Independent auditor's report
on the consolidated financial statements of
Joint-stock Company Sheremetyevo International Airport and its subsidiaries
for the year ended 31 December 2016

May 2017

Translation of the original Russian version

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on the consolidated financial statements of
Joint-stock Company Sheremetyevo International Airport
and its subsidiaries**

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Contents — Page

Independent auditor's report

Translation of the original Russian version

To the shareholders and the Board of Directors
of Joint-stock Company Sheremetyevo International Airport

Opinion

We have audited the consolidated financial statements of Joint-stock Company Sheremetyevo International Airport and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of 31 December 2016, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibility for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Translation of the original Russian version

Responsibility of management and the Audit Committee of the Board of Directors for the consolidated financial statements

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

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

The Audit Committee of the Board of Directors is responsible for overseeing the Group's consolidated financial reporting process.

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

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

As part of an audit performed in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Translation of the original Russian version

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

I.V. MOSKALENKO
Partner
Ernst & Young LLC

17 May 2017

Details of the audited entity

Name: Joint-stock Company Sheremetyevo International Airport
Record made in the State Register of Legal Entities on 25 March 2015; State Registration Number 1027739374750.
Address: Sheremetyevo airport, 141400, Khimki, Moscow Region, Russia.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Translation of the original Russian version

Joint-stock Company Sheremetyevo International Airport

Consolidated statement of financial position

as of 31 December 2016

(in millions of Russian rubles)

	Note	31 December 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	13	10,587	7,798
Other financial assets		3	18
Income tax receivable		10	5
Accounts receivable	14	1,703	1,430
Prepayments and input VAT	15	533	660
Inventories	16	352	339
Derivative financial instrument		59	88
		13,247	**10,338**
Assets classified as held for sale	17	5,976	–
		19,223	**10,338**
Non-current assets			
Investments in associates	18	641	1,544
Other financial assets	19	2,058	2,058
Deferred tax asset	12	–	3,388
Intangible assets		340	478
Property, plant and equipment	20	35,557	42,394
Goodwill	7	321	–
		38,917	**49,862**
Total assets		**58,140**	**60,200**
Liabilities and equity			
Current liabilities			
Accounts payable*	21	2,762	2,994
Interest-bearing loans and borrowings	24	4,825	6,705
Current portion of finance lease liabilities		–	49
Other current liabilities*	22	585	667
		8,172	**10,415**
Liabilities directly associated with disposal groups classified as held for sale	17	2,215	–
		10,387	**10,415**
Non-current liabilities			
Interest-bearing loans and borrowings	24	41,726	57,172
Finance lease liabilities		–	14
Deferred tax liabilities	12	341	–
Other non-current liabilities	23	846	1,080
		42,913	**58,266**
Equity and reserves			
Share capital	25	2,180	2,180
Reserve capital	26	96	96
Retained earnings		2,027	(11,039)
		4,303	**(8,763)**
Non-controlling interests		537	282
		4,840	**(8,481)**
Total liabilities and equity		**58,140**	**60,200**

* In 2016, the Group decided to present other current liabilities in a separate line; therefore, the comparative data as of 31 December 2015 are presented similarly.

O.V. Zvereva
Director of Directorate − Chief Accountant

A.P. Oleynik
Deputy General Director for Economics and Finance

17 May 2017

The accompanying notes are an integral part of these consolidated financial statements.

Translation of the original Russian version

Joint-stock Company Sheremetyevo International Airport

Consolidated statement of comprehensive income

for the year ended 31 December 2016

(in millions of Russian rubles)

	Note	2016	2015 (as restated*)
Revenue	8	27,437	24,085
Operating expenses	9	(16,484)	(16,783)
Gain/(loss) on disposal of property, plant and equipment		203	(19)
Operating profit		**11,156**	**7,283**
Share of profit of associates	18	229	4
Revaluation of previously acquired shares in a subsidiary at fair value as at the business acquisition date	7	164	–
Impairment of investments in associates and impairment of other financial assets		–	(293)
Interest expense		(4,704)	(4,756)
Interest income		170	290
Foreign exchange gain/(loss)		8,558	(12,932)
Loss on changes in fair value of a derivative financial instrument		(30)	(27)
Other income	10	1,380	1,193
Other expenses	11	(143)	(125)
Profit/(loss) from continuing operations before tax		**16,780**	**(9,363)**
Income tax benefit/(expense)	12	(3,574)	1,614
Total profit/(loss) for the year from continuing operations		**13,206**	**(7,749)**
Discontinued operations			
Profit for the year from discontinued operations	17	35	162
Profit/(loss) for the year		**13,241**	**(7,587)**
Total comprehensive profit/(loss) for the year		**13,241**	**(7,587)**
Attributable to:			
Equity holders of the parent		13,066	(7,862)
Non-controlling interests	6	175	275
		13,241	**(7,587)**

* Certain amounts do not correspond to the 2015 consolidated financial statements and reflect adjustments made and reclassifications as detailed in Note 2.

The accompanying notes are an integral part of these consolidated financial statements.

Translation of the original Russian version

Joint-stock Company Sheremetyevo International Airport

Consolidated statement of cash flows

for the year ended 31 December 2016

(in millions of Russian rubles)

	Note	2016	2015 (as restated*)
Cash flows from operating activities			
Profit/(loss) from continuing operations before tax		16,780	(9,363)
Profit from discontinued operations before tax	17	28	143
Profit/(loss) before tax		**16,808**	**(9,220)**
Non-cash adjustments to reconcile profit/(loss) before tax to net cash from operating activities			
Depreciation of property, plant and equipment	20	3,458	3,613
Amortization of intangible assets	9	97	87
(Gain)/loss on disposal of property, plant and equipment		(203)	23
Gain on disposal of investments		(5)	–
Share of profit of associates	18	(229)	(4)
Increase in allowance for impairment of accounts receivable	14	303	221
Decrease in provisions		(87)	(98)
Interest expense		4,983	4,894
Interest income		(195)	(296)
Dividend income		(6)	(5)
Loss on changes in fair value of a derivative financial instrument		30	27
Revaluation of previously acquired shares in a subsidiary at fair value as at the business acquisition date		(164)	–
Impairment of investments in associates and impairment of other financial assets		–	293
Foreign exchange (gain)/loss		(8,551)	12,920
		16,239	**12,455**
Decrease/(increase) in accounts receivable		34	(482)
Decrease/(increase) in inventories		(45)	(52)
Increase/(decrease) in accounts payable		(555)	(384)
		15,673	**11,537**
Income tax paid		(141)	(180)
Net cash from operating activities		**15,532**	**11,357**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,086)	(1,951)
Purchase of intangible assets		(47)	(91)
Business acquisitions	7	59	–
Proceeds from disposal of investments	18	936	–
Proceeds from disposal of property, plant and equipment		195	307
Interest received		225	299
Dividends received		–	16
Net cash used in investing activities		**(718)**	**(1,420)**
Cash flows from financing activities			
Interest-bearing loans and borrowings repaid		(5,654)	(4,801)
Interest paid		(4,464)	(4,939)
Dividends paid to non-controlling interests in subsidiaries		–	(193)
Payments under finance leases		(51)	(88)
Net cash used in financing activities		**(10,169)**	**(10,021)**
Net increase/(decrease) in cash and cash equivalents		**4,645**	**(84)**
Cash and cash equivalents at 1 January	13	7,798	5,832
Effect of exchange rate changes on cash and cash equivalents		(1,622)	2,055
Cash and cash equivalents at 31 December	13	**10,821**	**7,798**

* Certain amounts do not correspond to the 2015 consolidated financial statements and reflect adjustments made and reclassifications as detailed in Note 2.

The accompanying notes are an integral part of these consolidated financial statements.

Translation of the original Russian version

Joint-stock Company Sheremetyevo International Airport

Consolidated statement of changes in equity

for the year ended 31 December 2016

(in millions of Russian rubles)

		Attributable to equity holders of the parent					
	Number of shares (millions)	Share capital	Reserve capital	Retained earnings (uncovered loss)	Total	Non-controlling interests	Total equity
At 1 January 2015	**2,301**	**2,180**	**96**	**(3,177)**	**(901)**	**194**	**(707)**
Loss for the year	–	–	–	(7,862)	**(7,862)**	275	**(7,587)**
Total comprehensive income	**–**	**–**	**–**	**(7,862)**	**(7,862)**	**275**	**(7,587)**
Dividends to non-controlling interests in subsidiaries	–	–	–	–	**–**	(187)	**(187)**
At 31 December 2015	**2,301**	**2,180**	**96**	**(11,039)**	**(8,763)**	**282**	**(8,481)**
Profit for the year	–	–	–	13,066	**13,066**	175	**13,241**
Total comprehensive income	**–**	**–**	**–**	**13,066**	**13,066**	**175**	**13,241**
Dividends to non-controlling interests in subsidiaries	–	–	–	–	–	(6)	**(6)**
Acquisition of a subsidiary (Note 7)	–	–	–	–	–	86	**86**
At 31 December 2016	**2,301**	**2,180**	**96**	**2,027**	**4,303**	**537**	**4,840**

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

These financial statements of Joint-stock Company Sheremetyevo International Airport (the "Company") for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the General Director 17 May 2017.

Sheremetyevo International Airport was formed in 1959 pursuant to the Decree of the Government on the Transfer of the Sheremetyevsky Central Aerodrome of the Air Force to the Main Directorate of the Civil Air Fleet. In 1996, Sheremetyevo International Airport was reorganized into open joint-stock company Sheremetyevo International Airport (the "Company").

The principal activity of the Company and its subsidiaries (the "Group") is the management and operation of Sheremetyevo airport, including servicing international and domestic passenger and cargo flights. In addition, the Group leases part of its property to retail outlets and other businesses operating at the airport premises, and provides other airport-related services. The associates of the Group are mainly engaged in duty-free trade and the provision of customs brokerage and aviation security services.

As of 31 December 2016, the Company's controlling shareholder owning more than 25% of the shares placed is Joint-stock Company Sheremetyevo Airport. Ultimate control over Joint-stock Company Sheremetyevo Airport is exercised by TPS AVIA Holding LTD which, in its turn, is owned by a number of other shareholders ultimately controlled by three beneficiaries in approximately equal proportion. None of the ultimate shareholders represents a stakeholder or controls more than 25% of the Company's shares.

As of 31 December 2015, the controlling interest in the Company was held by the Government of the Russian Federation represented by the Federal Agency for State Property Management.

The Company is located at Sheremetyevo airport in Russia, 141400, Khimki, Moscow Region.

The principal subsidiaries are presented below:

Company	Place of registration and operation	Principal activity	Percentage held at 31 December 2016	Percentage held at 31 December 2015
JSC VIP-International	Moscow	VIP-passenger services	51.0%	51.0%
JSC AeroMASH-Aviation Security	Moscow Region	Aviation security	55%	45%
JSC Vladivostok International Airport	Vladivostok	Airport services	52.16%	52.16%
JSC Terminal Vladivostok	Vladivostok	Terminal construction	100.0%	100.0%

2. Basis of preparation

Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements are presented in millions of Russian rubles ("RUB"), unless otherwise indicated. The Group companies maintain their accounting records in Russian rubles. These consolidated financial statements are based on the accounting records, with adjustments and reclassifications made for the purpose of the fair presentation of financial information in compliance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention, except for certain items of property, plant and equipment acquired prior to 1 January 2004 (the date of transition of the Group to IFRS), which were recognized at deemed cost being the fair value of those assets at that date according to the report of an independent appraiser.

Restatement of comparative information

Upon signing an agreement on the sale of shares in JSC Terminal Vladivostok and JSC Vladivostok International Airport, the Group decided to classify the financial indicators of JSC Terminal Vladivostok and JSC Vladivostok International Airport as assets held for sale. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Group's consolidated financial statements were restated for 2015.

In 2016, the Group also decided to report gains and losses from trading in foreign currencies on a net basis and presented the comparative data for 2015 similarly.

2. Basis of preparation (continued)

Restatement of comparative information (continued)

The restatements had the following effect on the 2015 consolidated financial statements:

Statement of comprehensive income for the year ended 31 December 2015

	As previously reported	Exclusion of discontinued operations	Gains and losses from trading in foreign currencies, net	As adjusted
Continuing operations				
Revenue	25,672	(1,587)	–	24,085
Operating expenses	(18,113)	1,330	–	(16,783)
Gain/(loss) on disposal of property, plant and equipment	(23)	4	–	(19)
Operating profit	**7,536**	**(253)**	**–**	**7,283**
Share of profit of associates	4	–		4
Impairment of investments in associates	(293)	–	–	(293)
Interest expense	(4,894)	138	–	(4,756)
Interest income	296	(6)	–	290
Foreign exchange loss	(12,920)	(12)	–	(12,932)
Dividend income	5	–	(5)	–
Loss on changes in fair value of a derivative financial instrument	(27)	–	–	(27)
Other income	1,587	(32)	(362)	1,193
Other expenses	(514)	22	367	(125)
Loss from continuing operations before tax	**(9,220)**	**(143)**	**–**	**(9,363)**
Income tax	1,633	(19)	–	1,614
Loss for the year from continuing operations	**(7,587)**	**(162)**	**–**	**(7,749)**
Discontinued operations				
Loss for the year from discontinued operations	–	162	–	162
Loss for the year	**(7,587)**	**–**	**–**	**(7,587)**
Total comprehensive loss for the year	**(7,587)**	**–**	**–**	**(7,587)**
Attributable to:				
Equity holders of the parent	(7,862)	–	–	(7,862)
Non-controlling interests	275	–	–	275
	(7,587)	**–**	**–**	**(7,587)**

The respective amendments were made to the presentation of the statement of cash flows for the year ended 31 December 2015.

3. Changes in accounting policies

New standards, interpretations and amendments to existing standards and interpretations applied by the Company for the first time

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015, except for the new standards and interpretations that became effective on 1 January 2016.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective. Although the Group applied these new standards and amendments for the first time in 2016, they have no significant impact on the annual consolidated financial statements of the Company.

The nature and the impact of each new standard or amendment are described below.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items in the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income (OCI). The standard requires disclosure of the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. Since the Group is an existing IFRS preparer, this standard had no impact on its consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective. These amendments had no impact on the consolidated financial statements of the Group, as there was no interest acquired in a joint operation.

3. Changes in accounting policies (continued)

New standards, interpretations and amendments to existing standards and interpretations applied by the Company for the first time (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively and had no impact on the financial statements of the Group given that the Group did not use a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and had no impact on the Group's consolidated financial statements, as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. The amendment had no impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 cycle

They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered a new plan of disposal, rather it is a continuation of the original plan. This amendment is applied prospectively.

3. Changes in accounting policies (continued)

New standards, interpretations and amendments to existing standards and interpretations applied by the Company for the first time (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

The amendments had no impact on the financial statements of the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.

3. Changes in accounting policies (continued)

New standards, interpretations and amendments to existing standards and interpretations applied by the Company for the first time (continued)

- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments had no impact on the Group's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and have no impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards when they become effective. These standards and interpretations may have an impact on the Group's disclosures, financial position or performance when applied at a future date.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

This standard will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets and liabilities, impairment, and hedge accounting. The Group is currently assessing the impact that this standard may have on its financial position and performance.

IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions (as amended) (effective for annual periods beginning on or after 1 January 2018)

This amendment addresses three main areas: accounting for vesting conditions that does not provide grounds for vesting; classification of share-based payments with net-settlement features for withholding tax obligations; accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. This amendment is not expected to have any significant impact on the Group's financial position or performance.

3. Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 *Revenue from Contracts with Customers* supersedes all current IFRS requirements to revenue recognition and applies to revenue arising from contracts with customers and due to the sale of certain non-financial assets. The standard establishes principles to be used by an entity for measurement and recognition of revenue. Under IFRS 15, revenue is recognized to the extent that the entity anticipates entitlement to the consideration in exchange for transferring goods or services to a customer. The Group is currently assessing the impact that this standard may have on its financial position and performance.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 supersedes existing IFRS requirements in respect of lease accounting and requires a lessee to recognize assets and liabilities for the major part of its leases. The new standard's requirements to lessees are significantly different from those provided in the existing IFRS. Except for certain cases, the lessees will have to apply a single lessee accounting model for all leases. The Group is currently assessing the impact that this standard may have on its financial position and performance.

IAS 7 Statement of Cash Flows: Disclosure Initiative (as amended) (effective for annual periods beginning on or after 1 January 2017)

This amendment introduces additional disclosure requirements regarding changes in liabilities arising from financing activities, including changes that affect cash flows and non-cash changes (e.g., foreign exchange gains/losses). This amendment will impact disclosures in the financial statements of the Group.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses (as amended) (effective for annual periods beginning on or after 1 January 2017)

This amendment clarifies the accounting treatment of deferred tax assets for unrealized losses on debt financial instruments measured at fair value. This amendment is not expected to have any significant impact on the Company's financial position or performance.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* clarifies the procedure to determine the transaction date in case of receiving or issuing an advance consideration under a contract nominated in foreign currency. This amendment is not expected to have any significant impact on the Group's financial position or performance.

3. Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate or Joint Venture

The amendments address the inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control over a subsidiary that is sold or contributed to an associate or a joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, shall be recognized in full. However, profit or loss that arises within the participating shares is recognized to the extent of ownership interests held by investors other than the entity in an associate or a joint venture. These amendments are applied prospectively; however, the effective date of these amendments has not been specified.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts − Amendments to IFRS 4

The amendments clarify uncertainty arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and parallel application of the financial instruments standards, IFRS 9 and IAS 39.

Temporary exemption from IFRS 9

The temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The entity should decide whether it opts for the exemption as of the reporting date for the financial year ended before 1 April 2016, provided that the application of IFRS 9 has not yet been initiated. The choice may only be changed as an exception. The exemption requires additional disclosures in financial statements.

Parallel application of IFRS 9 and IAS 39

Entities that have initiated insurance contracts and already adopted IFRS 9 may apply it simultaneously with IAS 39, whereby gains and losses may be adjusted for the relevant financial assets to be recognized and measured in accordance with IAS 39. The adjustments help to eliminate volatility that may arise where IFRS 9 is applied and the new insurance contracts standard is not. Under this approach, an entity is allowed to reclassify amounts relating to the relevant financial assets to either gains or losses or other comprehensive income. The separate lines presenting gains or losses and other comprehensive income which reflect the adjustments from the parallel application of the standards are to be disclosed.

The temporary exemption is first applied for annual periods beginning on 1 January 2018. Entities may opt for the parallel application when they first apply IFRS 9, and apply such approach retrospectively to their financial assets recorded in accordance with IFRS 9. An entity may restate comparative information to reflect the parallel application approach if, and only if, it restates comparative data while applying IFRS 9.

3. Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

The parallel application approach requires that the additional volatility that may arise if IFRS 9 is applied with IFRS 4 be removed from profit or loss. Entities applying the temporary exemption are required to provide additional disclosures in their financial statements that arise from applying a number of provisions of IFRS 9.

The amendments become effective for annual periods beginning on 1 January 2018.

Amendments to IAS 40 Investment Property

These amendments clarify cases when an entity should classify property, plant and equipment, construction in progress included, within investment property or exclude this item therefrom. According to these amendments, the change in use occurs when property complies or ceases to comply with investment property criteria, which is considered evidence of the change in use. A change of management's intentions to use the property is not considered evidence of the change in use.

Entities should apply the amendments prospectively to changes in use, which occur on or after the beginning of the annual period in which the entity applies these amendments for the first time. An entity should reassess classification of its property, plant and equipment at that date or reclassify property, plant and equipment, when applicable, to reflect conditions existing at that date. If there is a possibility to take into account only the conditions, which existed at the date under review, it is permitted to apply IFRS 8 retrospectively. Early application of the interpretation is permitted with the corresponding information disclosed. The amendments eliminate differences in accounting practices. The amendments become effective for annual periods beginning on 1 January 2018.

Annual improvements 2012-2014 cycle

Amendment to IFRS 1 First-time Adoption of IFRS

The amendment removes short-term exemptions for the first-time adoption. The amendment becomes effective for annual periods beginning on 1 January 2018.

Amendments to IAS 28 Investments in Associates and Joint Ventures

These amendments clarify that the entities, which are considered as venture capital or other qualified organizations may decide to measure their investments in associates or joint ventures at fair value through profit or loss at initial recognition. If an entity, which is not in itself an investment organization, has an ownership interest in an associate or a joint venture, which is an investment organization, the entity may, when applying the equity method, decide to retain the fair value measurement applied by this investment organization to its ownership interests in subsidiaries. This decision is made for each individual investment in an associate or a joint venture at the latest of the following: (a) the date when investments in an investment organization, which is an associate or a joint venture are recognized for the first time; (b) an associate or a joint venture becomes an investment organization; (c) an investment organization, which is an associate or a joint venture, becomes a parent company. These amendments are applied retrospectively and become effective for annual periods beginning on 1 January 2018 with early application permitted. The entity should disclose the corresponding information if it applies these amendments for an earlier period.

3. Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 12 Disclosure of Interests in Other Entities

These amendments clarify that the disclosure requirements of IFRS 12, excluding those listed in paragraphs B10-B16, are applicable to the entity's ownership interest in a subsidiary, joint venture or associate (or to a part of its interest in a joint venture or associate) classified (or included in a disposal group) as held for sale. The amendments become effective for annual periods beginning on 1 January 2017 and are applied retrospectively.

4. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group directly or indirectly governs the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, instruments giving rise to potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

All balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions are eliminated from the consolidated financial statements.

Non-controlling interest is an interest in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interest at the end of the reporting period represents the non-controlling interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling interest shareholders' portion of movements in the equity of the subsidiary since the date of the combination. Non-controlling interest is presented within equity separately.

Investments in associates

The Group's associates are those entities in which the Group owns between 25% and 50% of the equity, as, pursuant to the Russian legislation, the ownership interest within that range generally allows to exercise significant control, or entities on which the Group is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying amount of investments reflect changes in the net assets of an associate attributable to the Group's share, and impairment of goodwill.

4. Summary of significant accounting policies (continued)

Business combinations and acquisitions

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition costs are included in administrative expenses in the periods in which the costs are incurred.

Goodwill

Goodwill is initially measured at cost being the excess of the consideration transferred, the recognized non-controlling interest and fair value of the previously acquired share at the acquisition date over the fair value of the net identifiable assets and liabilities of the acquiree.

If the acquisition cost is lower than the fair value of the net assets of the acquiree, the difference is recognized directly in profit or loss. Subsequently, goodwill is not amortized, but is tested for impairment at least annually.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Transfer of controlling interests in entities in transactions with entities under common control

The Group applies the pooling of interests method to account for transfers of controlling interests in entities in transactions with entities under common control. Under this method of accounting, the Group recognizes assets and liabilities of the acquired entity at the values which would be recognized in accordance with IFRS by the transferring entity in its IFRS financial statements.

The difference between consideration transferred and net assets acquired is recognized in equity as contribution from or distribution to the Group depending on the circumstances.

Foreign currency translation

The Russian ruble is the functional currency of all the companies within the Group and the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the reporting date are translated into the functional currency at the exchange rate prevailing on the reporting date. Exchange differences arising from such transactions are included in profit or loss in the consolidated statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities recorded at fair value in a foreign currency are translated into Russian rubles at exchange rates ruling at the dates when the fair value was determined.

4. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured irrespective of the date of payment. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services delivered or provided in the normal course of business, net of value added tax.

Airport and other traffic charges

Revenue from airport and other traffic charges is recognized when the respective services are actually rendered.

Property and operational facilities

(i) Rental income is recognized in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating an operating lease, such as lease incentives granted to a lessee, are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as rental income.

(ii) Usage charges for operating systems (e.g., software for check-in desks) are recognized and invoiced on a monthly basis as the services are provided.

Dividend and interest income

(i) Dividends from investments are recognized in profit or loss in the consolidated statement of comprehensive income when the shareholder’s right to receive respective payments has been established.

(ii) Interest income is accrued using the effective interest rate method, by reference to the principal outstanding and the value of an asset.

Financial assets (derivative financial instruments) at fair value through profit or loss

Derivative financial instruments are used to manage foreign exchange risk, interest rate risk and other market risks.

The derivative financial instrument the Group holds represents an interest rate option measured upon initial recognition and subsequently at fair value through profit or loss. Its use is consistent with the Group’s overall risk management strategy. Gains or losses on the derivative financial instrument are recognized in profit or loss in the consolidated statement of comprehensive income.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease, i.e. whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

4. Summary of significant accounting policies (continued)

Leases (continued)

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments determined at the inception of the lease. Lease payments are apportioned between finance charges and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Interest expense

Interest expense comprising interest payable on borrowings and interest expense component of finance lease payments is recognized in profit or loss in the consolidated statement of comprehensive income using the effective interest rate method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount, as described below.

Owned assets and infrastructure assets used by the Group

Items of property, plant and equipment are stated at cost determined on the basis of independent valuation as of 1 January 2004 (“deemed cost”) or the actual cost of the acquisition or construction of the assets acquired after that date, less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The Group uses certain items of property, plant and equipment, including but not limited to runways, taxi strips, air navigation equipment, etc. (the “infrastructure assets”), which are owned by the federal authorities.

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Assets under construction

Assets under construction comprise costs directly related to the construction of property, plant and equipment, the respective portion of variable costs incurred in construction as well as the cost of the purchase (less impairment) of other assets that require installation or preparation for the use of property, plant and equipment, if any. Depreciation of these assets, just like depreciation of other property assets, commences when they are ready for their intended use.

Subsequent costs

The Group recognizes the cost of replacing an item of property, plant and equipment in the carrying amount of such an item if it is probable that the future economic benefits embodied with the item will flow to the Group and its cost can be measured reliably. All other costs are recognized in the consolidated statement of comprehensive income within expenses as incurred.

Depreciation of property, plant and equipment

Depreciation is charged to profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each separately depreciated part of an item of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Air terminal complex	1-100 years
Airfield	5-35 years
Other buildings	1-95 years
Technical equipment and machinery	1-35 years
Vehicles	2-12 years
Other equipment	1-57 years

A previously recognized item of property, plant and equipment or any significant component thereof is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the consolidated statement of comprehensive income in the period when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each reporting year and adjusted prospectively, as appropriate.

Assets held under finance lease arrangements and leasehold improvements are depreciated over the shorter of lease terms or estimated useful lives. Land plots are not depreciated.

Intangible assets

Intangible assets that are acquired by the Group represent mainly software and licenses and are stated at cost less accumulated amortization and impairment losses.

4. Summary of significant accounting policies (continued)

Intangible assets (continued)

Amortization is charged to profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives for existing assets range from 3 to 5 years.

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, the carrying amount of the asset (unit) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased by the revised estimate of the recoverable amount in such a way that the increased amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset (cash-generating unit) in prior years.

Assets classified as held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held-for-sale classification is regarded as met only when the sale is probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group, i.e. a cash-generating unit or a group of cash-generating units;
- Classified as held for sale or already sold; or
- A major line of business or major geographical area.

4. Summary of significant accounting policies (continued)

Assets classified as held for sale (continued)

Discontinued operations are excluded from the results of continuing operations and are presented in profit or loss in the consolidated statement of comprehensive income separately as profit or loss from discontinued operations after tax.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks, demand deposits with credit institutions and/or deposits maturing in three months or less, and highly liquid bank promissory notes maturing in less than three months.

Financial assets

Initial recognition and measurement

Financial assets are classified by the Group into the following categories: loans and accounts receivable; financial assets at fair value through profit or loss; investments held to maturity; financial assets available for sale; or derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

Financial assets are initially recognized at fair value plus directly attributable transaction costs. However, upon recognition of a financial asset at fair value through profit or loss, transaction costs are expensed immediately.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such assets are recorded at amortized cost using the effective interest rate method, less any allowance for impairment. Gains and losses on such assets are recognized in profit or loss in the consolidated statement of comprehensive income when such assets are derecognized or impaired, as well as through the amortization process.

Accounts receivable, which generally have a short term, are carried at invoice amount less an allowance for doubtful debts. An allowance for doubtful debts is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of contracts. The Group periodically analyzes trade accounts receivable and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying amount and the recoverable amount. Expenses related to the allowance for impairment of accounts receivable are recognized in profit or loss in the consolidated statement of comprehensive income.

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Gains and losses on assets held for trading are recognized in profit or loss in the consolidated statement of comprehensive income.

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the intention and ability to hold them to maturity. After initial recognition, investments held to maturity are recorded at amortized cost using the effective interest rate method, less any impairment.

Derivatives

Derivatives represent financial instruments whose value changes depending on changes in the underlying variable. Settlements on such instruments will be made at a future date. Insignificant initial net investments or no investments at all are required to purchase such instruments. Derivatives are mainly used to manage foreign exchange risk, interest rate risk and other market risks. Subsequently, derivatives are remeasured regularly at fair value at each reporting date. The recognition method for the resulting gains or losses depends on whether a derivative financial instrument is designated as a hedging instrument.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and those events had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment includes observable data on the following loss events: significant financial difficulty of the borrower, default or delinquency in interest or principal payments, and the probability that the borrower will enter bankruptcy or other financial reorganization.

The amount of any impairment loss is determined as the difference between the carrying amount of an asset and its recoverable amount. The carrying amount of financial assets (except for loans and accounts receivable) is reduced directly without the use of an allowance for impairment, and the amount of loss is recognized in the consolidated statement of comprehensive income.

4. Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and accounts payable, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other accounts payable, loans and borrowings, including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Accounts payable

Trade accounts payable are initially recognized at fair value, and are subsequently accounted for at amortized cost. As the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds to fair value.

Short-term loans and borrowings

Short-term loans and borrowings comprise the short-term portion of long-term interest-bearing loans and borrowings, i.e. the portion of loans and borrowings that are to be amortized in the coming year, as well as other current interest-bearing liabilities with a maturity less than one year. These liabilities are measured at amortized cost and reported on the settlement date.

4. Summary of significant accounting policies (continued)

Long-term loans and borrowings

Long-term loans and borrowings, i.e. liabilities with a term longer than one year, consist of interest-bearing loans and borrowings. They are initially recognized at fair value and are subsequently measured at amortized cost, using the effective interest rate method, as of the settlement date.

Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments during the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Dividends

Dividends are recognized at the date they are declared by the shareholders at a general meeting.

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with applicable legislation and reflected in the statutory financial statements. These amounts may differ significantly from retained earnings calculated on the basis of IFRS.

Employee benefits

Short-term employee benefits

Short-term employee benefits paid by the Group include wages and salaries, social security contributions, paid annual vacations and sick leaves, and bonuses and non-cash benefits (for example, health care services). These employee benefits are accrued in the period when the employees of the Group rendered the respective services.

Social and pension contributions

The Group makes social and pension contributions for the benefit of its employees at the statutory rates in force during the year. The contributions are expensed as incurred.

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

4. Summary of significant accounting policies (continued)

Current income tax (continued)

Current income tax relating to items recognized directly in equity is recorded in equity and not in profit or loss in the consolidated statement of comprehensive income. Management periodically evaluates tax positions presented in the tax returns to determine whether there are situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Group's applicable income tax rate is 20% (2015: 20%).

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

b) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the Group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

5. Significant accounting estimates and judgments

Accounting judgments

Accounting for real estate owned by the Group

The Group leased out some of the facilities in the passenger air terminal. Lessees include, besides other companies, related parties. As the property is used both for investment and non-investment purposes, but cannot be divided (sold or leased out under a financial leasing agreement), and if the Group uses only a part of the property, use of less than 30% of the property is considered insignificant. The whole facility is therefore accounted for at cost less any accumulated depreciation and impairment losses in accordance with IAS 16.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of investments in associates

Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted on arm's length basis, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset performance of the cash-generating unit being tested for impairment. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected cash inflows and the growth rate used by the Group for extrapolation purposes.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the carrying amounts of property, plant and equipment and on depreciation expense for the period.

In 2016 and 2015, there were no changes in estimates for the useful lives of property, plant and equipment.

5. Significant accounting estimates and judgments (continued)

Estimation uncertainty (continued)

Allowances for impairment

The Group makes allowances for impairment of accounts receivable to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for impairment of accounts receivable, management uses its own estimates of the current overall economic conditions, the aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for impairment of accounts receivable recorded in the consolidated financial statements. As of 31 December 2016 and 2015, allowances for impairment of accounts receivable, including trade accounts receivable, amounted to RUB 547 and RUB 316, respectively (Note 14).

6. Significant partially owned subsidiaries

Name	Country of incorporation	Place of business	Votes held by non-controlling interests	(Profit)/loss attributable to non-controlling interests	Accumulated non-controlling interests at the year-end
2016					
JSC VIP-International	Russia	Russia	49%	259	406
JSC Vladivostok International Airport	Russia	Russia	47.84%	(51)	78
JSC AeroMASH-Aviation Security	Russia	Russia	45%	(33)	53
2015					
JSC VIP-International	Russia	Russia	49%	246	153
JSC Vladivostok International Airport	Russia	Russia	47.84%	29	129

The summarized financial information on these subsidiaries is provided below. This information is based on amounts before the elimination of inter-company transactions.

6. Significant partially owned subsidiaries (continued)

Summarized statement of comprehensive income for 2016

	JSC VIP-International	JSC Vladivostok International Airport	JSC AeroMASH-Aviation Security
Revenue	2,332	1,168	774
Operating expenses	(1,607)	(1,084)	(823)
Interest expense	–	(7)	–
Interest income	5	10	1
Gain/(loss) on disposal of property, plant and equipment	(7)	–	–
Foreign exchange (loss)/gain	(57)	(4)	(9)
Other gains and losses	(3)	(173)	(5)
Profit/(loss) before tax	**663**	**(90)**	**(62)**
Income tax	(134)	(17)	(12)
Profit/(loss) for the year	**529**	**(107)**	**(74)**
Total comprehensive income/(expense)	**529**	**(107)**	**(74)**
Attributable to:			
Equity holders of the parent	270	(56)	(41)
Non-controlling interests	259	(51)	(33)

Summarized statement of comprehensive income for 2015

	JSC VIP-International	JSC Vladivostok International Airport
Revenue	1,869	1,183
Operating expenses	(1,255)	(1,105)
Interest expense	–	(18)
Interest income	5	4
Gain/(loss) on disposal of property, plant and equipment	5	–
Foreign exchange (loss)/gain	43	–
Other gains and losses	(2)	13
Profit/(loss) before tax	**665**	**77**
Income tax	(163)	(16)
Profit/(loss) for the year	**502**	**61**
Total comprehensive income/(expense)	**502**	**61**
Attributable to:		
Equity holders of the parent	256	32
Non-controlling interests	246	29

6. Significant partially owned subsidiaries (continued)

Summarized statement of financial position as of 31 December 2016

	JSC VIP-International	JSC Vladivostok International Airport	JSC AeroMASH-Aviation Security
Current assets			
Cash and cash equivalents	652	118	94
Income tax prepayments	4	–	7
Accounts receivable and advances issued	260	52	201
Inventories	12	30	5
	928	**200**	**307**
Non-current assets			
Intangible assets	8	137	14
Deferred tax assets	27	–	33
Property, plant and equipment	223	293	70
	258	**430**	**117**
Total assets	**1,186**	**630**	**424**
Current liabilities			
Current portion of finance lease liabilities	–	21	–
Trade and other accounts payable	250	416	306
Other current liabilities	60	–	–
	310	**437**	**306**
Non-current liabilities			
Non-current portion of finance lease liabilities	–	4	
Deferred tax liabilities	–	24	–
Other non-current liabilities	47	–	–
	47	**28**	**–**
Total liabilities	**357**	**465**	**306**
Equity	**829**	**165**	**118**
Attributable to:			
Equity holders of the parent	423	87	65
Non-controlling interests	406	78	53

6. Significant partially owned subsidiaries (continued)

Summarized statement of financial position as of 31 December 2015

	JSC VIP-International	JSC Vladivostok International Airport
Current assets		
Cash and cash equivalents	198	54
Income tax prepayments	4	1
Accounts receivable and advances issued	144	59
Inventories	10	25
	356	**139**
Non-current assets		
Intangible assets	6	138
Deferred tax assets	26	–
Property, plant and equipment	216	493
	248	**631**
Total assets	**604**	**770**
Current liabilities		
Current portion of finance lease liabilities	–	45
Trade and other accounts payable	251	411
Other current liabilities	41	–
Short-term borrowings	–	17
	292	**473**
Non-current liabilities		
Non-current portion of finance lease liabilities	–	14
Deferred tax liabilities	–	12
Other non-current liabilities	–	–
	–	**26**
Total liabilities	**292**	**499**
Equity	**312**	**271**
Attributable to:		
Equity holders of the parent	159	142
Non-controlling interests	153	129

Summarized statement of cash flows for the year ended 31 December 2016

	JSC VIP-International	JSC Vladivostok International Airport	JSC AeroMASH-Aviation Security
Operating activities	532	(6)	(22)
Investing activities	(78)	122	(21)
Financing activities	–	(52)	–
Net increase/(decrease) in cash and cash equivalents	**454**	**64**	**(43)**

6. Significant partially owned subsidiaries (continued)

Summarized statement of cash flows for the year ended 31 December 2015

	JSC VIP-International	JSC Vladivostok International Airport
Operating activities	577	174
Investing activities	(129)	(36)
Financing activities	(378)	(123)
Net increase in cash and cash equivalents	**70**	**15**

7. Business acquisitions

Acquisition of JSC AeroMASH-Aviation Security

On 13 October 2016, the Group acquired an additional 10% of the shares in JSC AeroMASH-Aviation Security for RUB 81 in order to implement joint security projects at Sheremetyevo Airport. As a result of the transaction, the Group's interest in the share capital of the entity increased to 55%.

The provisional fair value of the net assets of JSC AeroMASH-Aviation Security at the acquisition date was as follows:

	Provisional fair value recognized on acquisition
Assets	
Current assets	
Cash and cash equivalents	140
Income tax prepayments	4
Accounts receivable and advances issued, net	277
Inventories	2
Non-current assets	
Intangible assets	9
Deferred tax assets	10
Property, plant and equipment	52
	494
Liabilities	
Trade accounts payable	40
Other accounts payable and accrued liabilities	215
Trade and other accounts payable	48
	303
Total identifiable net assets at fair value	**191**
Non-controlling interest measured at the proportional share in the value of the identifiable net assets acquired at the acquisition date	(86)
Goodwill arising on acquisition (Note 17)	**321**
Total consideration	**426**
Total consideration consists of:	**426**
- cash consideration paid	81
- fair value of shares acquired previously (Note 18)	345
Cash paid for the acquisition	(81)
Cash acquired with the subsidiary	140
Net cash from the acquisition	**59**

7. Business acquisitions (continued)

Acquisition of JSC AeroMASH-Aviation Security (continued)

At the date of acquiring JSC AeroMASH-Aviation Security, the estimated fair value of the net assets was just provisional. The Group will recognize the effect of the final measurement of the acquired net assets of JSC AeroMASH-Aviation Security in its 2017 consolidated financial statements.

The goodwill of RUB 321 represents the fair value of expected synergies arising from the acquisition. The recognized goodwill is not expected to be deducted for taxation purposes.

From the date of acquisition, JSC AeroMASH-Aviation Security has contributed RUB 774 and RUB (62) to the Group's revenue and profit before tax for the year ended 31 December 2016, respectively. Had the combination taken place at the beginning of the reporting period, the Group's revenue and profit before tax would have increased by RUB 2,927 and RUB 87, respectively.

8. Revenue

	2016	2015
To airlines		
Passenger charges levied on departing passengers	10,534	9,024
Aircraft landing charges levied according to weight	3,047	2,436
Maintenance and commercial services to airlines	1,362	1,157
Aviation security	1,872	1,018
Aircraft parking charges based on a combination of weight and time parked	233	210
Other services to airlines	1,149	973
Other revenue		
Lease income	8,333	8,437
Other services	907	830
	27,437	**24,085**

9. Operating expenses

	2016	2015
Salaries and other employee benefits	5,752	5,197
Maintenance	1,593	2,761
Social insurance and other costs	1,609	1,389
Depreciation of property, plant and equipment	3,145	3,271
Materials	933	856
Taxes other than income tax	139	189
Consulting, audit and other services	618	805
Utilities	460	415
Cleaning services at airport	386	382
Cost of auto fuel	131	108
Aircraft servicing	30	90
Aviation security services	183	231
Passengers servicing	411	243
Other expenses	319	182
Expenses related to the use of state-owned infrastructure assets	201	201
Allowance for impairment of accounts receivable (Note 14)	303	221
Amortization of intangible assets	97	87
Insurance expenses	109	106
Payment for land plots leased	38	30
Advertising expenses	27	19
	16,484	**16,783**

10. Other income

	2016	2015
Reimbursement of property tax on applying the exemption provided by the Tax Code	1,107	916
Recovery of losses on seizure of a land plot for road construction	222	–
Reversal of provisions	–	182
Other income	51	95
	1,380	**1,193**

In 2016 and 2015, the Company reimbursed previously paid property tax after the application and utilization of the federal exemption on air transport infrastructure facilities provided in Article 376.6 of the Russian Tax Code, federal exemption on power lines and facilities which form an integral technological part thereof provided in Article 381.11 of the Russian Tax Code, and the regional exemption provided in Article 26.11 of the Moscow Region Law *On Preferential Tax Treatment in the Moscow Region* to investors making capital investments in property, plant and equipment.

In 2016, the Company received compensation following the seizure of a land plot by Moscow Region authorities for road construction purposes; the land plot had been leased from the Federal Agency for State Property Management.

11. Other expenses

	2016	2015
Expenses of service plants and facilities	(71)	(91)
Other expenses	(72)	(34)
	(143)	**(125)**

12. Income tax

	2016	2015
Current income tax expense	158	158
Adjustments in respect of current income tax for previous year	1	22
Deferred income tax (benefit)/expense related to origination and reversal of temporary differences from continuing operations	3,415	(1,813)
	3,574	**(1,633)**

Income before taxation for financial reporting purposes is reconciled to income and expense for 2016 and 2015 as follows:

	2016	2015
Profit/(loss) from continuing operations before tax	16,780	(9,362)
Loss from discontinued operations before tax	28	142
	16,808	**(9,220)**
Income tax at statutory tax rate of 20%	**3,356**	**(1,844)**
Non-deductible expenses and other permanent differences	225	211
	3,581	**(1,633)**
Income tax (benefit)/expense recognized as profit or loss in the consolidated statement of comprehensive income	3,574	(1,652)
Income tax attributable to discontinued operations	7	19
	3,581	**(1,633)**

The statutory tax rate effective in the Russian Federation in 2016 and 2015 was 20%.

Total accumulated temporary differences that arise between the tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statement of financial position give rise to the following deferred tax effects:

	2016	2015
Net asset at the beginning of the year	**3,388**	**1,575**
Deferred tax benefit/(expense) due to origination and reversal of temporary differences recognized within profit or loss in the consolidated statement of comprehensive income	(3,373)	1,813
Net asset at the end of the year	**15**	**3,388**

12. Income tax (continued)

	31 December 2016	Recognized in the statement of comprehen-sive income	31 December 2015	Recognized in the statement of comprehen-sive income	31 December 2014
Deferred tax assets and liabilities					
Tax losses carried forward	2,676	(3,678)	6,354	1,618	4,736
Property, plant and equipment	(2,698)	319	(3,017)	199	(3,216)
Accounts payable	230	39	191	(28)	219
Unused vacation accrual	38	(18)	56	(6)	62
Accounts receivable	109	61	48	(28)	76
Bank loans	(12)	(7)	(5)	1	(6)
Finance lease	1	6	(5)	1	(6)
Intangible assets	(25)	(2)	(23)	2	(25)
Revaluation of assets contributed to the capital of other entities	(311)	(105)	(206)	59	(265)
Other	7	12	(5)	(5)	–
	15	**(3,373)**	**3,388**	**1,813**	**1,575**
Reflected in the statement of financial position as follows					
Deferred tax assets/(liabilities) – continuing operations	(341)	(3,433)	3,092	1,843	1,249
Deferred tax assets/(liabilities) – discontinued operations (Note 17)	356	60	296	(30)	326
	15	**(3,373)**	**3,388**	**1,813**	**1,575**

Deferred tax assets for unused tax losses carried forward were recognized to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized.

13. Cash and cash equivalents

	31 December 2016	31 December 2015
RUB-denominated cash at banks and on hand	857	467
USD-denominated cash at banks	2,975	2,017
EUR-denominated cash at banks	83	41
USD-denominated term deposits	6,672	5,273
	10,587	**7,798**
Cash and cash equivalents related to discontinued operations	234	–
	10,821	**7,798**

As of 31 December 2016, cash was placed with banks which were assigned a credit rating Ba1-Ba2 by Moody's (31 December 2015: Ba2).

14. Accounts receivable

	31 December 2016	31 December 2015
Trade accounts receivable:	2,218	1,606
- Denominated in RUB	1,367	870
- Denominated in foreign currency (mainly in USD)	851	736
Other accounts receivable	32	117
Allowance for doubtful accounts receivable	(547)	(293)
	1,703	**1,430**

	31 December 2016	31 December 2015
Allowance for impairment of trade accounts receivable	(546)	(292)
Allowance for impairment of other accounts receivable	(1)	(1)
	(547)	**(293)**

As of 31 December, the aging analysis of trade accounts receivable is as follows:

		Neither past due nor	Past due but not impaired				
	Total	impaired	<30 days	31-60 days	61-90 days	91-120 days	>120 days
2016	**1,672**	1,490	–	98	24	35	25
2015	**1,314**	1,158	1	48	39	49	19

Movement in the allowance for impairment of accounts receivable is as follows:

	2016	2015
Balance at the beginning of the year	**(316)**	**(526)**
Charged during the year (Note 9)	(303)	(221)
Utilized during the year	72	431
Balance at the end of the year	**(547)**	**(316)**

15. Prepayments and input VAT

	At 31 December 2016	At 31 December 2015
VAT and other taxes recoverable, other than income tax	468	584
Advances issued to suppliers	65	99
Allowance for doubtful debt on advances issued to suppliers	–	(23)
	533	**660**

16. Inventories

	31 December 2016	31 December 2015
Spare parts (at cost)	203	157
Auto fuel (at cost)	32	46
Raw materials and consumables (at net realizable value)	83	78
Other inventories (at net realizable value)	34	58
	352	**339**

In 2016, the amount of inventories recognized within expense is RUB 1,064 (2015: RUB 964) which is included in operating expenses in the consolidated statement of comprehensive income.

17. Discontinued operations

In November 2016, the Company entered into an agreement for the sale of shares in JSC Terminal Vladivostok and JSC Vladivostok International Airport to three buyers for a cash consideration of RUB 5,769. The assets were sold in February 2017 (Note 32).

The results of discontinued operations for the period from 1 January 2016 to 31 December 2016 are presented in the table below.

	Note	2016	2015
Revenue		1,809	1,587
Operating expenses		(1,349)	(1,330)
Profit from operating activities		**460**	**257**
Interest expense		(278)	(138)
Interest income		26	6
Foreign exchange gains/(losses), net		(7)	12
Gain/(loss) on disposal of property, plant and equipment		2	(4)
Other gains and losses, net		(175)	10
Profit from discontinued operations before tax		**28**	**143**
Income tax		7	19
Profit for the year from discontinued operations		**35**	**162**

17. Discontinued operations (continued)

As of 31 December 2016, principle assets and liabilities related to discontinued operations are as follows:

	As of 31 December 2016
Assets	
Cash and cash equivalents	234
Income tax receivable	–
Accounts receivable and prepayments, net	84
Inventories	33
Intangible assets	137
Deferred tax assets	356
Property, plant and equipment	5,132
Assets classified as held for sale	**5,976**
Liabilities	
Accounts payable	472
Finance lease liabilities	25
Interest-bearing loans and borrowings	1,718
Liabilities classified as held for sale	**2,215**

Net cash flows from JSC Vladivostok International Airport and JSC Terminal Vladivostok are as follows:

	2016
Operating activities	234
Investing activities	120
Financing activities	(313)
Net cash inflow	**41**

18. Investments in associates

As of 31 December, the Group's associates are as follows:

	31 December 2016		31 December 2015	
	Effective interest	Carrying amount	Effective interest	Carrying amount
OJSC Sheremetyevo-4	50%	6	50%	6
CJSC SVT-Avia	40%	–	40%	–
LLC Moscow Cargo	25%	632	25%	541
LLC Aero-Food Catering	26%	3	26%	9
JSD AeroMASH-AS (Note 7)	–	–	45%	173
LLC Avia Group (until 2 December 2016)	–	–	26%	815
LLC RN-Sheremetyevo	49%	–	49%	–
		641		**1,544**

18. Investments in associates (continued)

	2016	2015
At 1 January	**1,544**	**1,555**
The share of profit of associates shown in the consolidated statement of comprehensive income	229	4
Disposal of interest in LLC Avia Group	(930)	–
Dividends received from associates	(21)	(15)
Revaluation of shares in JSC AeroMASH-AS at fair value at the business acquisition date	164	–
Business acquisitions (Note 7)	(345)	–
At 31 December	**641**	**1,544**

Summarized financial information in respect of the Group's associates accounted for under the equity method of accounting based on their respective financial statements prepared for 2016 and 2015 is set out below:

	2016	2015
Current assets	1,604	2,993
Non-current assets	6,118	3,956
Current liabilities	(812)	(1,065)
Non-current liabilities	(688)	(50)
Equity	**6,222**	**5,834**
The Group's share of net assets of associates	**641**	**1,544**
Revenue	4,715	5,285
Cost of sales	(3,076)	(4,641)
Profit before tax	**997**	**(30)**
Income tax expense	(78)	(107)
Profit for the year	**919**	**(137)**
The Group's share of profit of associates	229	4
Dividends received from associates	21	15

In December 2016, the Group sold its interest in its associate, LLC Avia Group, for a cash consideration of RUB 936. Profit on the disposal of the investment was RUB 5.

Summarized financial information in respect of the most significant associate, LLC Moscow Cargo, for 2016 and 2015 is set out below:

	2016	2015
	LLC Moscow Cargo	LLC Moscow Cargo
Current assets	544	1,318
including cash and cash equivalents	163	1,056
Non-current assets	3,316	1,557
Current liabilities	630	640
Non-current liabilities	671	37
including non-current financial liabilities (less trade and other accounts payable and provisions)	608	37
Revenue	2,960	1,382
Depreciation and amortization	142	90
Interest income	9	23
Income tax expense	28	–
Net profit (loss)	360	(13)

19. Other financial assets

Non-current financial assets		
Investments in share capital of LLC Terminal B Sheremetyevo	1,311	1,311
Investments in share capital of LLC Sheremetyevo Inter-Terminal Passage	269	269
Investments in share capital of CJSC TZK-Sheremetyevo	478	478
	2,058	**2,058**

As of 31 December 2016, the Company's share in CJSC TZK Sheremetyevo, LLC Terminal B Sheremetyevo and LLC Sheremetyevo Inter-Terminal Passage was 25.1%, 10.77% and 2.15%, respectively (31 December 2015: 25.1%, 10.77% and 2.15%).

Such investments do not give the Group significant influence on financial and operating activities of these entities. Accordingly, the investments are classified as financial assets available for sale.

20. Property, plant and equipment

	Air terminal complex	Airfield	Other buildings	Land plot	Technical equipment and machinery	Vehicles	Other equipment	Capital expen-diture	Total
Cost									
At 1 January 2015	**37,975**	**3,996**	**5,150**	**17**	**13,501**	**2,765**	**2,225**	**168**	**65,797**
Additions	–	–	–	–	77	1,236	119	675	**2,107**
Put into operation	103	–	160	–	223	39	56	(581)	**–**
Disposals	(90)	(39)	(22)	–	(153)	(57)	(80)	(35)	**(476)**
At 31 December 2015	**37,988**	**3,957**	**5,288**	**17**	**13,648**	**3,983**	**2,320**	**227**	**67,428**
Additions	–	–	3	–	204	219	90	1,332	**1,848**
Put into operation	10	–	166	–	313	15	66	(570)	**–**
Disposals	(30)	–	(1)	–	(144)	(189)	(98)	(130)	**(592)**
Increase due to acquisition of JSC AeroMASH-Aviation Security	–	–	17	–	181	8	52	–	**258**
Transfer to assets held for sale	(4,987)	–	(783)	(17)	(743)	(285)	(184)	(1)	**(7,000)**
At 31 December 2016	**32,981**	**3,957**	**4,690**	**–**	**13,459**	**3,751**	**2,246**	**858**	**61,942**
Accumulated depreciation									
At 1 January 2015	**(6,558)**	**(2,955)**	**(1,793)**	**–**	**(7,354)**	**(1,654)**	**(1,500)**	**–**	**(21,814)**
Charge for the year	(1,120)	(93)	(285)	–	(1,496)	(344)	(275)	–	**(3,613)**
Disposals	90	21	15	–	140	54	73	–	**393**
At 31 December 2015	**(7,588)**	**(3,027)**	**(2,063)**	**–**	**(8,710)**	**(1,944)**	**(1,702)**	**–**	**(25,034)**
Charge for the year	(1,069)	(91)	(270)	–	(1,306)	(488)	(234)	–	**(3,458)**
Disposals	22	–	1	–	141	185	97	–	**446**
Increase due to acquisition of JSC AeroMASH-Aviation Security	–	–	(1)	–	(166)	(6)	(33)	–	**(206)**
Transfer to assets held for sale	744	–	310	–	478	223	112	–	**1,867**
At 31 December 2016	**(7,891)**	**(3,118)**	**(2,023)**	**–**	**(9,563)**	**(2,030)**	**(1,760)**	**–**	**(26,385)**
Net book value									
At 1 January 2015	**31,417**	**1,041**	**3,357**	**17**	**6,147**	**1,111**	**725**	**168**	**43,983**
At 31 December 2015	**30,400**	**930**	**3,225**	**17**	**4,938**	**2,039**	**618**	**227**	**42,394**
At 31 December 2016	**25,090**	**839**	**2,667**	**–**	**3,896**	**1,721**	**486**	**858**	**35,557**

20. Property, plant and equipment (continued)

As of 31 December 2016 and 2015, gross carrying amount of fully depreciated property, plant and equipment that is still in use was RUB 8,872 and RUB 7,369, respectively.

21. Accounts payable

	31 December 2016	31 December 2015
Trade accounts payable	923	1,540
- Denominated in RUB	776	1,224
- Denominated in foreign currencies (mainly in USD and EUR)	147	316
Taxes payable, other than income tax	662	676
Accounts payable to employees	235	93
Premiums, bonuses, and other employee benefits payable	459	255
Other accounts payable	225	190
Unused vacation accrual	198	212
Social insurance payable	60	28
	2,762	**2,994**

22. Other current liabilities

	At 31 December 2016	At 31 December 2015
Advances received	76	308
Current portion of guarantee payments under leases	325	171
Provisions	77	50
VAT reversal liabilities	107	138
	585	**667**

Movements in provisions in 2016 were as follows:

	At 1 January 2016	Charged/ (reversed)	Utilized	At 31 December 2016
Provision for litigations	50	–	–	50
Provisions for taxes, fines and penalties	–	27	–	27
	50	**27**	**–**	**77**

23. Other non-current liabilities

	At 31 December 2016	At 31 December 2015
Non-current portion of guarantee payments under leases	173	209
Non-current liabilities on repurchase of interests	355	405
Non-current portion of VAT reversal liabilities	215	394
Other non-current liabilities	103	72
	846	**1,080**

24. Interest-bearing loans and borrowings

	Currency	Interest rate	Maturity	At 31 December 2016	At 31 December 2015
Long-term interest-bearing loans and borrowings					
PJSC Sberbank of Russia	RUB	9.4%	2016	–	18
PJSC Sberbank of Russia	USD	9.2%	2020	7,940	12,267
Vnesheconombank	USD	7.4%	2019, 2022	32,685	40,401
PJSC VTB Bank	USD	7.75%	2019	5,926	9,393
Vnesheconombank	RUB	10.5%-12.5%	2019, 2022	–	1,798
Total long-term interest-bearing loans and borrowings				**46,551**	**63,877**
Less current portion of long-term interest-bearing loans and borrowings				(4,825)	(6,705)
Total long-term interest-bearing loans and borrowings, net of current portion				**41,726**	**57,172**
Short-term interest-bearing loans and borrowings					
Current portion of long-term interest-bearing loans and borrowings				4,825	6,705
Total short-term interest-bearing loans and borrowings				**4,825**	**6,705**

As of 31 December 2016, under credit line facilities from VTB and Vnesheconombank, the Company pledged as collateral the mortgage rights for sublease of a land plot with the estimated value of RUB 299 (31 December 2015: RUB 229) and airport equipment with a carrying amount of RUB 17,572 (31 December 2015: RUB 18,192).

As of 31 December 2016, the Company had no undrawn credit line facilities (31 December 2015: none).

24. Interest-bearing loans and borrowings (continued)

On 27 December 2016, the lending terms were amended and addenda to the loan agreements with Vnesheconombank were executed. The main terms are as follows:

- the loan period was extended to 10 years from the date of signing addenda to the loan agreements;
- a grace period of three years to repay the principal;
- repayment of the principal in equal quarterly installments starting from the fourth year after signing addenda to the loan agreements;
- starting 27 December 2016, reduction in the interest rate from 8.3% p.a. to 7.4% p.a.

A number of other terms are also provided; where any of them is violated, banks may impose penalties on the Company, including demand early repayment of the entire outstanding amount. The Company fulfills the terms provided in the new agreements.

The above changes did not result in any material modification of the contractual terms.

25. Share capital

Authorized, issued and fully paid share capital of the Company is as follows:

	Authorized	Issued and fully paid	
	Number of shares	Number of shares	Amount
At 31 December 2014	**4,031,502**	**2,300,701**	**2,180**
Issue of share capital	–	–	–
At 31 December 2015	**4,031,502**	**2,300,701**	**2,180**
Issue of share capital	–	–	–
At 31 December 2016	**4,031,502**	**2,300,701**	**2,180**

26. Reserve capital

According to the charter, the Group has to maintain a reserve capital through the allocation of 5% of net profit determined under Russian accounting principles. The total amount of the reserve capital may not exceed 5% of the Group's share capital. The reserve capital may only be used to cover losses of the Group, as well as to redeem issued debt instruments or to purchase treasury shares. As of 31 December 2016 and 2015, reserve capital was at its maximum level.

27. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

27. Related party transactions (continued)

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

No.	Legal entity or related party (full name)	Registration address	Nature of relationship	Share of the related party in the Company, %	Share of the Company in the related party, %
Shareholders					
1.	JSC Sheremetyevo Airport	ul. Pokrovka, 47A, Moscow	The Company owns 86.8005% of the share capital of JSC Sheremetyevo International Airport	86.8005%	–
2.	SC VEB	Prospekt Akademika Sakharova, 9, Moscow	SC VEB owns 4% of the share capital of JSC Sheremetyevo International Airport	4.2405%	–
3.	PJSC Aeroflot	ul. Arbat, 10, Moscow	PJSC Aeroflot owns 9% of the share capital of JSC Sheremetyevo International Airport	8.9589%	–
4.	PJSC VTB Bank	Presnenskaya nab., 12, Moscow	PJSC VTB owned 4% of the share capital of JSC Sheremetyevo International Airport until 21 June 2016	4%	–
Associates					
5.	CJSC Soyuzvneshtrans-Avia	Sheremetyevo Airport, Khimki	The Company owns more than 20% of the share capital of CJSC Soyuzvneshtrans-Avia	–	40%
6.	LLC Aero-Food Catering	Sheremetyevo Airport, Khimki	The Company owns more than 20% of the share capital of LLC Aero-Food Catering	–	26%
7.	LLC Avia Group	Sheremetyevo Airport, Khimki	The Company owns more than 20% of the share capital of LLC Avia Group	–	26%
8.	OJSC Sheremetyevo-4	ul. Krasnaya, 120, Solnechnogorsk	The Company owns more than 20% of the share capital of OJSC Sheremetyevo-4	–	50%
9.	LLC Moscow Cargo	Sheremetyevo Airport, Khimki	The Company owns more than 20% of the share capital of LLC Moscow Cargo	–	25.1%
10.	LLC RN-Sheremetyevo	ul. Aviatsionnaya, bld. 8, Khimki	The Company owns more than 20% of the share capital of LLC RN-Sheremetyevo	–	49%
11.	CJSC Sheremetyevo Fueling Complex	Sheremetyevo Airport, Khimki	The Company owns more than 20% of the share capital of CJSC Sheremetyevo Fueling Complex	–	25.1%
Other related parties					
12.	OJSC Sheremetyevo Cargo	Sheremetyevskoye shosse, 9, Sheremetyevo Airport, Khimki	The Company owns 8.9% of the share capital of OJSC Sheremetyevo Cargo	–	8.9%
13.	LLC Terminal B Sheremetyevo	Sheremetyevo Airport, Khimki	The Company owns 10.77% of the share capital of LLC Terminal B Sheremetyevo. JSC Sheremetyevo Airport is the controlling party of LLC Terminal B Sheremetyevo	–	11.48%
14.	LLC Sheremetyevo Inter-Terminal Passage	Sheremetyevo Airport, Khimki	The Company owns 2.15% of the share capital of LLC Sheremetyevo Inter-Terminal Passage. JSC Sheremetyevo Airport is the controlling party of LLC Sheremetyevo Inter-Terminal Passage.	–	2.31%
15.	LLC Sheremetyevo Holding	ul. Pokrovka, 47A, Moscow	LLC Sheremetyevo Holding owns 100% of the share capital of JSC Sheremetyevo Airport	–	–

27. Related party transactions (continued)

The consolidated financial statements of the Group include the following balances with related parties:

	31 December 2016	31 December 2015
Current assets		
Cash and cash equivalents	**973**	**90**
Shareholders	973	90
Short-term investments	**–**	**–**
Associates	–	–
Accounts receivable and prepayments	**1,055**	**744**
Associates	9	43
Other related parties	42	2
Shareholders	1,004	699
Allowance for impairment of accounts receivable	**(195)**	**(66)**
Shareholders	(195)	(66)
	1,833	**768**
Non-current assets		
Long-term investments	**60**	**782**
Associates	60	782
Total assets	**1,893**	**1,550**
Current liabilities		
Accounts payable		
Associates	8	17
Other related parties	13	8
Shareholders	53	39
Liabilities under a put option		
Shareholders	–	–
Interest-bearing loans and borrowings		
Shareholders	2,712	3,808
Associates	–	–
	2,786	**3,872**
Non-current liabilities		
Interest-bearing loans and borrowings		
Shareholders	37,633	45,986
	37,633	**45,986**
Total liabilities	**40,419**	**49,858**

27. Related party transactions (continued)

The consolidated financial statements of the Group include the following transactions with related parties:

	2016	2015
Revenue from sale of goods and services		
Associates	302	789
Other related parties	3,876	608
Shareholders	11,934	9,038
Interest income		
Shareholders	23	46
Other income		
Associates	166	51
Other related parties	6	8
Shareholders	360	111
Total revenue from sales and other income	**16,667**	**10,651**
Expenses on acquisition of goods and services		
Associates	(126)	(245)
Other related parties	(7)	(7)
Shareholders	(89)	(97)
Other expenses		
Associates	(4)	(32)
Other related parties	(2)	(7)
Shareholders	(293)	(343)
Total expenses	**(521)**	**(731)**

Transactions with related parties are disclosed in Notes 14, 15, 18, 20 and 22.

As of 31 December 2015, 86% of the shares in JSC Sheremetyevo International Airport were held by the Government of the Russian Federation represented by the Federal Agency for State Property Management. As of 31 December 2016, the Government of the Russian Federation represented by the Federal Agency for State Property Management held 25% of the shares in the Group's parent. In the Group's economic environment, companies and credit institutions are controlled, directly or indirectly, by the Russian Government represented by municipal bodies, agencies, associations and other organizations, which collectively represent organizations under the state influence.

The Group decided to apply an exemption from disclosure of individually insignificant transactions and balances with the state and its related parties, as the Russian Government controls, jointly controls or exercises a significant influence on such parties.

The Group's transactions with organizations under the state influence include, but are not limited to, the following:

- banking services;
- sales of various aviation and non-aviation services;
- leasing state-owned properties;
- transactions with derivative financial instruments.

27. Related party transactions (continued)

Transactions with state companies which hold shares in JSC Sheremetyevo International Airport are described above (see this Note).

Expenses related to leasing state-owned properties are disclosed in Note 9 and amount to under 2% of the Group's operating expenses for 2015 and 2016.

Transactions with the state also comprise settlements and turnovers with taxes, levies and customs duties disclosed in Notes 12, 15 and 21.

Compensation to key management personnel

Compensation to key management personnel includes short-term benefits, including salary and bonuses, as well as short-term compensation for serving on the management bodies of the Group. According to Russian legislation, the Group makes social insurance contributions to the Pension Fund of the Russian Federation for all its employees, including key management personnel.

	2016	**2015**
Salaries	189	267
Bonuses and other performance related payments	326	349
Total short-term compensation	**515**	**616**

28. Commitments under operating leases

Future minimum lease payments under non-cancellable operating leases were as follows as of 31 December:

	31 December 2016	**31 December 2015**
Less than 1 year	233	299
Between 1 to 5 years	929	1,179
More than 5 years	9,680	10,525
	10,842	**12,003**

The Group leases from the local authorities land on which the airport complex is located. The leases typically run for an initial period from 25 to 99 years with an option to renew the lease after its expiry. Lease payments are reviewed regularly to reflect market rates.

29. Capital commitments

The Group's capital commitments related to the construction of terminals and the modernization of existing assets as of 31 December are disclosed below:

	31 December 2016	31 December 2015
Development of Terminal D of Sheremetyevo airport	19	225
Development of Terminal E of Sheremetyevo airport	1	–
Development of Terminal C of Sheremetyevo airport	1	–
Aviation security system improvement	–	6
Construction of the car-park	793	–
Other	199	61
	1,013	**292**

30. Contingent liabilities and operational risks

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2016, the Russian economy was still negatively impacted by a significant drop in crude oil prices, a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. The ruble interest rates remain high as the CBR keeps the key interest rate unchanged at 10% as of 31 December 2016. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Environmental matters

The enforcement of current environmental regulations in the Russian Federation is continually evolving. The Group periodically evaluates its environmental protection obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing laws, regulation of civil litigation or changes in standards, cannot be reliably estimated but could be material. In the current enforcement climate under existing environmental legislation, management believes that the Group complies with the environmental requirements of the federal and regional authorities of the Russian Federation; therefore, there are currently no significant liabilities for environmental damage.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional or federal authorities.

30. Contingent liabilities and operational risks (continued)

Taxation (continued)

In 2015, tax law was amended to counter the use of low tax jurisdictions and aggressive tax planning. These amendments are effective from 2016.

These changes and recent trends in the application and interpretation of certain provisions of the Russian tax legislation indicate that the tax authorities may take a more assertive position in the interpretation of legislation and the review of tax assessments. Consequently, the tax authorities may challenge transactions and accounting methods that they have not challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed.

It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome.

Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, reviews may cover earlier periods.

Management believes that as of 31 December 2016 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions are likely to be sustained.

By management's calculations, the Group's contingent liabilities do not exceed 5% of the Group's total assets. Management believes that its position with regard to contingent liabilities and interpretations of the Russian legislation applied by the Group are reasonable; however, there is a possible risk that the Group may incur additional expenses if the management's position with regard to contingent liabilities is challenged in accordance with the legally established procedure. As of 31 December 2016, the Group does not expect that significant additional contingent liabilities will arise.

Current and potential claims against the Group

The Group is involved in litigations arising in the course of its business activity. As of 31 December 2016, the Company accrued a provision for risks associated with a possible unfavorable outcome of such litigations, which amounts to RUB 67.

a. Insurance

The insurance program of the Group is designed to cover a majority of risks inherent in airport operations without any substantial gaps in coverage. The main operational risks of the Group are covered by property damage policies and airport civil liability policies, while other insurance contracts cover losses the frequency of which is insignificant as well as provide additional benefits for employees and ensure the compliance with current legislation requirements without any major damage to airport business.

31. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, and accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operations and capital construction projects. The Group has a number of financial assets, such as accounts receivable, cash and cash equivalents, and other financial assets, that arise directly from its operations.

Management of risks is an essential element of the Group's operations. The Group is exposed to market risk, credit risk and liquidity risk.

a. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk. Financial instruments exposed to market risk include loans and borrowings, deposits, investments available for sale and derivative financial instruments.

b. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group borrows at fixed and variable interest rates and has other interest-bearing liabilities, such as finance lease liabilities.

Currently, the Group does not use instruments to hedge interest rate risk. Nevertheless, the Group monitors interest rates and, if necessary, may decide to start using instruments for hedging such risks.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities using the method under which changes in their fair value are recognized in profit or loss in the consolidated statement of comprehensive income. Therefore, a change in interest rates at the reporting date does not affect the Group's profit.

The Group does not account for any fixed rate financial assets as assets held for sale. Therefore, a change in interest rates at the reporting date does not affect the Group's equity.

Cash flow sensitivity analysis for variable rate instruments

The variable interest rate on a long-term loan from Vnesheconombank will become effective only in 2018. Until 2018, the interest rate on the loan is fixed.

31. Financial risk management objectives and policies (continued)

c. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk when it makes sales and purchases, and receives loans in foreign currency. The Group does not have any formal plan for mitigating foreign exchange risk arising from its operations.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in USD/RUB and EUR/RUB exchange rates, with all other variables held constant, of the Group's profit before tax. In 2016 and 2015, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. The Group's exposure to foreign currency risk due to changes in the exchange rates of any other currencies is not material.

	Change in USD/RUB rate	Effect on profit before tax	Change in EUR/RUB rate	Effect on profit before tax
2016	20.00%	(7,224)	20.00%	1
	(20.00%)	7,224	(20.00%)	(1)
2015	27.00%	(14,617)	27.66%	(47)
	(27.00%)	14,617	(27.66%)	47

d. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss to the Group.

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group places its available cash, mainly in US dollars and rubles, in major Russian banks. Management regularly reviews the creditworthiness of the banks in which it deposits cash.

The Group has policies in place to ensure that sales of products and services are made only to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment, represents the maximum amount exposed to credit risk. Although collection of accounts receivable is influenced by economic factors, management of the Group believes that there is no significant risk of loss beyond the allowance for impairment of accounts receivable.

31. Financial risk management objectives and policies (continued)

d. Credit risk (continued)

The maximum exposure to credit risk is equal to the carrying amount of financial assets disclosed below:

	31 December 2016	31 December 2015
Cash and cash equivalents	10,587	7,798
Accounts receivable	1,703	1,430
Derivative financial instrument	59	88
	12,349	**9,316**

As of 31 December 2016, the five largest customers of the Group accounted for 67% of the total amount of trade and other accounts receivable (net of allowance) (31 December 2015: 56%).

The table below shows the outstanding balances of top five counterparties as of the respective reporting dates:

	31 December 2016
PJSC Aeroflot − Russian Airlines	809
LLC AirBridgeCargo Airlines	151
Priority Pass Limited Company	108
LLC Nordwind Airlines	61
AIR FRANCE Airlines	34
	1,163

	31 December 2015
PJSC Aeroflot − Russian Airlines	633
Priority Pass Limited Company	62
Air Baltic	40
Air France	36
Bulgaria Air	31
	802

Fair value of financial instruments

Fair value of a derivative financial instrument

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly Airport through.
- Level 3: techniques, which use inputs that have a significant effect on the recorded fair value and that, are not based on observable market data.

31. Financial risk management objectives and policies (continued)

Fair value of financial instruments (continued)

As of 31 December 2016, the Group held the following financial instruments measured at fair value:

	31 December 2016		31 December 2015	
	Total	**Level 3**	**Total**	**Level 3**
Derivative financial instrument				
Interest rate option (PJSC Sberbank of Russia)	**59**	59	**88**	88
	59	**59**	**88**	**88**

During the reporting period, there were no transfers to and from Level 3 of the fair value hierarchy.

Fair value of financial instruments not carried at fair value

The carrying amounts of financial instruments, such as cash, investments and other financial assets, short-term accounts receivable and payable, and short-term loans received, approximate their fair value.

The following table presents financial instruments whose carrying amounts differ from their fair values (Level 3 in the fair value hierarchy).

	2016		2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Interest-bearing loans and borrowings				
Sberbank loan facility	7,940	7,995	12,267	12,905
Vnesheconombank	32,685	26,291	42,217	38,909
VTB	5,926	5,910	9,393	9,523
	46,551	**40,196**	**63,877**	**61,337**

The fair value of bank loans was estimated by discounting future cash flows using interest rates currently available for loans and borrowings with similar terms, credit risk and maturities. Cash flows were discounted at the current interest rates as of 31 December 2016 of 9.20%, 7.75%, and 7.40% p.a. for loan facilities from PJSC Sberbank of Russia, PJSC VTB Bank, and Vnesheconombank, respectively.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and forecasting process to ensure that it has adequate cash available to meet its payment obligations.

31. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments, including interest payments:

	Less than 1 month	1-3 months	3-12 months	1-2 years	3-5 years	More than 5 years	Total
2016							
Loans and borrowings with fixed rate (principal and interest)	–	1,411	6,560	7,652	20,957	27,585	**64,165**
Accounts payable	882	512	81	227	8	398	**2,108**
	882	**1,923**	**6,641**	**7,879**	**20,965**	**27,983**	**66,273**

	Less than 1 month	1-3 months	3-12 months	1-2 years	3-5 years	More than 5 years	Total
2015							
Loans and borrowings with fixed rate (principal and interest)	–	2,304	9,618	12,088	18,235	–	**42,245**
Loans and borrowings with variable rate (principal and interest)	–	–	–	–	15,820	24,748	**40,568**
Accounts payable	1,256	760	733	92	173	404	**3,418**
Finance lease liabilities (principal and interest)	–	1	3	–	–	–	**4**
	1,256	**3,065**	**10,354**	**12,180**	**34,228**	**25,152**	**86,235**

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to its shareholders through the optimization of the debt-to-equity ratio.

The Group's management reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital. The Board of Directors reviews the Group's performance and establishes key performance indicators. In addition, the Group is subject to certain externally imposed capital requirements, which are used for capital adequacy monitoring. There were no changes in the capital management objectives, policies and processes during 2016.

The Group monitors the amount of legal reserve as to its compliance with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments.

32. Subsequent events

On 26 January 2017, JSC Sheremetyevo International Airport held an Extraordinary General Shareholders' Meeting. The General Shareholders' Meeting decided on reorganization of JSC Sheremetyevo International Airport by taking over Joint-stock Company Sheremetyevo Airport, and on increasing the share capital of JSC Sheremetyevo International Airport through an additional issue of shares for reorganization purposes.

32. Subsequent events (continued)

On 26 January 2017, the Agreement on Takeover of Joint-stock Company Sheremetyevo Airport by JSC Sheremetyevo International Airport and the Transfer Act (as of 30 November 2016) thereto were signed. The above measures were taken pursuant to Decree No. 442 of the President of the Russian Federation *On Joint-stock Company "Sheremetyevo Airport"* dated 28 August 2015 and Government Resolutions No. 1865-r dated 22 September 2015 and No. 201-r dated 11 February 2016. Following the completion of the reorganization process, the activities of Joint-stock Company Sheremetyevo Airport taken over by JSC Sheremetyevo International Airport will be terminated according to the current legislation. The reorganization of JSC Sheremetyevo International Airport is expected to be completed in the second quarter of 2017.

As a result of the reorganization, JSC Sheremetyevo International Airport will receive all assets and liabilities of the taken over Joint-stock Company Sheremetyevo Airport, including:

- Shares in JSC Aero-Sheremetyevo − 50%;
- Shares in JSC VIP-International − 49%;
- Shares in JSC Imperial Duty Free − 58.35%;
- Share in LLC Autopark M − 100%;
- Share in LLC MASH Advertisement − 100%;
- Share in LLC Moscow Cargo − 74.9%;
- Share in JSC Sheremetyevo Inter-Terminal Passage and LLC Terminal B Sheremetyevo − 97.85% and 89.23%, respectively;
- Liabilities under the loan agreement with PJSC Sberbank for RUB 1,050;
- Other assets and liabilities.

In February 2017, the Group finalized the sale of its shares in JSC Terminal Vladivostok and JSC Vladivostok International Airport.

On 1 April 2017, Sheremetyevo International Airport is to decommission Terminal C and close it for reconstruction purposes. Pursuant to the long-term airport development strategy, the reconstruction of Terminal C will allow integrating Terminal C with Terminal B, which is still under construction, in 2019 and expanding the capacity of the Northern Terminal Complex and Sheremetyevo Airport in general. In 2016, revenue of Terminal C amounted to RUB 591, or 2.4% of the Group's total revenue.