367	122,736	1	143,104
Cash repayment of liabilities	(18,634)	(19,058)	(18,859)	(56,551)
Forex adjustments	350	(1,487)	-	(1,137)
Other changes not related to cash flows	1,098	(1,502)	18,923	18,519
31 December 2017	3,181	101,689	65	103,935

37. CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES (CONTINUED)

	Borrowings	Finance lease liabilities	Other liabilities arising from financing activities	Total
1 January 2016	68,460	164,524	4,800	237,784
Cash repayment of liabilities	(45,893)	(30,192)	(4,410)	(80,495)
Forex adjustments	(5,765)	(435)	-	(6,200)
Other changes not related to cash flows	3,565	(11,161)	(389)	(7,985)
31 December 2016	20,367	122,736	1	143,104

Dividends paid in the amount of RUB 18,859 million are reflected in changes of other liabilities for 2017.

Dividends paid in the amount of RUB 49 million are reflected in changes of other liabilities for 2016.

38. 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 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 similar maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of financial receivables (Note 14), lease security deposits (Note 13) and deposits for more than 90 days other financial assets and loans issued (Note 17) approximate their fair values, which belong to Level 2 in the fair value hierarchy. Cash and cash equivalents (with exception for cash on hand) belong to level 2 and are carried at amortised cost which is approximately equal to their fair value. The Group's investment in JSC MASH belongs to Level 3 in the fair value hierarchy and are measured at initial cost less accumulated impairment losses due to the absence of quoted prices.

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 2017 and 31 December 2016, the fair values of financial payables (Note 25), finance lease liabilities (Note 28), loans, borrowings and bonds (Note 29) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

39. RELATED-PARTY TRANSACTIONS

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

As at 31 December 2017 and 31 December 2016, the outstanding balances with related parties and income and expense items with related parties for the years ended 31 December 2017 and 31 December 2016 were disclosed below:

Associates

In July 2017, the Group acquired a 25.5% stake in LLC Aeromar-Ufa, which is based at Ufa International Airport. The main activity of the organization is in-flight catering service.

As at 31 December 2017 and 31 December 2016, the outstanding balances with associates and income and expense items with associates for the years ended 31 December 2017 and 31 December 2016 were as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Assets		
Accounts receivable	-	25
Liabilities		
Accounts payable and accrued liabilities	<u>84</u>	<u>120</u>

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

	<u>2017</u>	<u>2016</u>
Transactions		
Sales to associates	6	7
Purchase from associates	<u>1,877</u>	<u>1,564</u>

Purchases from associates consist primarily of aviation security services.

Government-related entities

As at 31 December 2017 and 31 December 2016, 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:

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

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

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
Assets		
Cash and cash equivalents	22,539	13,048

The amounts of the Group's finance lease liabilities are disclosed in Note 28. The share of liabilities to the government-related entities is approximately 73% for finance lease (31 December 2016: 71%). The share of the government-related entities in the amount of the future minimum lease payments under non-cancellable operating leases agreements (note 40) is approximately 36% (31 December 2016: 39%). The share of interest expenses on finance lease is approximately 90% and 38% for operating lease expenses (2016: 86% and 32%, respectively).

For the year ended 31 December 2017 the share of the Group's transactions with government-related entities was about than 24% of operating costs, and more than 2% of revenue (2016: about 20% and less than 3%, respectively). These expenses primarily include supplies of motor fuels, aircraft and engines operating lease expenses, as well as the cost of air navigation and aircraft maintenance services at airports.

As at 31 December 2017 the Group issued guarantees for the amount of RUB 1,618 million to a government-related entity to secure obligations under tender procedures (31 December 2016: RUB 1,225 million).

As at 31 December 2017 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group amounted to RUB 499 million (31 December 2016: RUB 3,523 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 and 25.

39. RELATED-PARTY TRANSACTIONS (CONTINUED)

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 in 2017, amounted to RUB 2,317 million. In connection with actualization of the Regulation on Remunerations of PJSC Aeroflot, approved by the Board of Directors after reporting date in April 2017, comparative total amount of compensation for the key management (The Board of Directors, the Management Committee and the key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) regarding to the expenses of 2016 year amounted to RUB 2,190 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 2016 the Group approved bonus programmes for its key management personnel and members of the Company's Board of Directors. These programmes run for 3.5 years and are to be exercised in 4 tranches of cash payments. The amounts of payments depend on the level of increase in the Company's capitalisation, the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalisation by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 31 December 2017, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2017 till 31 December 2017 and amount of payment deferred till the end of the programmes.

Expenses under bonus programmes amounted to RUB 3,722 million in 2017 and were reflected in labor costs and other financial expenses in the Group's Consolidated Financial Statements of profit or loss Group (in 2016: RUB 1,142 million). As at 31 December 2017, the outstanding amount of the liability under these programmes was RUB 2,558 million (31 December 2016: RUB 1,594 million)

40. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 39) are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
On demand or within 1 year	73,565	58,191
Later than 1 year and not later than 5 years	272,048	218,479
Later than 5 years	314,968	239,224
Total operating lease commitments	<u>660,581</u>	<u>515,894</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.

40. COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

The aircraft that the Group has operated under operating lease agreements as at 31 December 2017 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 1 to 16 years. The agreements are extendable.

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

41. CAPITAL COMMITMENTS

As at 31 December 2017, the Group agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 394,937 million (31 December 2016: RUB 418,671 million). These commitments mainly relate to purchase of 22 Boeing B787 (31 December 2016: 22 aircraft), 22 Airbus A350 (31 December 2016: 22 aircraft), 15 Airbus A320/321 (31 December 2016: 33 aircraft) and 6 Boeing B777 (31 December 2016: 1) aircraft which are expected to be used under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

42. 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. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. 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.

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.

42. 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, in 2017 the term was extended until 31 December 2020. 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 special coefficients: 1.84 for 2016, 2.08 for 2017.

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

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

Tax liabilities arising from transactions between Group 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 2017 and 31 December 2016 management estimates that the Group has no possible obligations from exposure to other than remote tax risks. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these Consolidated Financial Statements, if these are challenged by the tax authorities.

Insurance

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

Litigations

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

As at 31 December 2017 the Group's subsidiaries JSC Orenair and JSC Donavia were within bankruptcy process, thus their assets of RUB 1,779 million, including cash and cash equivalents in the amount of RUB 422 million, have had limited availability to the Group as it is defined by Russian legislation.

PJSC AEROFLOT

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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



43. SUBSEQUENT EVENTS

In February 2018, the Company and the leasing company Aviakapital-Servis (a subsidiary of the State Corporation Rostec) signed a firm contract for the delivery of 50 MS-21 aircraft under lease contract for 12 years.