

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

**Condensed consolidated interim financial statements
for the 6 months ended 30 June 2016**

Contents

Statement of Management's Responsibilities for the Preparation and Approval of the Condensed Consolidated Interim Financial Statements as at and for 6 months ended 30 June 2016

Report on Review of Condensed Consolidated Interim Financial Statements

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

Notes to the Condensed consolidated interim financial statements

1. Nature of the business	7
2. Basis of preparation	9
3. Summary of significant accounting policies and new accounting pronouncements	9
4. Traffic revenue	10
5. Other revenue	10
6. Operating costs.....	11
7. Staff costs.....	11
8. Finance income and costs.....	12
9. Income tax.....	12
10. Accounts receivable and prepayments	13
11. Prepayments for aircraft.....	13
12. Property, plant and equipment	14
13. Assets classified as held for sale	15
14. Disposal of subsidiaries	15
15. Derivative financial instruments	16
16. Deferred revenue related to frequent flyer programme.....	18
17. Finance lease liabilities	19
18. Loans and borrowings.....	19
19. Impairment of investments.....	20
20. Share capital.....	21
21. Dividends	21
22. Operating segments.....	21
23. Fair value of financial instruments.....	22
24. Related parties transactions.....	24
25. Commitments under operating leases	26
26. Capital commitments	26
27. Contingencies.....	27

PJSC AEROFLOT

Statement of management's responsibilities for the preparation and approval of the Condensed Consolidated Interim Financial Statements as at and for the 6 months ended 30 June 2016



The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the set out report on review of Condensed Consolidated Interim Financial Statements, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the Condensed Consolidated Interim Financial Statements of Public Joint Stock Company Aeroflot – Russian Airlines and its subsidiaries (the "Group").

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


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

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

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the Condensed Consolidated Interim Financial Statements of the Group are prepared in accordance with IAS 34 *Interim Financial Reporting*;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The Condensed consolidated interim financial statements as at and for 6 months ended 30 June 2016 were approved on 29 August 2016 by:



V. G. Saveliev
General Director



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



Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of PJSC Aeroflot

Introduction

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

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

29 August 2016
Moscow, Russian Federation

PJSC AEROFLOT

Condensed Consolidated Interim Statement of
Profit or Loss for 6 months ended 30 June 2016


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



	Note	6m 2016	6m 2015
Traffic revenue	4	193,330	150,604
Other revenue	5	30,494	25,863
Revenue		223,824	176,467
Operating costs, excluding staff costs and depreciation and amortisation	6	(162,072)	(139,166)
Staff costs	7	(31,032)	(27,235)
Depreciation and amortisation		(6,115)	(6,710)
Other income and expenses, net		(1,355)	2,510
Operating costs		(200,574)	(170,601)
Operating profit		23,250	5,866
Result from disposal of subsidiaries	14	(5,726)	-
(Loss) / Profit from sale and impairment of investments, net	19	(3,429)	30
Finance income	8	7,890	7,153
Finance costs	8	(5,074)	(7,441)
Hedging result	8	(8,655)	(8,848)
Share of results of associates		(45)	(56)
Profit/(Loss) before income tax		8,211	(3,296)
Income tax expense	9	(5,744)	(245)
Profit/(Loss) for the period		2,467	(3,541)
<i>Attributable to:</i>			
Shareholders of the Company		1,343	(3,420)
Non-controlling interest		1,124	(121)
PROFIT/(LOSS) FOR THE PERIOD		2,467	(3,541)
Basic and diluted profit/(loss) per share (in Roubles per share)		1.3	(3.2)
Weighted average number of shares outstanding (millions)		1,056.9	1,056.9

Approved and signed on behalf of management

29 August 2016


V. G. Saveliev
General Director


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

PJSC AEROFLOT

Condensed Consolidated Interim Statement of
Comprehensive Income for the 6 months ended 30 June 2016

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



	<u>Note</u>	<u>6m 2016</u>	<u>6m 2015</u>
Profit/(Loss) for the period		2,467	(3,541)
Other comprehensive profit/(loss) :			
Items that may be reclassified subsequently to profit or loss:			
Profit from the change in fair value of derivative financial instruments	15	4,486	6,211
Effect from hedging revenue with foreign currency liabilities	17	23,231	4,135
Deferred tax related to the profit on cash flow hedging instruments		(5,617)	(2,057)
Other comprehensive profit for the period		22,100	8,289
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		24,567	4,748
Total comprehensive profit/(loss) attributable to:			
Shareholders of the Company		23,443	4,869
Non-controlling interest		1,124	(121)
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		24,567	4,748

The Consolidated Interim Condensed Statement of
Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the Condensed
Consolidated Interim Financial Statements set out on pages 7 to 28.

PJSC AEROFLOT

Condensed Consolidated Interim Statement of

Financial Position as at 30 June 2016

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



	Note	30 June 2016	31 December 2015
ASSETS			
Current assets			
Cash and cash equivalents		51,997	30,693
Short-term financial investments		6,612	5,917
Accounts receivable and prepayments	10	86,281	76,317
Current income tax prepayment		359	2,489
Aircraft lease security deposits		1,232	2,658
Expendable spare parts and inventories		8,588	7,447
Derivative financial instruments	15	-	53
Assets classified as held for sale	13	4,444	7,732
Total current assets		159,513	133,306
Non-current assets			
Deferred tax assets		14,479	21,632
Investments in associates		44	109
Long-term financial investments	19	3,303	6,118
Aircraft lease security deposits		2,131	2,132
Prepayments for aircraft	11	35,902	35,291
Property, plant and equipment	12	100,990	104,494
Intangible assets		2,233	2,690
Goodwill		6,660	6,660
Other non-current assets		3,236	2,762
Total non-current assets		168,978	181,888
TOTAL ASSETS		328,491	315,194
LIABILITIES AND EQUITY			
Current liabilities			
Derivative financial instruments	15	-	4,853
Accounts payable and accrued liabilities		69,302	54,751
Unearned traffic revenue		56,725	28,691
Deferred revenue related to frequent flyer programme	16	1,442	1,307
Provisions for liabilities		4,506	7,519
Finance lease liabilities	17	18,088	19,504
Short-term borrowings and current portion of long-term loans and borrowings	18	18,688	54,085
Liabilities directly associated with assets classified as held for sale	13	3,691	7,371
Total current liabilities		172,442	178,081
Non-current liabilities			
Long-term loans and borrowings	18	24,390	14,375
Finance lease liabilities	17	118,914	145,020
Provisions for liabilities		8,200	6,917
Deferred tax liabilities		61	170
Deferred revenue related to frequent flyer programme	16	3,283	2,941
Other non-current liabilities		5,175	3,810
Total non-current liabilities		160,023	173,233
TOTAL LIABILITIES		332,465	351,314
Equity			
Share capital	20	1,359	1,359
Treasury shares reserve		(3,571)	(3,571)
Accumulated profit on disposal of treasury shares		1,659	1,659
Investment revaluation reserve		(5)	(5)
Hedging reserve	15, 17	(42,620)	(64,720)
Retained earnings		41,098	39,755
Equity attributable to shareholders of the Company		(2,080)	(25,523)
Non-controlling interest		(1,894)	(10,597)
TOTAL EQUITY		(3,974)	(36,120)
TOTAL LIABILITIES AND EQUITY		328,491	315,194

Condensed Consolidated Interim Statement of
Financial Position is to be read in conjunction with the notes to, and forming part of, the Condensed
Consolidated Interim Financial Statements set out on pages 7 to 28.

PJSC AEROFLOTCondensed Consolidated Interim Statement of
Cash Flows for the 6 months ended 30 June 2016

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



	Note	6m 2016	6m 2015
Cash flows from operating activities:			
Profit/(Loss) before income tax		8,211	(3,296)
Adjustments for:			
Depreciation and amortisation		6,115	6,710
Change in impairment provision for accounts receivable and prepayments		1,864	(182)
Loss on doubtful accounts write-off		273	23
Change in impairment provision for obsolete expendable spare parts and inventory		(22)	238
Change in provision for impairment of property, plant and equipment	12	1	413
Loss/(Gain) on disposal of property, plant and equipment		111	(487)
Gain on accounts payable write-off		(4)	(1)
Share of financial results of associates		45	56
Loss/(Gain) on disposal of subsidiaries and accrual of provision for impairment of investments		9,155	(30)
Loss on change in the fair value of derivative financial instruments	8	53	1,387
Hedging result	8	8,655	8,848
Change in provisions for liabilities		1,278	2,149
Interest expense	8	4,935	3,419
Foreign exchange gain, net	8	(5,318)	(5,404)
Write-off of VAT recoverable		500	11
Change in other provisions and other assets impairments		(17)	(2)
Other finance income, net		(23)	(27)
Loss on derivative financial instruments, net	8	-	2,621
Dividend income		(7)	(31)
Other operating expenses/(income), net		2,522	(318)
Total operating cash flows before working capital changes		38,327	16,097
Increase in accounts receivable and prepayments		(6,302)	(3,442)
Increase in expendable spare parts and inventories		(1,119)	(438)
Increase in accounts payable and accrued liabilities		43,831	31,632
Total operating cash flows after working capital changes		74,737	43,849
Change in restricted cash		16	66
Income tax paid		(595)	(1,266)
Income tax refunded		1,123	87
Net cash flows from operating activities		75,281	42,736

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the Condensed Consolidated Interim Financial Statements set out on pages 7 to 28.

PJSC AEROFLOT

Condensed Consolidated Interim Statement of
Cash Flows for the 6 months ended 30 June 2016

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



	6m 2016	6m 2015
Cash flows from investing activities:		
Deposits return	2,947	2,265
Deposits placement	(4,030)	(3,404)
Purchases of investments and loans issued	-	(3)
Proceeds from sale of property, plant and equipment	12	71
Purchases of property, plant and equipment and intangible assets	(3,519)	(5,176)
Dividends received	36	31
Prepayments for aircraft	(12,370)	(8,198)
Return of prepayments for aircraft	6,055	7,793
Repayment of operating lease security deposits	(1,758)	(1,068)
Return of operating lease security deposits	2,129	534
Net cash flows used in investing activities	(10,498)	(7,155)
Cash flows from financing activities:		
Proceeds from loans and borrowings	22,736	19,954
Repayment of loans and borrowings	(42,732)	(11,673)
Repayment of the principal element of finance lease liabilities	(13,298)	(8,729)
Interest paid	(4,033)	(2,483)
Dividends paid	-	(34)
Payments from settlement of derivative financial instruments	(4,362)	(10,750)
Net cash used in financing activities	(41,689)	(13,715)
Effect of exchange rate fluctuations on cash and cash equivalents	(1,790)	(481)
Net increase in cash and cash equivalents	21,304	21,385
Cash and cash equivalents at the beginning of the year	30,693	26,547
Cash and cash equivalents at the end of the period	51,997	47,932
Non-cash transactions as part of the investing activities:		
Property, plant and equipment acquired under finance leases	-	1,781

The Condensed Consolidated Interim Statement of
Cash Flows is to be read in conjunction with the notes to, and forming part of, the Condensed Consolidated
Interim Financial Statements set out on pages 7 to 28.

PJSC AEROFLOT

Condensed Consolidated Interim Statement of Changes in Equity
for the 6 months ended 30 June 2016

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



Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2015		1,359	(1,912)	(5)	(48,657)	45,584	(3,631)	(9,874)	(13,505)
Loss for the period		-	-	-	-	(3,420)	(3,420)	(121)	(3,541)
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15, 17	-	-	-	8,289	-	8,289	-	8,289
Total other comprehensive profit		-	-	-	-	-	8,289	-	8,289
Total comprehensive profit/(loss)		-	-	-	-	-	4,869	(121)	4,748
Dividends declared	21	-	-	-	-	-	-	(6)	(6)
30 June 2015		1,359	(1,912)	(5)	(40,368)	42,164	1,238	(10,001)	(8,763)
1 January 2016		1,359	(1,912)	(5)	(64,720)	39,755	(25,523)	(10,597)	(36,120)
Profit for the period		-	-	-	-	1,343	1,343	1,124	2,467
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15, 17	-	-	-	22,100	-	22,100	-	22,100
Total other comprehensive profit		-	-	-	-	-	22,100	-	22,100
Total comprehensive profit		-	-	-	-	-	23,443	1,124	24,567
Disposal of subsidiary		-	-	-	-	-	-	7,579	7,579
30 June 2016		1,359	(1,912)	(5)	(42,620)	41,098	(2,080)	(1,894)	(3,974)

The Condensed Consolidated Interim Statement of Changes in Equity
is to be read in conjunction with the notes to, and forming part of, the Condensed Consolidated Interim Financial Statements set out on pages 7 to 28.

1. NATURE OF THE BUSINESS

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

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

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

OJSC “Vladivostok Avia” disposed from the Group as a result of liquidation on 17 May 2016 (Note 14).

As at 30 June 2016 and 31 December 2015, the Government of the Russian Federation (the “RF”) represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 6 months ended 30 June 2016

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

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

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

Type of aircraft	Ownership	JSC ORENBURGSKIE					GROUP TOTAL
		PJSC AEROFLOT	JSC AK ROSSIYA	AVIALINII	JSC AK AURORA	LLC POBEDA	
An-24	Owned	-	-	-	1	-	1
DHC 8-Q300	Owned	-	-	-	1	-	1
DHC 8-Q402	Owned	-	-	-	3	-	3
Total owned aircraft		-	-	-	5	-	5
Airbus A319	Finance lease	-	9	-	-	-	9
Airbus A321	Finance lease	17	-	-	-	-	17
Airbus A330	Finance lease	8	-	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	-	10
An-148	Finance lease	-	6	-	-	-	6
Total aircraft in finance lease		35	15	-	-	-	50
SSJ 100	Operating lease	29	-	-	-	-	29
Airbus A319	Operating lease	-	17	-	10	-	27
Airbus A320	Operating lease	66	6	-	-	-	72
Airbus A321	Operating lease	5	-	-	-	-	5
Airbus A330	Operating lease	14	-	-	-	-	14
Boeing B737	Operating lease	17	15	-	3	12	47
Boeing B747	Operating lease	-	3	-	-	-	3
Boeing B777	Operating lease	4	4	1	-	-	9
DHC 8-Q200	Operating lease	-	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	-	3	-	3
DHC 6-400	Operating lease	-	-	-	2	-	2
Total aircraft in operating lease		135	45	1	20	12	213
Total fleet		170	60	1	25	12	268

As at 30 June 2016 6 aircraft of type An148, 1 aircraft of type Boeing B777 and 3 aircraft of type Boeing B737 were under redelivery maintenance to lessor.

2. BASIS OF PREPARATION

Basis of preparation

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

Foreign currency translation

The table below presents official exchange rates of US Dollar and Euro against rouble used for the translation of operations, monetary assets and liabilities in foreign currencies:

	Official exchange rates	
	Roubles for 1 US Dollar	Roubles for 1 Euro
As at 30 June 2016	64.26	71.21
Average rate for 6 months 2016	70.26	78.37
As at 31 December 2015	72.88	79.70
Average rate for 6 months 2015	57.40	64.31

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

The principal accounting policies followed by the Group in preparation of these condensed consolidated interim financial statements are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015 and as at this date.

New standards and interpretations

The following amendments and improvements to standards became effective from 1 January 2016:

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

These amendments and improvements to standards did not have any impact or did not have a material impact on the Group's condensed consolidated interim financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2016, and have not been early adopted by the Group:

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

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

New standards and interpretations (continued)

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

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

Certain new Standards, amendments to Standards and Interpretations disclosed in the consolidated financial statements for the year ended 31 December 2015, have not been yet effective and have not been early applied by the Group. The Group is currently assessing the applicability of the mentioned changes in IFRS, their impact on its consolidated financial statements and effective terms.

Critical accounting estimates and judgments

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

Income tax expense

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

4. TRAFFIC REVENUE

	6m 2016	6m 2015
Scheduled passenger flights	181,096	144,087
Charter passenger flights	7,016	2,075
Cargo flights	5,218	4,442
Total traffic revenue	193,330	150,604

5. OTHER REVENUE

	6m 2016	6m 2015
Airline agreements revenue	18,005	14,106
Revenue from partners under frequent flyer programme	6,071	4,706
Refuelling services	1,065	927
Sales of duty free goods	643	539
Catering services on board	621	590
Ground handling and maintenance	609	536
Hotel revenue	252	181
Other revenue	3,228	4,278
Total other revenue	30,494	25,863

6. OPERATING COSTS

	6m 2016	6m 2015
Aircraft servicing	33,458	29,023
Operating lease expenses	28,362	19,941
Aircraft maintenance	17,525	13,098
Communication expenses	8,008	5,974
Administration and general expenses	6,859	5,346
Passenger services	6,662	5,493
Sales and marketing	5,984	6,133
Food cost for flight catering	3,951	3,519
Insurance expenses	1,088	942
Custom duties	670	735
Cost of duty free goods	310	289
Other expenses	4,405	3,959
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	117,282	94,452
Aircraft fuel	44,790	44,714
Total operating costs less staff costs and depreciation and amortisation	162,072	139,166

7. STAFF COSTS

	6m 2016	6m 2015
Wages and salaries	24,198	21,334
Pension costs	5,241	4,655
Social security costs	1,593	1,246
Total staff costs	31,032	27,235

Pension costs include:

- compulsory payments to the Pension Fund of the RF,
- contributions to a non-government pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 6 months 2016, 20% for 6 months 2015) of the transfers made personally by the employees participating in the programme, and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under a defined benefit pension plan.

	6m 2016	6m 2015
Payments to the Pension Fund of the RF	5,246	4,660
Defined benefit pension plan	(5)	(5)
Total pension costs	5,241	4,655

8. FINANCE INCOME AND COSTS

	6m 2016	6m 2015
Finance income:		
Foreign exchange gain, net	5,318	5,404
Interest income	2,463	1,708
Other finance income	109	41
Total finance income	7,890	7,153
Finance costs:		
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 15)	(53)	(1,387)
Realised loss on derivative instruments not subject to hedge accounting (Note 15)	-	(2,621)
Interest expense	(4,935)	(3,419)
Other finance costs	(86)	(14)
Total finance costs	(5,074)	(7,441)
	6m 2016	6m 2015
Hedging result:		
Realised loss on hedging derivative instruments (Note 15)	(3,994)	(7,740)
Ineffective portion of fuel hedging (Note 15)	-	1,595
Effect of revenue hedging with liabilities in foreign currency (Note 17)	(4,661)	(2,703)
Total loss on hedging result	(8,655)	(8,848)

9. INCOME TAX

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

Expected weighted average annual income tax rate applied to profitable Group companies for the 6 months 2016 equalled to 12 – 68% (6 months 2015: 16 – 76%). Changes in expected rates are in general related to utilisation of unused tax losses which were not recognised as a deferred tax asset for such companies of the Group.

Expected weighted average annual income tax rate applied to loss making Group companies for the 6 months 2016 equalled to 1 – 20% (6 months 2015: 14 – 56%). Changes in expected rates of income tax mainly relate to increase of non-deductible expenses.

	6m 2016	6m 2015
Income tax charge for the period	4,312	800
Deferred income tax gain	1,432	(555)
Total income tax expense	5,744	245

In the reporting period the Group has recognised deferred tax assets from tax losses of subsidiaries in amount of RUB 54 million.

In the reporting period the Group has not recognised deferred tax assets from tax losses of subsidiary JSC Orenburgskie Avialinii in amount of RUB 602 million.

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2016	31 December 2015
Trade accounts receivable	37,975	34,275
Other financial receivables	7,957	8,056
Less impairment provision	(12,467)	(10,609)
Total financial receivables	33,465	31,722
Prepayments to suppliers (excluding prepayments for delivery of aircraft)	10,306	8,784
VAT and other taxes recoverable	15,237	17,225
Prepayments for delivery of aircraft	25,223	16,734
Deferred custom duties related to the imported aircraft under operating leases, current portion	645	705
Other receivables	1,405	1,147
Total accounts receivable and prepayments	86,281	76,317

Deferred customs duties of RUB 645 million as at 30 June 2016 (31 December 2015: RUB 705 million) relate to the current portion of customs duties related to imported aircraft under operating leases. These customs duties are recognised within operating costs of the Group over the term of the operating lease.

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

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

Expected lease type	Type of aircraft	30 June 2016		31 December 2015	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Not determined	Boeing B787	7	2016-2017	2	2016
Not determined	Boeing B777	2	2016-2017	2	2016
Not determined	Airbus A320	9	2016-2017	9	2016
Not determined	Airbus A321	11	2016-2017	7	2016

11. PREPAYMENTS FOR AIRCRAFT

As at 30 June 2016 and 31 December 2015 non-current portion of prepayments for aircraft was RUB 35,902 million and RUB 35,291 million, respectively. Changes in the non-current portion of prepayments are due to the approaching aircraft delivery dates as well as new non-current prepayments.

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

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

Expected lease type	Type of aircraft	30 June 2016		31 December 2015	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Not determined	Boeing B787	15	2017-2019	20	2017-2019
Not determined	Airbus A350	22	2018-2023	22	2018-2023
Not determined	Boeing B777	-	-	1	2017
Not determined	Airbus A320	17	2017-2018	21	2017-2018
Not determined	Airbus A321	8	2017-2018	12	2017-2018

12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and air-engines	Leased aircraft and air-engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2015	6,930	126,724	11,718	16,939	1,519	163,830
Additions	529	-	61	2,402	2,953	5,945
Capitalised expenditures	124	647	-	-	40	811
Disposals	(2,247)	(6)	(794)	(522)	-	(3,569)
Transfers to assets held for sale	(20)	(3,627)	-	(3)	-	(3,650)
Transfers	14	159	16	314	(503)	-
30 June 2015	5,330	123,897	11,001	19,130	4,009	163,367
1 January 2016	4,494	106,777	10,445	20,416	4,871	147,003
Additions	858	137	27	602	532	2,156
Capitalised expenditures	-	508	-	-	328	836
Disposals	(487)	-	(274)	(461)	(21)	(1,243)
Transfers to assets held for sale (Note 13)	-	(366)	-	-	-	(366)
Transfers (i)	2,538	287	16	401	(3,242)	-
30 June 2016	7,403	107,343	10,214	20,958	2,468	148,386
Accumulated depreciation						
1 January 2015	(4,110)	(30,469)	(4,627)	(8,507)	(73)	(47,786)
Charge for the period	(266)	(4,858)	(196)	(1,016)	-	(6,336)
(Accrual)/release of impairment provision	145	-	(567)	9	-	(413)
Disposals	2,034	5	768	431	-	3,238
Transfers to assets held for sale	8	1,352	-	-	-	1,360
30 June 2015	(2,189)	(33,970)	(4,622)	(9,083)	(73)	(49,937)
1 January 2016	(909)	(26,934)	(4,758)	(9,835)	(73)	(42,509)
Charge for the period	(360)	(4,037)	(190)	(1,084)	-	(5,671)
Accrual of impairment provision	(1)	-	-	-	-	(1)
Disposals	89	-	100	319	-	508
Transfers to assets held for sale (Note 13)	-	277	-	-	-	277
30 June 2016	(1,181)	(30,694)	(4,848)	(10,600)	(73)	(47,396)
Carrying amount						
1 January 2016	3,585	79,843	5,687	10,581	4,798	104,494
30 June 2016	6,222	76,649	5,366	10,358	2,395	100,990

(i) During 6 months 2016 transfers mainly relate to put into operation of 3 aircraft DHC 8.

Capitalised borrowing costs for 6 months 2016 amounted to RUB 328 million (6 months 2015: RUB 112 million). Capitalisation rate of interest expenses for the period was 3.4% p.a. (6 months 2015: 3.2% p.a.).

As at 30 June 2016 property and land (including tenancy) with the total carrying value of RUB 532 million (31 December 2015: RUB 711 million) were pledged to third and related parties as a security for the Group's loans and borrowings (Note 18).

13. ASSETS CLASSIFIED AS HELD FOR SALE

Based on the Group's management decision, as at 31 December 2015 some of aircrafts operated under finance lease agreements were under redelivery maintenance.

As at 30 June 2016 6 aircraft An-148 and 4 aircraft Airbus A321 operated under finance lease agreements are targeted for disposal, therefore at the end of reporting period these assets and related liabilities were classified as held for sale.

As at 30 June 2016 the amount of net assets held for sale amounted to RUB 753 million.

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

14. DISPOSAL OF SUBSIDIARIES

OJSC "Vladivostok Avia" disposed from the Group as a result of liquidation on 17 May 2016. Loss from disposal in amount of RUB 5,726 million was recognised in profit or loss for 6 months 2016. OJSC "Vladivostok Avia" did not carry on significant operating activities in 2016.

Loss on disposal includes the following components:

	Amount
Group's share in negative net assets of disposed company	2,747
Intragroup liabilities, including:	
Accounts payable from disposed subsidiary to the Group	(7,028)
Loan issued by the Group to disposed subsidiary	(1,445)
Loss from disposal	(5,726)

15. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2016	31 December 2015
Derivative financial instruments within assets		
Current	-	53
Non-current	-	-
Total derivative financial instruments within assets	-	53
Derivative financial instruments within liabilities		
Current	-	4,853
Non-current	-	-
Total derivative financial instruments within liabilities	-	4,853

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

	Derivative financial instruments	
	2016	2015
1 January	(4,800)	(30,586)
Level 3 derivative financial instruments that are not subject to special hedge accounting rules		
Change in fair value for the period	(53)	(4,008)
Settlements of derivative financial instruments during the period (Note 8)	-	2,621
Level 3 derivative financial instruments that are subject to special hedge accounting rules		
Change in fair value for the period	-	(1,960)
Settlements of derivative financial instruments during the period (Note 8)	-	7,740
Level 2 derivative financial instruments that are subject to special hedge accounting rules		
Change in fair value for the period	859	1,963
Settlements of derivative financial instruments during the period (Note 8)	3,994	-
30 June	-	(24,230)
Representing:		
Assets	-	113
Liabilities	-	(24,343)
30 June	-	(24,230)

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

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

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

To the moment of expiry the Group recognised the profit from the change in fair value of these derivative financial instruments of RUB 492 million within other comprehensive income together with the corresponding deferred tax of RUB 98 million. As a result of termination of the transaction loss in amount of RUB 3,994 million was recognised within hedging result during 6 months 2016.

During 6 months 2015 profit from the change in fair value of such financial instruments in the amount of RUB 2,025 million was presented in the other comprehensive income together with the corresponding deferred tax of RUB 393 million.

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

During 6 months 2016 the Group did not conclude new fuel option agreements. As of 31 December 2015 all previously concluded fuel option agreements matured and were closed.

For 6 months of 2015 decrease in fair value of fuel options amounted to a loss of RUB 425 million and was reported as a part of profit or loss. Gain from change in fair value of option agreements to which hedge accounting was applied for 6 months 2015 amounted to RUB 4,186 million and reported in the other comprehensive income together with the corresponding deferred tax of RUB 837 million.

Ineffective part of RUB 1,595 million was recognised within profit or loss. For 6 months 2015 the realised loss on fuel options amounted to RUB 10,361 million and was reported as a part of profit or loss.

(c) Currency options

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

During 6 months 2016 loss on change in fair value of this derivative financial instrument amounted to RUB 53 million and was recognised in profit or loss (6 months 2015: loss of RUB 962 million).

Valuation principles for currency and fuel options

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

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

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

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

16. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue and other accrued liabilities related to frequent flyer programme (Aeroflot Bonus programme) as at 30 June 2016 and 31 December 2015 represent the number of bonus miles earned when flying on the Group flights, but unused by the Aeroflot Bonus programme members and the number of promo-miles and bonus miles earned by programme members for using programme partners' services respectively, and are estimated at fair value. Deferred revenue and other accrued liabilities related to frequent flyer programme also include liabilities under the Company's discount programme as at 30 June 2016 and 31 December 2015, which represent the fair value of coupons for a discount on the repeated purchase of tickets at Aeroflot's web-site.

	30 June 2016	31 December 2015
Deferred revenue related to frequent flyer programme, current	1,442	1,307
Deferred revenue related to frequent flyer programme, non-current	3,283	2,941
Other current liabilities related to frequent flyer programme	2,423	2,572
Other non-current liabilities related to frequent flyer programme	2,627	2,779
Total deferred revenue and other liabilities related to frequent flyer programme	9,775	9,599

17. FINANCE LEASE LIABILITIES

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

	30 June 2016	31 December 2015
Total outstanding payments by financial lease	152,912	184,730
Future finance lease interest expense	(15,910)	(20,206)
Total finance lease liabilities	137,002	164,524
Representing:		
Current finance lease liabilities	18,088	19,504
Non-current finance lease liabilities	118,914	145,020
Total finance lease liabilities	137,002	164,524

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

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the debt (lease obligations) denominated in the same currency. The Group applies cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

As at 30 June 2016, finance lease liabilities and liabilities related to assets held for sale in the amount of RUB 135,136 million denominated in US dollars (31 December 2015: RUB 165,659 million) were designated as a hedging instrument of highly probable revenue forecasted for the period 2016 – 2026 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities match the future cash inflows on the revenue being hedged. As at 30 June 2016, accumulated foreign currency loss of RUB 53,275 million (before deferred income tax) on the finance lease liabilities (31 December 2015: RUB 76,507 million), representing an effective portion of the hedge, is recognised in the hedging reserve. Loss reclassified from the hedging reserve to profit or loss for 6 months 2016 was RUB 4,661 million (for 6 months 2015: RUB 2,703 million).

18. LOANS AND BORROWINGS

	30 June 2016	31 December 2015
Short-term bank loans, bonds and other borrowings:		
Short-term loans in US dollars	9,697	31,550
Short-term loans in Euro	3,901	-
Short-term loans in Russian Roubles	1,392	-
Current portion of loans and borrowings in Russian Roubles	3,281	3,190
Current portion of long-term bank loans in US dollars	417	14,242
Current portion of bonds in Russian Roubles	-	5,103
Total short-term loans and borrowings	18,688	54,085
Long-term bank loans, bonds and other borrowings:		
Long-term loans in Russian Roubles	16,260	17,565
Long-term loans and borrowings in US dollars	6,843	14,242
Long-term loans and borrowings in Euro	4,985	-
Long-term bonds in Russian Roubles	-	5,103
Less:		
Current portion of loans and borrowings in Russian Roubles	(3,281)	(3,190)
Current portion of long-term bank loans in US dollars	(417)	(14,242)
Current portion of bonds in Russian Roubles	-	(5,103)
Total long-term loans and borrowings	24,390	14,375

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

The Group has opened credit line with PAO Bank “Vozrozhdenie” in the amount of USD 15 million. As at 30 June 2016 the outstanding amount was RUB 1,068 million. Interest rate is 5.5% p.a. The loan is unsecured and issued for the period up to June 2017.

As at 30 June 2016 bank loans in the amount of RUB 1,925 million (31 December 2015: RUB 1,940 million) were secured by property, land (Note 12) and fuel in the amount of RUB 460 million.

As at 30 June 2016 and 31 December 2015, the fair value of loans and borrowings was not materially different from their carrying amounts.

Undrawn commitments

As at 30 June 2016 the Group was able to attract RUB 77,758 million of cash (31 December 2015: RUB 36,840 million) available under existing credit lines granted to the Group by various lending institutions.

19. IMPAIRMENT OF INVESTMENTS

As a result of actualization of macro-economic and financial indicators the Group revised fair value of long-term financial investments in JSC MASH and recognised impairment in the amount of RUB 2,810 million.

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

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

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

Increase of weighted average cost of capital for JSC MASH by 2.5 p.p. results in impairment of investments by RUB 3,929 million. Decrease of weighted average cost of capital for JSC MASH by 2.5 p.p. results in impairment of investments by RUB 1,159 million.

Increase of passenger traffic growth rates by 1 p.p. results in impairment of investments by RUB 1,323 million. Decrease of passenger traffic growth rates by 1 p.p. results in impairment of investments by RUB 4,129 million.

20. SHARE CAPITAL

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

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

Each ordinary share gives a right to one vote.

As at 30 June 2016 and 31 December 2015 LLC Aeroflot-Finance, 100%-owned subsidiary of the Group, owned 53,716,189 ordinary shares of the Company.

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

The Company's shares are listed on the Moscow Exchange ("MICEX"). As at 30 June 2016 and 31 December 2015 weighted average price was RUB 84.81 per share and RUB 56.10 per share, respectively.

The Company launched Global Depositary Receipts (GDRs) programme in December 2000. From January 2014 one GDR equates 5 ordinary shares. As at 30 June 2016 and as 31 December 2015 the GDRs were traded on the Frankfurt stock exchange at EUR 5.81 per GDR and EUR 3.41 per GDR, respectively.

21. DIVIDENDS

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

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

22. OPERATING SEGMENTS

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

The 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.

22. OPERATING SEGMENTS (CONTINUED)

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
6m 2016				
External sales	222,251	1,573	-	223,824
Inter-segment sales	-	7,211	(7,211)	-
Total revenue	222,251	8,784	(7,211)	223,824
Operating profit	23,044	173	33	23,250
Loss from sale and impairment of investments, net				(3,429)
Finance income				7,890
Finance costs				(5,074)
Hedging result				(8,655)
Share of financial results of associates				(45)
Result from disposal of subsidiaries				(5,726)
Profit before income tax				8,211
Income tax expense				(5,744)
Profit for the period				2,467
	Passenger traffic	Other	Inter-segment sales elimination	Total Group
6m 2015				
External sales	175,256	1,211	-	176,467
Inter-segment sales	3	6,244	(6,247)	-
Total revenue	175,259	7,455	(6,247)	176,467
Operating profit	5,546	352	(32)	5,866
Profit from sale and impairment of investments, net				30
Finance income				7,153
Finance costs				(7,441)
Hedging result				(8,848)
Share of financial results of associates				(56)
Loss before income tax				(3,296)
Income tax expense				(245)
Loss for the period				(3,541)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments carried at fair value. This category includes only derivative financial instruments disclosed in Note 15.

Financial assets carried at amortised cost. The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Carrying amounts of cash and cash equivalents, financial receivables, investments, lease security deposits and other financial assets are approximately equal to their fair value, which belongs to Level 2 in the fair value hierarchy.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 30 June 2016 and 31 December 2015, the carrying and fair values of financial payables, finance lease liabilities (Note 17) were not materially different. The fair values of loans and borrowings, including bonds, are disclosed in Note 18. The fair value of stated financial instruments is categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

During 6 months of 2016 and 6 months 2015 there was no transfer between levels 1, 2 or 3 of the fair value hierarchy.

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

	Loans and receivables	Available- for sale financial assets	Financial assets at fair value through profit or loss	Derivative financial instruments (hedging)	Total
Cash and cash equivalents	51,997	-	-	-	51,997
Short-term financial investments	6,611	1	-	-	6,612
Financial receivables	33,465	-	-	-	33,465
Aircraft lease security deposits	3,363	-	-	-	3,363
Long-term financial investments	-	3,303	-	-	3,303
Other non-current assets	152	-	-	-	152
Total financial assets	95,588	3,304	-	-	98,892

	Liabilities at fair value through profit or loss	Derivative financial instruments (hedging)	Other financial liabilities	Total
Financial payables	-	-	49,304	49,304
Finance lease liabilities	-	-	137,002	137,002
Loans and borrowings	-	-	43,078	43,078
Other long-term liabilities	-	-	1,751	1,751
Total financial liabilities	-	-	231,135	231,135

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

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

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

24. RELATED PARTIES TRANSACTIONS

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

As at 30 June 2016 and 31 December 2015, the outstanding balances with related parties and income and expense items with related parties for 6 months 2016 and 6 months 2015 were as follows:

Associates

As at 30 June 2016 and 31 December 2015, the outstanding balances with associates and income and expense items with associates for 6 months 2016 and 6 months 2015 were as follows:

	30 June 2016	31 December 2015
Assets		
Accounts receivable	19	1
Liabilities		
Accounts payable and accrued liabilities	114	111

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

	6m 2016	6m 2015
Transactions		
Sales to associates	4	16
Purchase from associates	730	699

Purchases from associates consist primarily of aviation security services.

Government-related entities

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

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

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

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

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

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

	30 June 2016	31 December 2015
Assets		
Cash and cash equivalents	22,386	8,060
Derivative financial instruments		53

The amounts of the Group's finance and operating lease liabilities are disclosed in Notes 17 and 25. The share of liabilities to the government-related entities is approximately 12% for finance lease and 5% for operating lease (31 December 2015: 12% and 6%, respectively).

For 6 months 2016 the share of Group's transactions with government-related entities is more than 10% of operating costs, and 3% of revenue (6 months 2015: 11% and about 4%, respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the government-related airports and also supplies of motor fuels from government-related entities.

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

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

Compensation of key management personnel

The remuneration of directors and other members of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as short-term and mid-term compensation, amounted to RUB 693 million (6 months 2015: RUB 373 million).

These 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 unified social tax for all its employees, including key management personnel.

24. RELATED PARTIES TRANSACTIONS (CONTINUED)**Bonus programmes based on the Group's capitalisation**

In 2013, the Group approved bonus programmes for the Group's key management personnel and members of the Company's Board of Directors. The programmes run for three years and are exercised in three tranches of cash payments. The amounts of payments depend both on the absolute increase in the Company's capitalisation and the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalization by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 30 June 2016 was determined based on change in the Company's capitalisation for 2015 and the whole period of the programmes.

After the programmes approved in 2013 had been expired the Group approved in 2016 new bonus programmes for the Group's 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 capitalization, the Company's capitalisation growth rates against its peers and MICEX index (in relation to members of the Company's Board of Directors) or index of client satisfaction (in relation to the Group's key management personnel) based on the results of each reporting period and attainment of objective level of the Company's capitalization in the end of the programmes. The fair value of the liabilities under the bonus programmes as of 30 June 2016 was determined based on the expected payment amount for the reporting period from 1 January 2016 till 30 June 2016 and amount of payment deferred till the end of the programmes.

Expenses related to the bonus programmes for 6 months 2016 were RUB 274 million (6 months 2015: RUB 96 million). The expenses are recorded within staff costs in the Group's condensed consolidated interim statement of profit or loss. As at 30 June 2016, outstanding liability under these plans was RUB 726 million (31 December 2015: RUB 452 million).

Cross shareholding

As at 30 June 2016 and 31 December 2015 LLC Aeroflot-Finance, 100%-owned subsidiary of the Group, owned 53,716,189 ordinary shares of the Company (Note 20).

25. COMMITMENTS UNDER OPERATING LEASES

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

	30 June 2016	31 December 2015
On demand or within 1 year	62,537	57,356
Later than 1 year and not later than 5 years	252,203	202,376
Later than 5 years	282,257	219,353
Total operating lease commitments	596,997	479,085

As at 30 June 2016, 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.

26. CAPITAL COMMITMENTS

As at 30 June 2016, the Group entered into agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 726,656 million (31 December 2015: RUB 866,439 million). These commitments mainly relate to purchase of two Boeing B-777 (31 December 2015: three), twenty two Boeing B-787 (31 December 2015: twenty-two), twenty two Airbus A-350 (31 December 2015: twenty-two), forty five Airbus A-320/321 (31 December 2015: forty nine) aircraft which are expected to be used under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

27. CONTINGENCIES

Operating Environment of the Group

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

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

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

Seasonality

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

Tax contingencies

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

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

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

In accordance with amendments to the Russian Tax Code made in 2015, excise duties charged on the

27. CONTINGENCIES (CONTINUED)

Tax contingencies (continued)

aviation fuel obtained by the Group's airlines are subject to deduction using the following coefficients: 2 for 2015, 1.84 for 2016.

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

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

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

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

In addition to the above matters, as at 30 June 2016 and 31 December 2015 management estimates that the Group has no possible obligations from exposure to other than remote tax risks.

The risks represent estimates arising from uncertainties in the interpretation of Russian tax legislation and related requirements for documentation. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these condensed consolidated interim financial statements, if these are challenged by the tax authorities.

Insurance

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

Litigations

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