

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

**Condensed Consolidated Interim Financial Statements
as at and for the 9 months ended 30 September 2017**

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

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

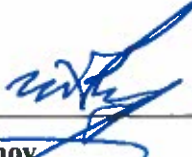
In preparing the Condensed Consolidated Interim Financial Statements, management is responsible for:

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

Management is also responsible for:

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

The Condensed Consolidated Interim Financial Statements as at and for the 9 months ended 30 September 2017 were approved on 29 November 2017 by:



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



Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of PJSC Aeroflot:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC Aeroflot and its subsidiaries (the "Group") as of 30 September 2017 and the related condensed consolidated statements of profit or loss and comprehensive income for the three-month and nine-month periods then ended, and cash flows and changes in equity for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

29 November 2017

Moscow, Russian Federation

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

Audited entity: PJSC Aeroflot

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

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

119002, Russia, Moscow, 10 Arbat



Independent auditor: AO PricewaterhouseCoopers Audit

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

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


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

ORNZ 11603050547 in the register of auditors and audit organizations

PJSC AEROFLOT**Condensed Consolidated Interim Statement of****Profit or Loss for the three and nine months ended 30 September 2017***(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	Three months ended		Nine months ended	
		30 September 2017	30 September 2016	30 September 2017	30 September 2016
Traffic revenue	4	153,819	141,233	361,802	334,563
Other revenue	5	16,096	16,249	42,971	46,743
Revenue		169,915	157,482	404,773	381,306
Operating costs, excluding staff costs, depreciation and amortisation	6	(108,936)	(94,527)	(289,635)	(256,599)
Staff costs	7	(22,186)	(17,086)	(60,509)	(48,118)
Depreciation and amortisation		(3,408)	(3,135)	(10,412)	(9,250)
Other operating income/(expenses), net		(1,221)	942	(2,355)	(413)
Operating costs		(135,751)	(113,806)	(362,911)	(314,380)
Operating profit		34,164	43,676	41,862	66,926
Loss from sale and impairment of investments, net		(36)	(305)	(108)	(3,734)
Finance income	8	1,566	11,075	6,349	18,860
Finance costs	8	(2,171)	(2,419)	(6,331)	(7,388)
Hedging result	8	(1,478)	(1,956)	(4,226)	(10,611)
Share of results of associates		106	45	140	-
Result from disposal of subsidiaries	14	-	627	-	(5,099)
Profit before income tax		32,151	50,743	37,686	58,954
Income tax expense	9	(7,890)	(9,412)	(10,537)	(15,156)
PROFIT FOR THE PERIOD		24,261	41,331	27,149	43,798
<i>Attributable to:</i>					
Shareholders of the Company		24,124	41,245	26,993	42,588
Non-controlling interest		137	86	156	1,210
PROFIT FOR THE PERIOD		24,261	41,331	27,149	43,798
Basic and diluted profit per share (in roubles per share)		22.7	39.0	25.5	40.3
Weighted average number of shares outstanding (millions)		1,062.7	1,056.9	1,058.9	1,056.9

Approved and signed on behalf of management 29 November 2017



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

The Condensed Consolidated Interim Statement of Profit or Loss is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 29.

PJSC AEROFLOT

Condensed Consolidated Interim Statement of
Comprehensive Income for the three and nine months ended 30 September 2017
(All amounts are presented in millions of Russian Roubles, unless otherwise stated)



	Note	Three months ended		Nine months ended	
		30 September 2017	30 September 2016	30 September 2017	30 September 2016
Profit for the period		24,261	41,331	27,149	43,798
Other comprehensive profit:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Profit from the change in fair value of derivative financial instruments	15	-	-	-	4,485
Effect from hedging revenue with foreign currency liabilities	19	3,365	4,129	9,231	27,360
Deferred tax related to a profit from cash-flow hedging instruments		(673)	(825)	(1,846)	(6,442)
Other comprehensive profit for the period		2,692	3,304	7,385	25,403
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		26,953	44,635	34,534	69,201
<i>Total comprehensive profit attributable to</i>					
Shareholders of the Company		26,816	44,549	34,378	67,991
Non-controlling interest		137	86	156	1,210
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		26,953	44,635	34,534	69,201

The Consolidated Condensed Interim Statement of Comprehensive Income is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 29.

PJSC AEROFLOTCondensed Consolidated Interim Statement of
Financial Position as at 30 September 2017*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	30 September 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents		52,088	31,476
Short-term financial investments		9,248	6,319
Accounts receivable and prepayments	10	98,092	78,172
Current income tax prepayment		86	2,679
Aircraft lease security deposits		570	320
Expendable spare parts and inventories		11,758	10,040
Assets classified as held for sale	13	3,125	1,140
Other current assets	28	1,651	-
Total current assets		176,618	130,146
Non-current assets			
Deferred tax assets		10,967	12,252
Investments in associates		299	98
Long-term financial investments		3,346	3,306
Aircraft lease security deposits		1,788	2,181
Non-current portion of prepayments for aircraft	11	12,024	27,830
Property, plant and equipment	12	97,485	104,897
Intangible assets		2,123	1,825
Goodwill		6,660	6,660
Other non-current assets	10	18,412	10,112
Total non-current assets		153,104	169,161
TOTAL ASSETS		329,722	299,307
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	16	66,111	49,868
Unearned traffic revenue		44,005	39,044
Deferred revenue related to the frequent flyer programme	17	1,784	1,607
Provisions for liabilities	18	10,892	5,304
Finance lease liabilities	19	16,723	15,593
Short-term loans and borrowings and current portion of long-term loans and borrowings	20	-	9,309
Current income tax liabilities		2,187	-
Liabilities related to assets held for sale	13	2,429	-
Total current liabilities		144,131	120,725
Non-current liabilities			
Long-term loans and borrowings	20	3,182	11,058
Finance lease liabilities	19	89,430	107,143
Provisions for liabilities	18	15,331	10,791
Deferred tax liabilities		46	39
Deferred revenue related to the frequent flyer programme	17	4,021	3,623
Other non-current liabilities		3,777	5,159
Total non-current liabilities		115,787	137,813
TOTAL LIABILITIES		259,918	258,538
Equity			
Share capital	21	1,359	1,359
Treasury shares reserve	21	-	(3,571)
Accumulated profit on disposal of treasury shares	21	7,864	1,659
Investment revaluation reserve		(5)	(5)
Hedge reserve	15, 19	(26,802)	(34,187)
Retained earnings		85,597	77,198
Equity attributable to shareholders of the Company		68,013	42,453
Non-controlling interest		1,791	(1,684)
TOTAL EQUITY		69,804	40,769
TOTAL LIABILITIES AND EQUITY		329,722	299,307

The Condensed Consolidated Interim Statement of
Financial Position is to be read in conjunction with the notes to, and forms a part of, the Condensed
Consolidated Interim Financial Statements presented on pages 7 to 29.

PJSC AEROFLOTCondensed Consolidated Interim Statement of
Cash Flows for the 9 months ended 30 September 2017*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	9m 2017	9m 2016
<i>Cash flows from operating activities:</i>			
Profit before income tax		37,686	58,954
<i>Adjustments for:</i>			
Depreciation and amortisation		10,412	9,250
Change in impairment provision for accounts receivable and prepayments		(343)	1,236
Change in impairment provision for obsolete expendable spare parts and inventory		(40)	(27)
Change in provision for impairment of property, plant and equipment	12	(34)	(25)
Loss on disposal of property, plant and equipment		719	335
Loss on disposal of subsidiaries	14	-	5,099
Change in provision for impairment of investments		(59)	3,734
Loss on change in the fair value of derivative financial instruments	8	-	53
Hedging result	8	4,226	10,611
Change in provisions for liabilities	18	9,553	5,271
Interest expense	8	6,012	7,189
Foreign exchange gain	8	(2,747)	(15,007)
Write-off of VAT recoverable		-	500
Other finance loss/(income), net	8	319	142
Dividend income	13	(24)	(14)
Profit from disposal of assets held for sale		(201)	(2,784)
Other operating income, net		(492)	(2,911)
Total operating cash flows before working capital changes		64,987	81,606
Increase in accounts receivable and prepayments		(25,283)	(15,011)
Increase in expendable spare parts and inventories		(1,678)	(1,988)
Increase in accounts payable and accrued liabilities		27,835	19,303
Total operating cash flows after working capital changes		65,861	83,910
Change in restricted cash	28	(1,664)	10
Income tax paid		(7,364)	(8,674)
Income tax refunded		1,067	1,189
Net cash flows from operating activities		57,900	76,435

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 29.

PJSC AEROFLOTCondensed Consolidated Interim Statement of
Cash Flows for the 9 months ended 30 September 2017*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	9m 2017	9m 2016
<i>Cash flows from investing activities:</i>		
Deposits return	9,388	5,438
Deposits placement	(12,322)	(8,109)
Proceeds from sale of property, plant and equipment	83	13
Proceeds from sale of subsidiary	-	9
Proceeds from disposal of assets held for sale	1,148	5,467
Purchases of property, plant and equipment and intangible assets	(3,889)	(7,712)
Dividends received	39	62
Prepayments for aircraft	(6,630)	(16,722)
Return of prepayments for aircraft	18,669	29,243
Repayment of operating lease security deposits	(201)	(2,143)
Return of operating lease security deposits	69	2,360
Net cash flows from /(used in) investing activities	6,354	7,906
<i>Cash flows from financing activities:</i>		
Proceeds from loans and borrowings	-	25,303
Repayment of loans and borrowings	(17,417)	(56,441)
Proceeds from the sale of treasury shares	8,086	-
Repayment of the principal element of finance lease liabilities	(10,468)	(19,343)
Interest paid	(4,699)	(5,760)
Dividends paid	(18,845)	(7)
Payments for settlement of derivative financial instruments	-	(4,362)
Net cash used in financing activities	(43,343)	(60,610)
Effect of exchange rate fluctuations on cash and cash equivalents	(299)	(2,303)
Net increase in cash and cash equivalents	20,612	21,428
Cash and cash equivalents at the beginning of the year	31,476	30,693
Cash and cash equivalents at the end of the period	52,088	52,121
<i>Non-cash transactions as part of the investing activities:</i>		
Property, plant and equipment acquired under finance leases	1,872	14

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 29.

PJSC AEROFLOT
**Condensed Consolidated Interim Statement of Changes in Equity
for the 9 months ended 30 September 2017**
(All amounts are presented in millions of Russian Roubles, unless otherwise stated)


		Equity attributable to shareholders of the Company						Non-controlling interest	Total equity
	Note	Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Hedge reserve	Retained earnings	Total		
1 January 2016		1,359	(1,912)	(5)	(64,720)	39,755	(25,523)	(10,597)	(36,120)
Profit for the period		-	-	-	-	42,588	42,588	1,210	43,798
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15,19	-	-	-	25,403	-	25,403	-	25,403
Total other comprehensive profit							25,403	-	25,403
Total comprehensive profit							67,991	1,210	69,201
Disposal of subsidiary		-	-	-	-	-	-	7,579	7,579
Dividends declared	22	-	-	-	-	-	-	(7)	(7)
30 September 2016		1,359	(1,912)	(5)	(39,317)	82,343	42,468	(1,815)	40,653
1 January 2017		1,359	(1,912)	(5)	(34,187)	77,198	42,453	(1,684)	40,769
Profit for the period		-	-	-	-	26,993	26,993	156	27,149
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	15,19	-	-	-	7,385	-	7,385	-	7,385
Total other comprehensive profit							7,385	-	7,385
Total comprehensive profit							34,378	156	34,534
Disposal of treasury shares	21	-	9,776	-	-	-	9,776	-	9,776
Sale of shares to holders of non-controlling interest		-	-	-	-	-	-	3,589	3,589
Dividends declared	22	-	-	-	-	(18,594)	(18,594)	(270)	(18,864)
30 September 2017		1,359	7,864	(5)	(26,802)	85,597	68,013	1,791	69,804

The Condensed Consolidated Interim Statement of Changes in Equity is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 29.

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.

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

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

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 9 months ended 30 September 2017

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

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

The table below provides information on the Group's aircraft fleet as at 30 September 2017 (number of items):

Type of aircraft	Ownership	PJSC AEROFLOT	JSC AK ROSSIYA	JSC AK AURORA	LLC 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	32	-	-	-	32
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	72	5	-	-	77
Airbus A321	Operating lease	24	-	-	-	24
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	31	16	-	12	59
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	6	6	-	-	12
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
Total aircraft under operating leases		179	53	18	12	262
Total fleet		210	68	25	12	315

As at 30 September 2017, 6 An-148 and 1 An-24 aircraft were leased out.

2. BASIS OF PREPARATION

Basis of presentation

The Group's Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS.

Foreign currency translation

The table below presents the US dollar (USD) / Russian rouble (RUB) and euro (EUR) / RUB exchange rates that were used for translating transaction amounts and monetary assets and liabilities into foreign currencies:

	Exchange rates	
	RUB / USD 1.00	RUB / EUR 1.00
As at 30 September 2017	58.02	68.45
Average rate for 9 months 2017	58.33	64.93
As at 31 December 2016	60.66	63.81
Average rate for 9 months 2016	68.37	76.28

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

In preparing the Condensed Consolidated Interim Financial Statements, the Group followed principal accounting policies that are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016 and as at this date.

New standards and interpretations

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

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

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

A number of new standards, interpretations and amendments to standards and interpretations disclosed in the Consolidated Financial Statements for the year ended 31 December 2016, have not yet taken effect and have not been early adopted by the Group.

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

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

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

New standards and interpretations (continued)

- 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).

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

Critical accounting estimates and judgments

In preparing these Condensed Consolidated Interim Financial Statements, the Group's management makes estimates, judgements and assumptions that affect the implementation of accounting policy and the reported amounts of assets, liabilities, gains and losses. Actual results may deviate from declared estimates. Judgements regarding the accounting policy provisions and valuation methods applied by management when preparing these Condensed Consolidated Interim Financial Statements correspond to those used when preparing consolidated financial statements for the year ended 31 December 2016, and as at this date, except for changes in accounting estimates with respect to the amount of income tax expenses.

Income tax expense

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

4. TRAFFIC REVENUE

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Scheduled passenger flights	139,309	132,138	327,726	313,234
Charter passenger flights	10,393	6,074	22,776	13,090
Cargo flights	4,117	3,021	11,300	8,239
Total traffic revenue	153,819	141,233	361,802	334,563

5. OTHER REVENUE

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Airline agreements revenue	8,890	9,576	24,223	27,581
Revenue from partners under the frequent flyer programme	3,586	2,638	8,703	8,709
Refuelling services	3	833	197	1,898
In-flight catering services	629	570	1,304	1,191
Sales of duty-free goods	385	350	1,153	993
Ground handling and maintenance	301	336	1,018	945
Hotel revenue	118	126	327	378
Other revenue	2,184	1,820	6,046	5,048
Total other revenue	16,096	16,249	42,971	46,743

6. OPERATING COSTS

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Aircraft servicing	22,691	19,452	59,820	53,095
Operating lease expenses	17,056	14,808	47,710	43,170
Aircraft maintenance	10,566	9,509	26,247	27,034
Passenger services expenses	6,053	5,182	14,886	11,680
Communication services and booking systems	3,550	3,105	10,798	11,113
Administration and general expenses	4,405	3,643	12,093	10,502
Sales and marketing expenses	4,934	3,603	11,753	9,587
Food cost for in-flight catering	3,021	2,782	7,727	6,733
Insurance expenses	504	483	1,511	1,571
Customs duties	330	314	1,032	984
Cost of duty-free goods sold	201	190	637	500
Other expenses	1,898	2,329	5,477	6,713
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	75,209	65,400	199,691	182,682
Aircraft fuel	33,727	29,127	89,944	73,917
Total operating costs less staff costs and depreciation and amortisation	108,936	94,527	289,635	256,599

7. STAFF COSTS

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Wages and salaries	17,097	13,539	47,105	37,737
Pension costs	3,857	2,699	10,069	7,940
Social security costs	1,232	848	3,335	2,441
Total staff costs	22,186	17,086	60,509	48,118

Pension costs include:

- compulsory payments to the RF Pension Fund;
- contributions to a non-governmental pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 9 months of 2017; 20% for 9 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.

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Payments to the RF Pension Fund	3,848	2,702	10,067	7,948
Changes in pension plans	9	(3)	2	(8)
Total pension costs	3,857	2,699	10,069	7,940

8. FINANCE INCOME AND COSTS

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
<i>Finance income:</i>				
Foreign exchange gain, net	354	9,689	2,747	15,007
Interest income	1,212	1,386	3,602	3,849
Other finance income	-	-	-	4
Total finance income	1,566	11,075	6,349	18,860
<i>Finance costs:</i>				
Interest expense	(2,106)	(2,254)	(6,012)	(7,189)
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 15)	-	-	-	(53)
Other finance costs	(65)	(165)	(319)	(146)
Total finance costs	(2,171)	(2,419)	(6,331)	(7,388)
<i>Hedging result:</i>				
Realised loss on hedging derivative instruments (Note 15)	-	-	-	(3,994)
Effect of revenue hedging with liabilities in foreign currency (Note 19)	(1,478)	(1,956)	(4,226)	(6,617)
Total loss on hedging result	(1,478)	(1,956)	(4,226)	(10,611)

9. INCOME TAX

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

The expected weighted average annual income tax rate applied to profitable Group companies for the 9 months 2017 equalled 0-25% (9 months 2016: 2-66%). Changes in expected rates are in general related to change in the amount of expenses not deductible for tax purposes.

The expected effective income tax rate at which deferred tax asset was recognized applied to loss-making Group companies for the 9 months 2017 equalled 0-26% (9 months 2016: 1-3%). The difference between mentioned and applicable rates in general relates to utilization of carried-forward tax losses for which the deferred tax asset was not previously recognized.

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Income tax charge for the period	9,253	9,278	11,091	13,590
Deferred income tax expense/(credit)	(1,363)	134	(554)	1,566
Total income tax expense	7,890	9,412	10,537	15,156

For the 9 months 2017, the Group has utilised deferred tax assets from tax losses of its subsidiaries in amount of RUB 111 million.

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2017	31 December 2016
Trade accounts receivable	38,683	31,329
Other financial receivables	14,547	8,517
Less impairment provision	(11,389)	(11,807)
Total financial receivables	41,841	28,039
Current portion of prepayments for delivery of aircraft	30,144	26,341
VAT and other taxes recoverable	11,974	10,905
Prepayments to suppliers (excluding prepayments for delivery of aircraft)	12,171	10,504
Deferred customs duties related to imported aircraft under operating leases, current portion	455	579
Other receivables	2,040	2,339
Less impairment provision	(533)	(535)
Total accounts receivable and prepayments	98,092	78,172

Deferred customs duties of RUB 455 million as at 30 September 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 the Group's operating costs over the term of the operating lease.

As at 30 September 2017 and 31 December 2016, the Group made sufficient impairment provisions against accounts receivable and prepayments.

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

Expected lease type	Type of aircraft	30 September 2017		31 December 2016	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Undetermined	Boeing B787	22	-	22	2017
Undetermined	Boeing B777	1	2018	1	2017
Operating lease /					
Undetermined	Airbus A320	13	2017-2018	11	2017
Operating lease /					
Undetermined	Airbus A321	6	2017-2018	8	2017

As at 30 September 2017 possible options for settling on agreement for delivery of 22 Boeing B787 aircraft were under consideration by the Group's management.

The Company paid advances in amount of RUB 9,196 million for operating lease of 14 aircraft delivered during 9 months of 2017 (during 9 months of 2016: RUB 6,467 million, 14 aircraft). The above mentioned advances were recognised as part of prepayments to suppliers (excluding prepayments for delivery of aircraft) and non-current assets as at 30 September 2017. Carrying value of non-current assets is charged to operating lease expenses over the lease contract term.

11. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 30 September 2017 and 31 December 2016, the non-current portions of prepayments for aircraft were RUB 12,024 million and RUB 27,830 million, respectively. Movements in the non-current portion of prepayments are due to approaching aircraft delivery dates as well as new non-current prepayments to suppliers.

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

11. PREPAYMENTS FOR AIRCRAFT (CONTINUED)

As at 30 September 2017 and 31 December 2016, the non-current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

Expected lease type	Type of aircraft	30 September 2017		31 December 2016	
		Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Undetermined	Airbus A350	22	2019-2023	22	2018-2023
Undetermined	Boeing B777	5	2019-2021	-	-
Undetermined	Airbus A320	-	-	10	2018
Undetermined	Airbus A321	-	-	4	2018

12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2016	4,494	106,777	10,445	20,416	4,871	147,003
Additions	1,278	148	20	1,020	2,903	5,369
Capitalised expenditures	-	508	-	-	520	1,028
Disposals	(785)	-	(84)	(664)	(11)	(1,544)
Transfers from assets held for sale (Note 13)	-	3,613	-	-	-	3,613
Transfers to assets held for sale (Note 13)	-	(366)	-	-	-	(366)
Transfers (ii)	5,338	1,293	18	460	(7,109)	-
30 September 2016	10,325	111,973	10,399	21,232	1,174	155,103
1 January 2017	8,147	112,942	10,131	23,937	4,721	159,878
Additions	926	-	4	2,779	1,067	4,776
Capitalised expenditures	-	299	-	-	1,075	1,374
Disposals	(122)	(1,283)	(76)	(489)	(34)	(2,004)
Transfers to assets held for sale (Note 13)	(114)	(6,476)	-	-	-	(6,590)
Transfers (i)	2,784	1,770	29	343	(4,926)	-
30 September 2017	11,621	107,252	10,088	26,570	1,903	157,434
Accumulated depreciation						
1 January 2016	(909)	(26,934)	(4,758)	(9,835)	(73)	(42,509)
Charge for the period	(589)	(6,073)	(277)	(1,643)	-	(8,582)
Release of impairment provision	15	-	-	10	-	25
Transfers from assets held for sale (Note 13)	-	(1,338)	-	-	-	(1,338)
Transfers to assets held for sale (Note 13)	-	277	-	-	-	277
Disposals	126	-	27	466	-	619
30 September 2016	(1,357)	(34,068)	(5,008)	(11,002)	(73)	(51,508)

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
1 January 2017	(1,511)	(36,756)	(4,970)	(11,671)	(73)	(54,981)
Charge for the period	(1,030)	(6,286)	(187)	(2,343)	-	(9,846)
Release of impairment provision	32	-	2	-	-	34
Transfers to assets held for sale (Note 13)	21	3,637	-	-	-	3,658
Disposals	54	696	63	373	-	1,186
30 September 2017	(2,434)	(38,709)	(5,092)	(13,641)	(73)	(59,949)
<i>Carrying amount</i>						
1 January 2017	6,636	76,186	5,161	12,266	4,648	104,897
30 September 2017	9,187	68,543	4,996	12,929	1,830	97,485

(i) During 9 months 2017 transfers mainly related to 2 DHC-8 aircraft that have been put into operation in JSC "AK Aurora".

(ii) During 9 months 2016 transfers mainly related to the purchase of 5 DHC-8.

Capitalised borrowing costs for 9 months 2017 amounted to RUB 1,075 million (9 months 2016: RUB 520 million). The capitalisation rate of interest expense and foreign exchange loss for the period was 3.5% p.a. (9 months 2016: 3.3% p.a.).

13. ASSETS CLASSIFIED AS HELD FOR SALE

As at 30 September 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 30 September 2017, the amount of net assets held for sale amounted to RUB 696 million (31 December 2016: RUB 1,140 million).

	Initial cost of property, plant and equipment	Accumulated depreciation	Aircraft lease security deposits	Total assets	Total liabilities
1 January 2016	18,539	(10,850)	43	7,732	(7,371)
Addition (Note 12)	366	(277)	-	89	-
Disposal	(12,464)	7,880	(2)	(4,586)	7,371
Transfer (Note 12)	(3,613)	1,338	(24)	(2,299)	-
30 September 2016	2,828	(1,909)	17	936	-

	Initial cost of property, plant and equipment	Accumulated depreciation	Total assets	Total liabilities
1 January 2017	3,049	(1,909)	1,140	-
Addition (Note 12)	6,590	(3,658)	2,932	(2,429)
Disposal	(2,865)	1,918	(947)	-
30 September 2017	6,774	(3,649)	3,125	(2,429)

13. ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

During 9 months 2017 the Group disposed of 2 Airbus A321 aircraft (during 9 months 2016: 2 Airbus A319 aircraft, 1 Airbus A320 aircraft and 6 Airbus A321 aircraft), profit from disposal amounted to RUB 201 million (during 9 months 2016: to RUB 2,784 million).

14. DISPOSAL OF SUBSIDIARIES

On 17 May 2016, the Group disposed of OJSC Vladivostok Avia as a result of liquidation. A loss from the disposal in the amount of RUB 5,726 million was recognised in profit and loss for 9 months of 2016. OJSC Vladivostok Avia did not conduct any significant operating activities in 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 and loss for 9 months of 2016. CJSC Aeroflot-Cargo did not conduct any significant operating activities in 2016.

On 14 July 2016, the Group sold ALT Rejsebureau A/S. A loss from the disposal in the amount of RUB 12 million was recognised in profit and loss for 9 months of 2016.

Profit/(loss) on disposal of subsidiaries includes the following components:

	CJSC Aeroflot- Cargo	OJSC Vladivostok Avia
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)

15. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 September 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 9 months 2016, the Group recognised a profit of RUB 492 million from revaluation of these derivative financial instruments within other comprehensive income together with a corresponding deferred tax liability of RUB 98 million. As a result of the termination of this transaction, accumulated loss of RUB 3,994 million was recognised within financial expenses (Note 8).

At the end of 2016 the currency option contract, concluded with Russian bank, with fair value of nil was closed. Hedge accounting was not applied to this financial instrument. During 9 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 8).

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 September 2017	31 December 2016
Accounts payable	36,078	23,659
Other financial payables	6,103	6,972
Dividends payable	19	-
Total financial payables	42,200	30,631
Staff and social funds related liabilities	15,454	11,929
Advances received (other than unearned traffic revenue)	2,559	1,147
Other taxes payable	2,547	2,865
Other current liabilities related to frequent flyer programme (Note 17)	2,480	2,518
Other payables	871	778
Total accounts payable and accrued liabilities	66,111	49,868

17. DEFERRED REVENUE RELATED TO THE FREQUENT FLYER PROGRAMME

Deferred revenue and other accrued liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 30 September 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".

	30 September 2017	31 December 2016
Deferred revenue related to the frequent flyer programme, current	1,784	1,607
Deferred revenue related to the frequent flyer programme, non-current	4,021	3,623
Other current liabilities related to the frequent flyer programme (Note 16)	2,480	2,518
Other non-current liabilities related to the frequent flyer programme	2,544	2,580
Total deferred revenue and other liabilities related to the frequent flyer programme	10,829	10,328

18. PROVISIONS FOR LIABILITIES

	Regular repairs and maintenance works	Other provisions	Total provisions for liabilities
1 January 2016	10,721	3,715	14,436
Charge of provision	5,334	1,707	7,041
Use of provision	(1,758)	(1,636)	(3,394)
Release of provision	(1,263)	(507)	(1,770)
Unwinding of the discount	1,108	-	1,108
Foreign exchange gain, net	(1,749)	(217)	(1,966)
Other changes	-	(543)	(543)
30 September 2016	12,393	2,519	14,912
1 January 2017	13,510	2,585	16,095
Charge of provision	10,133	2,388	12,521
Use of provision	(822)	(40)	(862)
Release of provision	(1,618)	(1,350)	(2,968)
Unwinding of the discount	2,097	-	2,097
Foreign exchange gain, net	(641)	(19)	(660)
30 September 2017	(22,659)	3,564	(26,223)

	30 September 2017	30 December 2016
Current liabilities	10,892	5,304
Non-current liabilities	15,331	10,791
Total provisions	26,223	16,095

Litigations

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

The Group 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.

Regular repairs and maintenance works

As at 30 September 2017, the Group made a provision of RUB 22,659 million (31 December 2016: RUB 13,510 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

19. FINANCE LEASE LIABILITIES

The Group leases aircraft from third and related parties under finance lease agreements (Note 25). The aircraft that the Group has operated under finance lease agreements as at 30 September 2017 are listed in Note 1.

	30 September 2017	31 December 2016
Total outstanding finance lease liabilities	117,615	137,395
Future finance lease interest expense	(11,462)	(14,659)
Total finance lease liabilities	106,153	122,736
<i>Including:</i>		
Current finance lease liabilities	16,723	15,593
Non-current finance lease liabilities	89,430	107,143
Total finance lease liabilities	106,153	122,736

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

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

As at 30 September 2017, finance lease liabilities and liabilities associated with assets held for sale in the amount of RUB 101,485 million, denominated in US dollars (31 December 2016: RUB 116,219 million), were designated as a hedging instrument of highly probable revenue forecasted till 2026 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the finance lease liabilities match the future cash inflows on the revenue being hedged. As at 30 September 2017, an accumulated foreign currency translation loss of RUB 33,503 million (before deferred income tax) on the finance lease liabilities (31 December 2016: RUB 42,734 million), representing an effective portion of the hedge, was recognised in the hedging reserve. The loss reclassified from the hedging reserve to profit or loss in the current period was RUB 4,226 million (for 9 months 2016: RUB 6,617 million).

20. LOANS AND BORROWINGS

	30 September 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 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 and borrowings in Russian roubles	2,800	15,381
Long-term loans and borrowings in US dollars	382	395
Less:		
Current portion of loans and borrowings in Russian roubles	-	(4,718)
Total long-term loans and borrowings	3,182	11,058

20. LOANS AND BORROWINGS (CONTINUED)***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. The loan was unsecured and issued for the period up to December 2018. As at 30 September 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 30 September 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.

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. The credit line is unsecured and issued for the period up to October 2018. As at 30 September 2017 the loan was paid in full (as at 31 December 2016 the outstanding amount was RUB 4,478 million).

As at 30 September 2017 the Group had no secured loans or borrowings.

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

Undrawn commitments

As at 30 September 2017, the Group was able to raise RUB 103,399 million in cash (31 December 2016: RUB 89,247 million) available under existing credit lines granted to the Group by various lending institutions.

21. SHARE CAPITAL

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

	Number of ordinary shares authorised and issued (shares)	Number of treasury shares (shares)	Number of ordinary shares outstanding (shares)
31 December 2016	1,110,616,299	(53,716,189)	1,056,900,110
30 September 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 30 September 2017 and 31 December 2016, the weighted average price was RUB 181.85 per share and RUB 152.96 per share, respectively.

21. SHARE CAPITAL (CONTINUED)

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 30 September 2017 and 31 December 2016, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 14.02 per GDR and EUR 11.6 per GDR, respectively.

22. DIVIDENDS

At the annual shareholders' meeting held on 26 June 2017 the shareholders approved dividends in respect of 2016 in the amount of RUB 17.4795 per share totalling to RUB 19,413 million, including dividends on treasury shares, for the Company's total declared and placed shares. 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.

23. OPERATING SEGMENTS

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

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

	Air transportation	Other	Inter-segment sales elimination	Total Group
9 months 2017				
External sales	401,481	3,292	-	404,773
Inter-segment sales	468	14,541	(15,009)	-
Total revenue	401,949	17,833	(15,009)	404,773
Operating profit	40,053	1,809	-	41,862
Loss from sale and impairment of investments, net				(108)
Finance income				6,349
Finance costs				(6,331)
Hedging result				(4,226)
Result from disposal of subsidiaries				140
Profit before income tax				37,686
Income tax expense				(10,537)
Profit for the period				27,149

23. OPERATING SEGMENTS (CONTINUED)

	Air transportation	Other	Inter-segment sales elimination	Total Group
9 months 2016				
External sales	378,574	2,732	-	381,306
Inter-segment sales	-	11,598	(11,598)	-
Total revenue	378,574	14,330	(11,598)	381,306
Operating profit	66,121	755	50	66,926
Loss from sale and impairment of investments, net				(3,734)
Finance income				18,860
Finance costs				(7,388)
Hedging result				(10,611)
Result from disposal of subsidiaries				(5,099)
Profit before income tax				58,954
Income tax expense				(15,156)
Profit for the period				43,798
	Air transportation	Other	Inter-segment sales elimination	Total Group
Three months ended 30 September 2017				
External sales	168,585	1,330	-	169,915
Inter-segment sales	156	5,617	(5,773)	-
Total revenue	168,741	6,947	(5,773)	169,915
Operating profit	32,971	1,193	-	34,164
Loss from sale and impairment of investments, net				(36)
Finance income				1,566
Finance costs				(2,171)
Hedging result				(1,478)
Share of results of associates				106
Profit before income tax				32,151
Income tax expense				(7,890)
Profit for the period				24,261

23. OPERATING SEGMENTS (CONTINUED)

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

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial assets carried at amortised cost. The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Carrying amounts of cash and cash equivalents, financial receivables (Note 10), investments, lease security deposits and other financial assets are approximately equal to their fair value, which belongs to Level 2 in the fair value hierarchy. The Group's investments in JSC MASH belong 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.

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 September 2017 and 31 December 2016, the carrying and fair values of financial payables and finance lease liabilities (Note 19) were not materially different. The fair values of loans and borrowings, including bond loans, are disclosed in Note 20. The fair value of stated financial instruments is categorised as Level 2, with the exception of the bonded loan as of 30 September 2016, the fair value of which is categorised as Level 1 in the fair value hierarchy.

During 9 months of 2017 and 9 months 2016 there was no transfer between levels 1, 2 or 3 of the fair value hierarchy.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Loans and receivables	Available-for sale financial assets	Total
Cash and cash equivalents	52,088	-	52,088
Short-term financial investments	9,246	2	9,248
Financial receivables	41,841	-	41,841
Aircraft lease security deposits	2,358	-	2,358
Long-term financial investments	-	3,346	3,346
Other current assets	1,651	-	1,651
Other non-current assets	161	-	161
Total financial assets	107,345	3,348	110,693

	Other financial liabilities	Total
Financial payables	42,200	42,200
Finance lease liabilities	106,153	106,153
Loans and borrowings	3,182	3,182
Other long-term liabilities	307	307
Total financial liabilities	151,842	151,842

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

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

	Other financial liabilities	Total
Financial payables	30,631	30,631
Finance lease liabilities	122,736	122,736
Loans and borrowings	20,366	20,366
Total financial liabilities	173,733	173,733

25. RELATED-PARTY TRANSACTIONS

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

25. RELATED-PARTY TRANSACTIONS (CONTINUED)

As at 30 September 2017 and 31 December 2016, the outstanding balances with related parties and income and expense items with related parties for 9 months 2017 and 9 months 2016 were as follows.

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 Company is airline catering.

As at 30 September 2017 and 31 December 2016, outstanding balances with associates and income and expense items with associates for 9 months 2017 and 9 months 2016 were as follows.

	<u>30 September 2017</u>	<u>31 December 2016</u>
Assets		
Accounts receivable	-	25
Liabilities		
Accounts payable and accrued liabilities	<u>142</u>	<u>120</u>

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

	Three months ended		Nine months ended	
	<u>30 September 2017</u>	<u>30 September 2016</u>	<u>30 September 2017</u>	<u>30 September 2016</u>
Transactions				
Sales to associates	2	3	5	7
Purchase of goods and services from associates	<u>512</u>	<u>411</u>	<u>1,377</u>	<u>1,141</u>

Purchase of goods and services from associates consist primarily of aviation security services.

Government-related entities

As at 30 September 2017 and 31 December 2016, the Government of the RF, as represented by the Federal Agency for Management of State Property, owned a 51.17% stake in the Company. The Group operates in an economic environment where the entities and credit organizations are directly or indirectly controlled by the Government of the RF through the relevant government authorities, agencies, affiliations and other organisations (government-related entities).

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

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

- banking services;
- investments in JSC MASH;
- purchases of air navigation and airport services; and
- government subsidies, including those provided for compensating losses from passenger flights under two government programmes, i.e. flights to and from European Russia for inhabitants of the Kaliningrad Region and the Russian Far East;
- finance and operating lease;

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

- guarantees on liabilities;
- purchase of aircraft fuel.

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

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

	30 September 2017	31 December 2016
Assets		
<i>Cash and cash equivalents</i>	47,106	13,048

The amounts of the Group's finance and operating lease liabilities are disclosed in Notes 19 and 26. The share of liabilities to government-related entities is approximately 72% for finance lease, with respect to future minimum lease payments under non-cancellable operating lease of the aircraft – about 36% (31 December 2016: 71% and 39%, respectively).

For 9 months 2017, the share of the Group's transactions with government-related entities is about 22% of operating costs, and about 2% of revenue (9 months 2016: about 21% and about 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 30 September 2017, the Group issued guarantees for the amount of RUB 437 million to a government-related entity to secure obligations under tender procedures (31 December 2016: RUB 1,225 million).

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

Compensation of key management personnel

The remuneration of key management personnel (members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities for the Group's key control and planning decisions), including salary and bonuses as well as short-term and mid-term compensation, amounted to RUB 3,833 million (9 months 2016: RUB 1,116 million).

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

Bonus programmes based on the Group's capitalisation

In 2016 the Group approved bonus programmes for its key management personnel and members of the

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

Company's Board of Directors. These programmes run for 3.5 years and are to be exercised in 4 tranches of cash payments. The amounts of payments depend on the level of increase in the Company's capitalisation, the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalisation by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 30 September 2017, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2017 till 30 September 2017 and amount of payment deferred till the end of the programmes.

Income related to recovery of reserve of future expenses under bonus programmes and its discounting in the amount RUB 339 million was recorded in the Group's Condensed Consolidated Interim Statement of profit or loss for 9 months 2017. As at 30 September 2017, outstanding liability under these programmes was RUB 1,256 million (31 December 2016: RUB 1,594 million).

26. COMMITMENTS UNDER OPERATING LEASES

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

	30 September 2017	31 December 2016
On demand or within 1 year	71,307	58,191
Later than 1 year and not later than 5 years	281,708	218,479
Later than 5 years	333,007	239,224
Total operating lease commitments	686,022	515,894

As at 30 September 2017, the Group had entered into a number of agreements with Russian banks under which the banks guarantee the payment of the Group's liabilities under existing aircraft lease agreements.

27. CAPITAL COMMITMENTS

As at 30 September 2017, the Group agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 486,976 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), 19 Airbus A320/321 (31 December 2016: 33 aircraft) and 6 Boeing B777 (31 December 2016: null) aircraft which are expected to be used under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

28. CONTINGENCIES***Operating Environment of the Group***

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks of Russian Federation continue to develop and are subject to frequent changes and varying interpretations. During 2017 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

28. CONTINGENCIES (CONTINUED)

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, in 2017 the term was extended until 31 December 2017. 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 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), but it is characterized by certain specific. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of controlled transactions

28. CONTINGENCIES (CONTINUED)

Tax contingencies (continued)

(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 significant increase in the Group's effective income tax rate.

On the mentioned above matters, as at 30 September 2017 and 31 December 2016 management estimates that the Group has no possible obligations from exposure to other than remote tax risks.

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

Insurance

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

Litigations

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

As at 30 September 2017 the Group's subsidiaries AO Orenair and AO Donavia were within bankruptcy process, thus their assets of RUB 2,891 million, including cash and cash equivalents in the amount of RUB 1,651 million, have had limited availability to the Group as it is defined by Russian legislation.

Other

On 28 September 2017, the Board of Directors of PJSC Aeroflot approved the use of the Company's own funds in total amount not exceeding RUB 1,800 million to finance the operating and financial activities of LLC VIM-AVIA Airlines as outlined in the directive of the Government of Russian Federation.