Consolidated Financial Statements

31 December 2016

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Translation from the Russian original

Исх. № 1634-БДО-17

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Public Joint Stock Company "United Aircraft Corporation"

Qualified Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "United Aircraft Corporation" (PJSC "UAC") (OGRN 1067759884598, 1/22, Ulansky Lane, Moscow, 101000) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2016, which comprise a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Group accounts for certain Government grants as revenue and recognizes the related costs as cost of sales, while such treatment is not in compliance with International Accounting Standard (IAS) 20 "Accounting for Government Grants and Disclosure of Government Assistance". Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have decreased by RUB 11,989 million for the year ended 31 December 2016 (2015: RUB 19,581 million), the cost of sales would have decreased by RUB 10,413 million for the year ended 31 December 2016 (2015: RUB 15,738 million), and the government grants allocated to income in the consolidated statement of profit or loss would have increased by RUB 1,576 million for the year ended 31 December 2016 (2015: RUB 3,843 million).

We were unable to obtain sufficient appropriate audit evidence about the recoverable amount of property, plant and equipment related to certain subsidiaries of the Group. There are indications that the recoverable amount of property, plant and equipment related to certain subsidiaries of the Group may be significantly lower than their carrying amount. International Accounting Standard (IAS) 36 "Impairment of Assets" requires that, where such signs of impairment exist, management should estimate the recoverable amount. No such estimate has been made for all entities of the Group. The impact of this departure from the requirements of International Financial Reporting Standards on the consolidated financial statements has not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

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

The Key Audit Matter	**Audit procedures performed to address the key audit matter**
The adoption of the new development Strategy and transition to a single share Refer to Notes 1 and 4.	
The long-term development strategy was approved by the Board of Directors at the end of the reporting period. Its main objectives are: to meet the requirements of the state in the area of national security, to maximize sales in the global civil aircraft market, to retain the market share on the military aircraft market and to expand presence in the segments of transport and special aviation. Approval of the new development Strategy led in the reporting period to a change in the composition of the operating segments, by which the results of financial and economic activities are reviewed regularly by the chief operating decision maker, taking decisions on allocation of resources to the segment. We focused on this issue due to the fact that the implementation of the Strategy leads to significant changes in the Group's structure, segment reporting and business strategies which will impact the consolidated financial statements.	We have evaluated and performed a critical overview of the changes caused by the adopted Strategy. We checked the disclosures on segment reporting included into Note 4 to the consolidated financial statements for completeness and compliance with the requirements of IFRS 8 "Operating Segments". Disclosure of information for the core segment of the Group, military aviation, is regulated by the Law of the Russian Federation on State Secrets, according to which information on foreign trade activities of the Russian Federation and the cost of production of military equipment is a state secret. Access to information constituting a state secret can be granted by special state authorities only to organizations and individuals who have special licenses for access to classified information. Therefore, the Group does not disclose information about the cost of the reporting segments and revenues by the country of buyers.

Translation from the Russian original

The Key Audit Matter	Audit procedures performed to address the key audit matter
Actuarial calculations Refer to Note 25. In the reporting period, the Group engaged an independent actuary to make more precise calculations of the actuarial liabilities to the Group's employees. We focused on this issue due to difficulties with providing professional judgments and estimates required to calculate the actuarial liabilities, and in view of the significance of the personnel and social policy for the Group.	The management provided us with a report of an independent actuary. We have analyzed and verified the mathematical accuracy and reasonableness of the assumptions used in the calculations. Our internal actuarial experts assessed the key techniques, formulas and sources of information used by the actuary for compliance with the IFRS requirements. We checked the disclosures included in Note 25 to the consolidated financial statements for completeness and compliance with the requirements of IAS 19 "Employee Benefits".

Other Matter

We were appointed as independent auditor of the Group's consolidated financial statements prepared in accordance with IFRS for the first time. Our audit included standard procedures relating to the change of auditor as required by ISA.

The consolidated financial statements of JSC "UAC" for the year ended 31 December 2015 were audited by another auditor, who expressed a modified opinion on those statements on 15 April 2016 due to incorrect accounting for government grants and possible impairment of property, plant and equipment.

In the course of the audit we analyzed the areas on which the management provided subjective judgements, for example, in respect of significant accounting estimates and judgments, which included the use of assumptions and consideration of future events which, by their nature, involve uncertainty.

We used professional judgment with respect to our involvement in the audit of financial information of subsidiaries of JSC "UAC". We have sent instructions to the auditors of certain subsidiaries. These instructions included our risk assessment, prescribed levels of materiality and audit requirements, as well as reporting, ethical and other requirements. We received information from the component auditors, evaluated it and conducted other procedures to gain positive assurance that we have gathered sufficient audit evidence in respect of the subsidiaries of PJSC "UAC". In our work we were guided by the provisions of ISA 600 "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)".

Other Information

Management is responsible for the other information. In particular, the annual report includes consolidated financial statements and our auditor's report on it. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

If, based on our familiarization with the annual report, we conclude that there is a material misstatement in it, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Members of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

Members of the Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 relevant to financial information of the entities or operations within the Group to express an opinion on the consolidated financial statements

We are responsible for the management, control and conduct of the audit of the Group. We remain fully responsible for our audit opinion.

We communicate with members 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.

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

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

Signed by:

The Engagement Partner on the audit resulting in this independent auditor's report is Vladislav Yu. Poguliaev

Акционерное общество «БДО Юникон» Москва 1037739271701

Audit company:
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Member of the Self-regulated Organization of Auditors "Russian Union of Auditors" (Association)
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organizations: 11603059593

30 March 2017

BDO

UAC UNITED AIRCRAFT CORPORATION

Consolidated Statement of Profit and loss
31 December 2016
(In millions of Russian Rubles)

	Note	2016	2015 restated, note 3
Revenues	5	**416 926**	346 120
Cost of sales		**(338 289)**	(313 569)
Gross profit		**78 637**	32 551
Government grants related to income	24	**4 002**	242
Selling expenses		**(27 168)**	(15 395)
Administrative expenses		**(35 488)**	(33 584)
Research and development expenses		**(958)**	(542)
Impairment of non-current assets		**(1 086)**	(30 533)
Share in loss from equity accounted investees	13	**(1 084)**	(936)
Other operating income	7	**8 847**	9 585
Other operating expenses	7	**(14 499)**	(30 800)
Profit (loss) from operations		**11 203**	(69 412)
Interest income	8	**6 008**	8 588
Interest expense	8	**(30 628)**	(26 395)
Other financial results	9	**8 339**	(17 228)
Loss before taxation		**(5 078)**	(104 447)
Income tax	10	**597**	(5 499)
Loss for the period		**(4 481)**	(109 946)
Attributable to:			
Equity owners of the Company		**(2 497)**	(82 362)
Non-controlling interest		**(1 984)**	(27 584)
Loss for the period		**(4 481)**	(109 946)
Basic and diluted loss per ordinary share (in Russian Rubles)	20	***(0,0068)***	*(0,2888)*

The Consolidated Financial Statements were authorized for issue on 30 March 2017:

«ОБЪЕДИНЕННАЯ АВИАСТРОИТЕЛЬНАЯ КОРПОРАЦИЯ»

Yury Slyusar,
President

Alexey Demidov,
Vice-president for
Economics and Finance

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016
(In millions of Russian Rubles)

	Note	2016	2015 restated, note 3
Loss for the period		**(4 481)**	(109 946)
Other comprehensive (loss) income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**(33 583)**	40 516
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit plan less income tax	25	**(2)**	(182)
Other comprehensive (loss) income		**(33 585)**	40 334
Comprehensive loss for the period		**(38 066)**	(69 612)
Comprehensive loss for the period attributable to:			
Equity owners of the Company		**(33 460)**	(49 984)
Non-controlling interest		**(4 606)**	(19 628)
Comprehensive loss for the period		**(38 066)**	(69 612)

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

Consolidated Statement of Financial Position
31 December 2016
(In millions of Russian Rubles)

	Note	31 December 2016	31 December 2015 restated, note 3	1 January 2015 restated, note 3
ASSETS				
Non-current assets				
Property, plant and equipment	11	**175 433**	172 427	144 205
Intangible assets	12	**84 353**	88 363	93 752
Investments in associates and joint ventures	13	**5 956**	5 817	6 403
Other long-term investments	14	**2 228**	5 312	3 560
Trade and other receivables	16	**6 189**	5 397	2 828
Finance lease receivables		**1 833**	2 377	1 916
Deferred tax assets	10	**16 113**	13 245	12 573
Other non-current assets		**125**	415	653
Total non-current assets		**292 230**	293 353	265 890
Current assets				
Short-term investments	14	**2 880**	247	623
Inventories	15	**179 956**	157 468	133 021
Trade and other receivables	16	**318 154**	278 887	254 808
Income tax receivable		**333**	343	379
Finance lease receivables		**261**	192	107
Other current assets		**16 088**	12 012	4 150
Cash and cash equivalents	17	**172 733**	155 245	92 667
Total current assets		**690 405**	604 394	485 755
Non-current assets held for sale	18	**1 294**	1 158	1 094
Total assets		**983 929**	898 905	752 739
EQUITY AND LIABILITIES				
Equity				
Share capital	19	**310 891**	202 843	188 903
Share premium	19	**4 566**	4 566	4 566
Prepaid shares reserve	19	**42 608**	114 220	12 343
Treasury shares	19	**(267)**	(267)	(267)
Foreign currency translation reserve	19	**20 343**	51 304	17 975
Accumulated loss		**(246 240)**	(195 369)	(118 216)
Total equity attributable to shareholders of the Company		**131 901**	177 297	105 304
Non-controlling interest	19	**22 888**	(329)	7 325
Total equity		**154 789**	176 968	112 629
Non-current liabilities				
Loans and borrowings	21	**223 127**	194 944	185 643
Finance lease payable	22	**9 813**	4 952	1 857
Deferred tax liabilities		**16 487**	13 677	9 733
Employee benefits		**4 484**	3 280	3 156
Trade and other payables	23	**51 758**	44 326	58 262
Derivative financial instruments		**-**	9 166	1 081
Provisions	26	**10 969**	15 376	-
Total non-current liabilities		**316 638**	285 721	259 732
Current liabilities				
Loans and borrowings	21	**146 876**	108 077	149 786
Finance lease payable	22	**1 797**	983	1 054
Income tax payable		**502**	1 047	118
Employee benefits	25	**416**	576	492
Trade and other payables	23	**333 482**	304 548	226 027
Derivative financial instruments		**-**	2 210	-
Provisions	28	**29 429**	18 775	2 901
Total current liabilities		**512 502**	436 216	380 378
Total equity and liabilities		**983 929**	898 905	752 739

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

Consolidated Statement of Cash Flow
for the year ended 31 December 2016
(In millions of Russian Rubles)

	Note	2016	2015 restated, note 3
OPERATING ACTIVITIES			
Loss before income tax		**(5 078)**	(104 447)
Adjustments for:			
Depreciation and amortisation		**20 143**	18 598
Unrealized exchange (gains) losses		**(18 399)**	24 428
Share in losses of equity accounted investees		**1 084**	936
Impairment of non-current assets		**752**	27 101
Change in provision for write-down of inventories to net realizable value		**472**	84
Change in bad debt provision		**1 008**	3 242
Loss on disposal of property, plant and equipment and other assets		**87**	1 444
Interest expense		**38 578**	33 885
Government grant related to compensation of interest expense		**(7 950)**	(7 490)
Interest income		**(6 008)**	(8 588)
Cash flows from operating activities before changes in working capital and provisions		**24 689**	(10 807)
Change in inventories		**(21 493)**	(18 879)
Change in trade and other receivables		**(30 931)**	(32 020)
Change in trade and other payables		**42 426**	79 180
Change in finance lease receivable		**474**	(546)
Change in employee benefits		**1 070**	38
Change in other current and non-current assets		**(5 266)**	(6 902)
Change in provisions		**6 356**	24 595
Cash flows from operating activities before income tax and interest payments		**17 325**	34 659
Income tax paid		**(1 707)**	(343)
Interest paid, net of the government grant received		**(30 869)**	(37 476)
Net cash flow used in operating activities		**(15 251)**	(3 160)
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(29 705)**	(18 474)
Proceeds from disposal of property, plant and equipment		**-**	443
Acquisition of intangible assets		**(16 159)**	(11 954)
Change in investments		**1 787**	(1 983)
Change in loans granted and placed deposits		**(2 587)**	356
Government grant received related to assets		**381**	493
Interest received		**4 280**	5 915
Dividends received		**120**	46
Net cash flow used in investing activities		**(41 883)**	(25 158)
FINANCING ACTIVITIES			
Proceeds from borrowings		**78 837**	74 431
Repayment of borrowings		**(13 865)**	(115 255)
Payments on finance lease		**(973)**	(484)
Paid in capital		**17 847**	115 817
Contributions to equity of subsidiaries by non-controlling shareholders		**-**	10 985
Dividends paid		**(431)**	(654)
Net cash flow provided by financing activities		**81 415**	84 840
Net increase in cash and cash equivalents		**24 281**	56 522
Cash and cash equivalents at the beginning of the year		**155 245**	92 666
Effect of exchange rate changes on cash and cash equivalents		**(6 793)**	6 057
Cash and cash equivalents at the end of the year	17	**172 733**	155 245

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

UAC UNITED AIRCRAFT CORPORATION

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016
(In millions of Russian Rubles)

	Share capital	Share premium	Prepaid shares reserve	Treasury shares	Foreign currency translation reserve	Accumulated losses	Total equity attributable to shareholders of the Company	Non-controlling interest	Total equity
Balance at 1 January 2015 (restated, note 3)	188 903	4 566	12 343	(267)	17 975	(118 216)	105 304	7 325	112 629
Loss for the period (restated)	-	-	-	-	-	(82 362)	(82 362)	(27 584)	(109 946)
Other comprehensive income/(loss) (restated)	-	-	-	-	33 329	(951)	32 378	7 956	40 334
Total comprehensive income/(loss) for the period (restated)	-	-	-	-	33 329	(83 313)	(49 984)	(19 628)	(69 612)
Shareholders' contributions	13 940	-	101 877	-	-	-	115 817	-	115 817
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	6 631	6 631	12 157	18 788
Dividends	-	-	-	-	-	(471)	(471)	(183)	(654)
Balance at 31 December 2015 (restated, note 3)	202 843	4 566	114 220	(267)	51 304	(195 369)	177 297	(329)	176 968
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(2 497)**	**(2 497)**	**(1 984)**	**(4 481)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(30 961)**	**(2)**	**(30 963)**	**(2 622)**	**(33 585)**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(30 961)**	**(2 499)**	**(33 460)**	**(4 606)**	**(38 066)**
Shareholders' contributions	**108 048**	**-**	**(71 612)**	**-**	**-**	**-**	**36 436**	**-**	**36 436**
Repurchase of shares from non-controlling shareholders	**-**	**-**	**-**	**-**	**-**	**(48 762)**	**(48 762)**	**28 644**	**(20 118)**
Contributions to equity of subsidiaries by non-controlling shareholders	**-**	**-**	**-**	**-**	**-**	**390**	**390**	**(390)**	**-**
Dividends of subsidiaries to non-controlling shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(431)**	**(431)**
Balance at 31 December 2016	**310 891**	**4 566**	**42 608**	**(267)**	**20 343**	**(246 240)**	**131 901**	**22 888**	**154 789**

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

1. General

These consolidated financial statements of Joint Stock Company United Aircraft Corporation (the "Company") and its subsidiaries (collectively, the "Group") have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016.

The Company was incorporated on 20 November 2006, following the Decree of the President of the Russian Federation and ultimately controlled by the Government of the Russian Federation through the Federal Agency for State Property Management, which on 31 December 2016 owned 91.21% of the voting shares (31 December 2015: 90.44%). Since November 2009 the Company's shares have been traded on the Moscow Exchange with the UNAC ticker. Current registered office is at: Bld.1, Ulansky lane 22, Moscow, 101000, Russia.

The key activities of the Group are development, construction, testing, as well as maintenance and service support of military, civil, transport and special-purpose aircraft. The Group's business scope expands to include aircraft equipment modernization, overhauling and recycling. Manufacturing and sales of military aircraft, both for the Ministry of Defense of Russia and foreign governments, account for the largest proportion of the Group revenue.

The list of major subsidiaries included in these consolidated financial statements is disclosed in Note 33. The average number of employees of the Group for 2016 was 96 787 (2015: 96 545).

State Secrets

The operations of the Group related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on 21 July 1993. This Law provides that the information on the foreign economic activities of the Russian Federation, disclosure of which can cause any damage to the security of the country, is considered to constitute a state secret. Access to information classified as a state secret can be granted by the appropriate state authorities only to organizations and individuals holding appropriate licenses granting access to classified information.

Part of the property, plant and equipment of the Group relates to state military sites making up the mobilization capacity of the Russian Federation and is also subject to the Law on State Secrets. The law also limits the authority of the Group to dispose of these assets.

The operating environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the impact of economic and financial markets of the Russian Federation.

The Russian economy demonstrated unstable dynamics during 2016. The change in a number of economic indicators over this period indicates subsiding influence of the main negative factors of economic development. At the same time, the factors reducing investment and household consumption continue to have a significant negative impact on the growth of the Russian economy. In addition to these factors, the long duration and the depth of the recession were caused by unfavourable commodity market conditions, in particular, low oil prices, as well as by international sectoral sanctions imposed on Russia.

According to the Federal Statistics Service, the GDP decline in 2016 amounted to 0.2% on an annual basis, while at the end of 2015, the GDP contraction was 3.7%. The dynamics of GDP, net of seasonal factors, showed an upward trend. According to the Bank of Russia, in the fourth quarter of 2016, GDP growth was recorded at 0.6%, net of seasonal factors. Industrial production for 2016, according to the Federal State Statistics Service, grew by 1.1% compared to 2015, when it declined by 3.4%. At the same time, the situation on the financial markets improved significantly during 2016. The RTS index for 2016 grew by 52.2%, and the MICEX index - by 26.8%.

In September 2016, the international rating agency Standard & Poor's upgraded its outlook on Russia's sovereign credit rating from "negative" to "stable". In October 2016, the international rating agency Fitch Ratings also changed the outlook on the long-term issuer default ratings of the Russian Federation from "negative" to "stable".

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russia Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

The international trade and economic sanctions imposed on the Company in 2014 did not have a significant impact on the business and financial condition of the Group. In planning its operations, the Company constantly assesses the possible consequences of the imposed sanctions and continues to believe that they will not have a significant impact on the consolidated financial statements.

Reorganization

The Group began a large-scale transformation of its production facilities, the creation of centres of specialization and competencies within the framework of transition to a new industrial model. The transition provides for a more efficient use of investment, production capacity and the transfer of part of low value added production to outsourcing. The main goal of the reorganization is to create a profitable business that is attractive to investors, and to reduce dependence on state financing in terms of investments. A new long-term development strategy was approved, under which the organizational structure of the Group was changed. The allocation of military, civil, transport and special aviation segments is disclosed in Note 4.

2. Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Federal law No. 208-FZ "Consolidated Financial Statements", and International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

The consolidated financial statements are prepared on the historical cost basis, except for derivative financial instruments stated at fair value and defined benefit plan liability is recognised as the net total of the plan assets less the present value of the defined benefit obligation.

Functional and presentation currency

The functional currency of each of the Group’s consolidated companies is the currency of the primary economic environment in which the company operates. The management has analyzed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency, except for PJSC “Irkut Corporation” and JSC “Sukhoi Civil Aircraft”, which functional currency is the US dollar, since this reflects the economic substance of events and circumstances related to the activities of these companies.

The presentation currency of the Group is the Russian Ruble. All financial information presented in RUB has been rounded to the nearest million, unless otherwise indicated.

Assets and liabilities of the Group companies whose functional currency is different from the presentation currency are translated using the period-end exchange rates, income and expenses are translated at rates which approximate actual rates at the date of the transaction. Resulting exchange differences are recognised in other comprehensive income.

Going concern

These consolidated financial statements have been prepared on a going concern basis and on the assumption that the Group will continue to operate in the foreseeable future and will be able to exercise its assets and settle obligations in the normal course of business.

Basis of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where necessary the accounting policies of subsidiaries have been changed to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The acquisition of subsidiaries from third parties is accounted for using the acquisition method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition.

Acquisition of non-controlling interests of major shareholders is accounted for as transactions with shareholders. Non-controlling interest is measured at its proportionate interest in the identifiable net assets of an acquirer.

Investments in associates and jointly controlled entities. Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets relating to this arrangement, rather than rights to assets of joint ventures or obligations for their liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, except that they are only eliminated to the extent that there is no evidence of asset impairment.

Acquisitions from entities under common control. The assets and liabilities acquired in business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are recognised at the carrying amounts recognised previously in the financial statements of the entities. The components of equity of the acquired entities are added to the respective components of retained earnings of the Group, except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is recognised directly in equity. Comparatives are not restated.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Furthermore, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income or other expenses in profit or loss for the period.

The cost of replacing part of an item of property, plant and equipment increases the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

***Depreciation of property, plant and equipment*.** Depreciation is determined using the straight-line method based on the estimated useful lives of property, plant and equipment items. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	4 to 85 years;
Machinery and equipment	2 to 28 years;
Other	2 to 35 years.

Useful lives of property, plant and equipment are reviewed at each financial year end and adjusted, if appropriate.

Leased assets. Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

Investment property

Real estate held for the purpose of obtaining rental payments or for the purpose of capital appreciation is classified in the category of investment property. This property is not used in the production or supply of goods or services, or for administrative purposes, or for sale in the ordinary course of business.

Investment property is stated at cost. Subsequent expenditures relating to investment property are capitalized, only when it is probable that additional future economic benefits will flow to the Group and their cost can be measured reliably. All other costs for repairs and maintenance are expensed as incurred.

Intangible assets

Goodwill. Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently, goodwill is measured at cost less accumulated impairment losses. An impairment loss in respect of goodwill is not reversed.

Research and development. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge is recognised in profit or loss, as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, other than development carried out as part of construction contracts, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour, an appropriate proportion of overheads and borrowing costs that are directly attributable to the development activity. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised development costs is charged to the consolidated statement of profit or loss based on the unit-of-production method. The value of capitalised development costs is reviewed for impairment annually when the asset is not yet in use and thereafter whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Management uses professional judgement in determination whether proceeds related to externally financed research and development contracts with government related entities should be accounted for as government grants. In making this judgment, management considers a number of factors, including: the significance of external financing in total estimated costs of the contract, the stage of research and development project at which the government related entity commences participation, whether all substantial risks and rewards attributable to the result of research and development activities are transferred to the counterparty.

Other intangible assets. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment loss. Intangible assets that have limited useful lives are amortized on a straight-line basis over their useful lives.

Cash and Cash Equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognized based on the cost of acquisition which approximates fair value.

Financial instruments

Non-derivative financial assets. The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets.

Financial assets are designated at fair value through profit or loss, if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Directly attributable transaction costs are recognized in profit or loss as incurred.

Financial assets that the Group has the intention and ability to hold to maturity are initially recognized at fair value increased by the amount of costs directly attributable to the transaction. Subsequently, these assets are measured at amortized cost calculated using the effective interest method, less any impairment losses.

Available-for-sale financial assets include assets that are not classified in any of the above categories, as well as financial assets that are specifically acquired for sale. At initial recognition, such assets are measured at fair value increased by the amount of costs directly attributable to the transaction.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Non-derivative financial liabilities. The Group classifies non-derivative financial liabilities into the financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivative financial instruments. Derivative instruments are recorded at fair value in the consolidated statement of financial position in either financial assets or liabilities. Realized and unrealized gains and losses are presented in profit or loss on a net basis, except for those derivatives, where hedge accounting is applied.

The fair values of derivative financial instruments are estimated with reference to available market information or using other valuation methodologies, as considered appropriate. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize in a current market situation.

Treasury shares

Common shares of the Company owned by the Group as at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital, whereas losses reduce additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Inventories

Construction work in progress is stated at cost less foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Other inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost for inventory items that are not interchangeable or that have been segregated for specific contracts to be determined on an individual-item basis. An entity shall use the weighted average cost formula for all inventories having a similar nature and use. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Construction contracts

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost incurred plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Construction contracts in progress are presented as part of inventories in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. In cases where payments received for work performed exceed incurred expenses considering recognized profits and losses, the difference is presented in the consolidated statement of financial position as accounts payable under construction contracts.

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Employee benefits

Defined contribution plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees under employment contracts.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due in more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Defined benefit plans. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary, using the projected unit credit method. Net interest on the net defined benefit plan liability (asset), current and past service costs, including gains or losses arising on improving of plan benefits, plan curtailment or settlement, are recognised in profit or loss.

The effects of premeasurement of net defined benefit plan liabilities (assets), including actuarial gains and losses and return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), are recognised in other comprehensive income.

Short-term benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Warranties provision. A provision for estimated standard warranty costs is recognised in the period in which the related product sales occur. An accrual for warranty costs is recognised based on the Group's historical experience on previous deliveries of aircrafts. Estimates are adjusted as necessary based on subsequent experience.

Onerous contracts provision. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Claims provision. Claims include claims for legal and tax claims. A provision for claims is recognized when the Group acts as a defendant in a court of law and, in the opinion of lawyers of the Company, the probability of payment to the plaintiff is high, except for cases when the amount of such payments can't be reliably estimated. A provision for legal claims is estimated as the amount of probable payments and is recognized as an expense of the reporting period. The same approach is used to assess and reflect claims of tax authorities.

Revenues

Management uses judgement in determination whether revenue from manufacturing of an aircraft should be accounted for in accordance with IAS 11 as construction contracts or IAS 18 as goods sold. In making this judgment, management considers a number of factors, including: timing required to complete the contract, length of operating cycle required to deliver an item or set of items, extent of customer-driven modifications of an aircraft as compared to known specifications, existence of requirements for formal certification and benchmark tests to meet customer's specific needs.

Revenues from construction contracts. The operations of the Group include manufacturing aircraft under fixed price contracts where particular aircraft item (or its part) undergoes significant modification in development and (or) production to meet customer requirements, thus such contracts are accounted for under IAS 11 as construction contracts. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in proportion to the stage of completion of the contract, measured by incurred costs to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. The method places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined and are recognised immediately in profit or loss. Changes in job performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income and are recognised in the period in which the revisions are determined.

Goods sold. Revenue from the sale of goods, primarily related to production of serial civil aircraft not requiring substantial customer-related modification and separate military and civil aircraft components, is recognised in the consolidated statement of profit or loss, when significant risks and rewards of ownership have been transferred to the buyer.

Revenue is recognised, when significant risks and rewards of ownership have been transferred to the customer, there is no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Services. Revenue from services rendered, which primarily relate to customer-specified aircraft-related development activities, aircraft modernisation, overhaul and repair, is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Income taxes

Income tax expense comprises current and deferred tax and tax credits utilized during the year. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Income tax credit is granted in the form of increases in tax-deductible expenses. Tax credit is presented in profit or loss as a deduction in current tax expense to the extent that an entity is entitled to claim the credit in the tax current reporting period. If the additional deduction exceeds taxable income, then the resulting tax loss can be carried forward and utilised in future periods by recognising as a deferred tax asset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Government grants

Government grants are recognised in the consolidated statement of financial position initially as deferred income, when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Government grants that compensate the Group for expenses incurred are recognised as income in the consolidated statement of profit or loss on a systematic basis in the same periods in which the expenses were incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amounts of the asset.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other segments. All operating segments' operating results are reviewed regularly by the Company's President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Adoption of New or Revised Standards and Interpretations

The following revised standards and interpretations entered into force effective 1 January 2016: an amendment to IFRS 11 “Joint Arrangements”, amendments to IAS “16 Property, Plant and Equipment” and IAS 38 “Intangible Assets”, amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates", amendments to IAS 1 "Presentation of Financial Statements", amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 “Disclosure of Interests in Other Entities”, and IAS (I AS) 28 "Investments in Associates and Joint Ventures" and Annual Improvements to IFRS for the period 2012 - 2014.

Reviewed standards and interpretations effective from the 1 January 2016 didn’t have significant influence on the Group’s accounting policies, financial position and results. The Group doesn’t apply the standards before the term.

New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these standards and interpretations when they become effective.

IFRS 9 Financial instruments, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance. The core principle of the new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Leases replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

"Sale or contribution of assets to an associate or joint venture by an investor" - Amendments to IFRS 10 and IAS 28, the commencement date has not been determined. The amendments resolve a known discrepancy between the requirement of IFRS 10 and IAS 28 for the loss of control of a subsidiary that is transferred to an associate or joint venture. The amendments clarify that the investor recognizes the full income or loss from the sale or transfer of assets that constitute a business in the determination of IFRS 3 between him and his associate or joint venture. The gain or loss on revaluation at fair value of an investment in a former subsidiary is recognized only to the extent that it relates to the share of the independent investor in the former subsidiary.

"Disclosure Initiative" - Amendments to IAS 7, effective for annual periods beginning on or after 1 January 2017. Amendments to IAS 7 require disclosure of reconciliation of changes in liabilities arising from financial activities.

"Recognition of deferred tax assets for unrealized losses" - Amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2017. The amendment clarifies the recognition of deferred tax assets for unrealized losses on debt instruments. The organization will have to recognize the tax asset for unrealized losses arising from the discounting of cash flows on debt instruments using market interest rates, even if it implies holding the instrument to maturity, and after receiving the principal amount, payment of taxes is not expected.

Amendments to IFRS 15 "Revenue from contracts with customers" are effective for annual periods beginning on or after 1 January 2018. The amendments do not change the fundamental principles of the standard, but explain how these principles should be applied. The amendments clarify how to identify in the contract the obligation to perform (the promise of the transfer of goods or services to the buyer); How to determine whether the company is a principal (supplier of a product or service) or an agent (responsible for the organization of the delivery of goods or services), and how to determine whether to recognize revenue from the granting of a license at a certain point in time or for a period. In addition, the amendments include two additional exemption requirements, which will allow the company first applying the new standard to reduce costs and complexity of accounting.

Amendments to IFRS 2 "Share-based Payment" are effective for annual periods beginning on or after 1 January 2018. In accordance with these amendments, empowerment linked to non-market performance conditions will have an impact on the valuation of share-based payment transactions with cash settlements in the same way as for the evaluation of rewards that are settled in equity instruments. The amendments also clarify the classification of transactions that have the characteristics of calculation on a net basis and in which the organization holds a certain part of the equity instruments that would otherwise have been issued in favour of the counterparty when exercising (or granting rights) in exchange for repayment of the tax liability Counterparty, which is associated with payment based on shares. Such agreements will be classified as agreements that are fully settled in equity instruments.

Finally, the amendments also clarify the accounting for share-based payments with cash settlements when they have been modified into payments with equity instruments, namely: (a) the share-based payment is measured based on the fair value The equity instruments granted as a result of the modification, as of the modification date; (B) in the event of modification, the recognition of the liability is terminated, (c) the share-based payment is recognized for equity instruments in respect of services that have already been rendered prior to the modification date, and (d) the difference between the carrying amount of the liability at the modification date and the amount, Recognized in equity at the same date, is immediately recognized in profit or loss.

Amendments to IFRS 4 "Insurance Contracts" are effective for annual periods beginning on or after 1 January 2018. The amendments introduce two new approaches: (i) the overlapping approach and (ii) the deferral approach. Insurers will have a choice: until the new standard is issued under insurance contracts, they will be able to recognize the volatility that may arise when applying IFRS 9, not in profit or loss, but in other comprehensive income. In addition, organizations whose activities are primarily related to insurance will be able to take advantage of the temporary exemption from the application of IFRS 9 until 2021.

Annual improvements to IFRS, 2014-2016 cycle, effective for the purpose of applying amendments to IFRS 12 for annual periods beginning on or after 1 January 2017, as regards the application of amendments to IFRS 1, and IAS 28 for annual periods, beginning on or after 1 January 2018. The amendments affect three standards.

The amendments clarify that the requirements of IFRS 12 for disclosure, except for those relating to the disclosure of consolidated financial information on subsidiaries, joint ventures and are classified as investments held for sale or as discontinued operations in accordance with IFRS 5.

IFRS 1 has been amended and some of the short-term exemptions from IFRSs relating to disclosures about financial instruments, employee benefits and investment companies have been removed after they have been applied for the intended purpose.

Amendments to IAS 28 clarify that an investor organization has the option, in relation to each investment object, to apply an estimate of an investee at fair value in accordance with IAS 28 if the investor is an entity specializing in venture capital investment or a unit investment Fund, trust fund or similar organization, including investment funds related to investment. In addition, an organization that is not an investment company may be an associated organization or a joint venture that is an investment company. IAS 28 permits an entity to apply the fair value estimate when applying the equity method that was used by such an associate or a joint venture that is an investment company. The amendments clarify that such a choice is also possible with respect to each investment object.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration are effective for annual periods beginning on or after 1 January 2018. The clarification resolves the issue of determining the date of the transaction to determine the exchange rate used at the initial recognition of the relevant asset, expense or income (or part thereof) upon the termination of the recognition of a non-monetary asset or a non-monetary obligation arising from a prepayment in foreign currency. In accordance with IAS 21, the date of the transaction for the purpose of determining the exchange rate used at the initial recognition of the relevant asset, expense or income (or part thereof) is the date on which the entity initially takes into account a non-monetary asset or a non-monetary obligation, Arising as a result of prepayment of compensation in foreign currency. In the case of several payments or receipts made on a prepayment basis, the organization must determine the date of each payment or receipt made on a prepayment basis. IFRIC 22 applies only in cases where an entity recognizes a non-cash asset or a non-monetary liability arising from a prepayment. IFRIC 22 does not provide practical guidance for determining the accounting entity as monetary or non-monetary. In the general case, payment or reimbursement made on a prepayment basis results in the recognition of a non-monetary asset or a non-monetary obligation, but they can also lead to the occurrence of a cash asset or liability. Organizations may need to use professional judgment in determining whether a particular entity is monetary or non-monetary.

Transfers to or from investment property - Amendments to IAS 40 are effective for annual periods beginning on or after 1 January 2018. Amendments clarify the requirements for transfer to / from the investment property in the part of the objects of unfinished construction. Prior to the issuance of the amendments, IAS 40 did not have separate guidance on transferring / investment property to / from the construction in progress. The amendment clarifies that there was no intention to prohibit the transfer of investment property in the investment real estate under construction or development and classified as inventories in case of an obvious change in the nature of use. IAS 40 has been amended to support the application of the principles of transfer to / from the investment property in accordance with IAS 40, clarifying that the transfer to / from the investment property can only be made if the nature of the use of the property changes; and such a change in the nature of use will require an assessment of the possibility of classifying real estate as an investment. Such a change in the nature of use must be supported by facts.

The Group is currently reviewing the provisions of these standards, their impact on the Group and the timing of their application.

3. Significant accounting judgements, estimates and assumptions

Preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions, which affect the application of provisions of the accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Actual results may differ from the judgements, estimates made by the management if different assumptions or circumstances apply.

Some estimates, assumptions and judgments are disclosed in the relevant notes. Judgments about the choice of the functional currency are disclosed in Note 2.

Information about critical estimates and judgments formed in the process of applying accounting policies, which have the most significant effect on the values reflected in these consolidated financial statements are set out below:

Inclusion of organizations in consolidation. The Group includes an organization in the consolidation, if it controls it. The Group controls the organization when the Group is exposed to risks related to variable income from participation in the investment object or has the rights to receive such income, has the authority, and is able to use its authority with respect to this organization in order to influence the amount of that income. The conclusion about the presence of control is reviewed when facts and circumstances indicate that changes in any of the control elements are possible.

Impairment of non-current assets. The following are examples of impairment indicators, which are reviewed by the management: changes in the Group's business plans, low plant utilization, evidence of physical damage or considerable increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exists, the Group makes an assessment of the recoverable amount. The long-term business plans and models, which are approved by the management, are the primary source of information for the determination of value in use. They contain forecasts for production, sales volumes, revenues, costs and capital expenditure. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or cash generating unit (CGU) and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Useful lives of property, plant and equipment. Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Impairment allowance for accounts receivable. The impairment allowance for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates.

Deferred income tax asset recognition. The recognized deferred tax asset represents amount of income tax which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

(In millions of Russian Rubles)

The put option for the sold aircraft and the guarantee of the residual value. A number of contracts for the supply of aircraft contain a put option for the aircraft sold and a guarantee of residual value. In accordance with these contracts, the Group at the time of sale commits after 10-12 years from the date of sale of the aircraft (the period usually equal to half of the economic life of the aircraft) to pay the difference between the guaranteed residual value (usually 40 - 45% of the price) and market value at the date when the owner of the aircraft decided to sell aircraft at the market, or to buy back the aircraft at a guaranteed cost. The Group's management, at the time of sale of the aircraft and at each reporting date, makes an assessment of the occurrence of the liability and accrues a provision for the difference between the future market value of the sold aircraft and the guaranteed residual value. Management estimates that all put options for sold aircraft and guarantees of residual value were not encumbrance at 31 December 2015. As at 31 December 2016 a provision of RUB 633 million was recognized.

Contingencies. Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the probability of unfavourable outcome for the Group, as well as the most probable value of the outflow of economic benefits.

Changes in presentation and reclassifications

In connection with the reorganization and the adoption of the new Development Strategy (Notes 1 and 4), the Group has improved the disclosure in its consolidated financial statements. In this regard, the comparative information has been adjusted to correspond to the disclosures of the current period. Relevant reclassifications related to the information disclosed in the Group's consolidated financial statements for the year ended 31 December 2015 are presented below.

Finance income and expense for the year 2015 were reclassified to interest income and expense and a separate line “other financial results” was introduced:

	Amounts reflected earlier	Reclassification effect	Adjusted data
Finance income	8 743	(8 743)	**-**
Finance expense	(43 778)	43 778	**-**
Interest income	-	8 588	**8 588**
Interest expense	-	(26 395)	**(26 395)**
Other financial results	-	(17 228)	**(17 228)**

Advances for inventories issued to suppliers and accrued debts for construction contracts at 31 December 2015 were transferred from inventory to trade and other receivables:

	Amounts reflected earlier	Reclassification effect	Adjusted data
Inventories	109 827	(109 827)	**-**
Trade and other receivables	-	109 827	**109 827**

Finance lease liabilities were removed from loans and borrowings and are shown separately as at 31 December 2015:

	Amounts reflected earlier	Reclassification effect	Adjusted data
Long-term loans and borrowings and finance lease	194 883	(194 883)	**-**
Short-term loans and borrowings and finance lease	107 648	(107 648)	**-**
Long-term loans and borrowings	-	189 931	**189 931**
Short-term loans and borrowings	-	106 665	**106 665**
Long-term finance lease payables	-	4 952	**4 952**
Short-term finance lease payables	-	983	**983**

(In millions of Russian Rubles)

Adjustments for previous periods

During the reporting period, the accounting policy was changed, and errors were detected for the previous periods related to determining the degree of completion of work and clarifying the procedure for translation of property, plant and equipment values from the functional currency to the presentation currency. The following is the amount of adjustments for each item of the consolidated financial statements.

Impact on the items of the consolidated statement of comprehensive income:

	2015
Revenues	(5 722)
Cost of sales	(6 261)
Other income	7 650
Selling, administrative and other expenses	7 151
Financial results	1 737
Income tax expense	(5 734)
Loss for the period	**(1 179)**
Foreign currency translation differences	7 799
Actuarial losses on defined benefit plans, net of income tax	(392)
Comprehensive income for the period	**6 228**
Loss for the period attributable to:	
Equity owners of the Company	797
Non-controlling interest	(1 976)
Loss for the period	**(1 179)**
Comprehensive income for the period attributable to:	
Equity owners of the Company	8 303
Non-controlling interest	(2 075)
Comprehensive profit for the period	**6 228**
Basic loss per shares attributable to the Company's shareholders (in Russian Rubles)	*0,0746*

Impact on the items of the consolidated statement of financial position:

	31 December 2015	**1 January 2015**
ASSETS		
Property, plant and equipment	2 647	(7 750)
Intangible assets	(5 026)	235
Investments in associates and joint ventures	(2 438)	(1 802)
Other long-term investments	1 819	80
Trade and other receivables	(9 366)	641
Deferred tax assets	(806)	2 965
Other non-current assets	288	(2)
Short-term investments	(130)	(129)
Inventories	508	(11 330)
Trade and other receivables	(17 529)	(10 401)
Other current assets	7 438	-
Non-current assets held for sale	1 158	1 094
Total impact on assets	**(21 437)**	**(26 399)**
LIABILITIES		
Loans and borrowings	(14 193)	(16 728)
Deferred tax liabilities	195	(287)
Employee benefits	(427)	(442)
Trade and other payables	(13 067)	13 322
Loans and borrowings	(1 411)	55
Employee benefits	(311)	(381)
Trade and other payables	18 606	3 634
Provisions for future expenses and payments	8 515	-
Total impact on liabilities	**(2 093)**	**(827)**
Equity		
Treasury shares	143	143
Foreign currency translation reserve	11 947	4 105
Accumulated loss	(21 063)	(27 474)
Non-controlling interest	(10 371)	(2 346)
Total impact on equity	**(19 344)**	**(25 572)**

(In millions of Russian Rubles)

Impact on the items of the consolidated statement of cash flows:

	2015
OPERATING ACTIVITIES	
Loss before income tax	4 555
Adjustments for:	
Depreciation and amortisation	(1 800)
Unrealised exchange gains	34 251
Share of losses in equity accounted investees	641
Impairment of non-current assets	(3 006)
Impairment of inventories	84
Change in bad debt provision	1 023
Loss on disposal of property, plant and equipment and other assets	2 922
Interest expense	12
Government grant related to compensation of interest expense	214
Interest income	(69)
Cash flows from operating activities before changes in working capital and provisions	38 827
Change in inventories	1 325
Change in receivables and payables	(2 905)
Change in provisions and employee benefits	211
Change in other current and non-current assets	(7 892)
Change in provisions	1 860
Cash flows from operating activities before income tax and interest payments	31 426
Income tax paid	(1 132)
Interest paid, net of government grants received	(213)
Net cash flow from operating activities	30 081
INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	3 425
Acquisition of intangible assets	5 660
Proceeds from investments	(1 933)
Change in loans granted and placed deposits	659
Government grant received related to assets	251
Net cash flow from investing activities	8 062
FINANCING ACTIVITIES	
Proceeds from borrowings	(111 432)
Payments on finance lease	(484)
Repayment of borrowings	132 040
Contributions to equity of subsidiaries by non-controlling shareholders	(7 807)
Net cash flow provided by financing activities	12 317
Net increase/(decreae) in cash and cash equivalents	50 460
Effect of exchange rate changes on cash and cash equivalents	(50 460)

4. Operating segments

The change in the organizational structure and approval of the new development strategy led to a change in the composition of the operating segments for which the results of financial and economic activities are regularly analyzed by management making operational decisions about the allocation of resources to the segment. Operational segments are formed by types of aviation, which represent separate business areas in which the functions for managing the whole life cycle of the relevant aircraft are concentrated:

- ***Military aviation*** – mainly, the development, testing, production and after-sales service of military combat aircraft, mainly fighters of "MiG", "Su" and combat training mark "Yak". Currently, the Group is in the process of development and testing of a heavy multi-purpose fighter of the fifth generation and the initiation of a strategic bomber missile carrier.

- ***Civil aviation*** – mainly, the development, testing, production and after-sales service of civil aviation of the brands "Il", "Tu" and Sukhoi Super Jet ("SSJ"). Currently, the Group is in the process of assembly and testing of the first flight models of the perspective medium-haul narrow-bodied airplane "MS-21" and the initiation of a wide-body aircraft.

(In millions of Russian Rubles)

- ***Transport aviation*** – mainly, the development, testing, production and after-sales service of transport aircraft of the brands "IL" and "AN". Currently, the Group is in the process of designing the advanced light and medium military transport aircraft and the initiation of a super heavy military transport aircraft.
- ***Special aviation*** – mainly development, testing, production and after-sales service of strategic and special aviation brands "A", "Tu", "Il" and "Be".

Other segments include the conduct of integrated research and testing of aviation equipment and trade in other production and technical products.

Operating segments of transport and special aviation generate less than 10% of the segment revenue. Economic characteristics, the nature of production processes and products between all segments are similar. For presentation in the consolidated financial statements, management has consolidated the operating segments into two reporting segments: ***the military segment and the civil segment***.

Data on the total amount of assets and liabilities for each reportable segment are not presented to management on a regular basis. All companies of the Group operate in the Russian Federation. The distribution of resources and the evaluation of performance are analyzed by management on the basis of revenues and gross profit of the segments.

Management has not restated segment information for earlier periods for new segments and information for 2016 for the old segments, as this information is not available and the costs of obtaining it are excessively high.

Revenue and gross profit of the reportable segments for 2016:

	Military segment	Civil segment	Other segments	**Total**
Revenue of reportable segments	**338 075**	**69 437**	**1 083**	**408 595**
Inter-segment revenue	**(12 788)**	**(1 179)**	**-**	**(13 967)**
Revenue	**325 287**	**68 258**	**1 083**	**394 628**
Gross profit	**69 777**	**8 850**	**715**	**79 342**

Reconciliation between the revenue of the reportable segments and IFRS revenues:

	2016
Revenue of reportable segments	**408 595**
Adjusted:	
Elimination of inter-company operations	**(13 967)**
Difference in time and principles of revenue recognition	**22 298**
IFRS revenue	**416 926**

Reconciliation between the gross profit of the reportable segments and IFRS gross profit:

	2016
Gross profit of reportable segments	**79 342**
Adjusted for:	
Temporary differences in recognition of revenue and cost of sales	**9 041**
Recognition of inventories at market value and losses under onerous contracts	**(10 261)**
Difference in recognition of administrative expenses	**11 929**
Adjustments relating to recognition of property, equipment and intangible assets at fair value	**1 358**
Provisions accrued	**(2 937)**
Other	**(9 835)**
IFRS gross profit	**78 637**

In 2016 revenue from sales to the main buyer, represented by the Ministry of Defense of the Russian Federation, was 43% (2015: 47%).

The activities of the Group are governed by the Law of the Russian Federation on State Secrets, according to which information on the foreign economic activities of the Russian Federation and the cost of production of military equipment is a state secret. Access to information that is a state secret can only be provided by special state authorities to organizations and individuals with special licenses for access to classified information, and, therefore, the Group does not disclose information on revenue by the countries of origin of buyers.

(In millions of Russian Rubles)

5. Revenue

Revenue by type of products and services:

	2016	2015
Revenue earned on aircraft construction contracts	**249 458**	206 411
Revenue on sales of aircraft components	**54 008**	28 067
Revenue earned on research and development	**40 655**	40 881
Revenue earned on modernisation and overhaul	**62 163**	63 083
Other	**10 642**	7 678
Total revenue	**416 926**	346 120

The share of export revenue for 2016 by all types of products and services amounted to RUB 203 285 million (2015: RUB 98 748 million)

6. Staff costs

Staff costs, including remuneration at the end of employment, are as follows:

	2016	2015
Wages and salaries	**(60 033)**	(52 039)
Payroll taxes	**(17 036)**	(14 643)
Expenses related to pension plans	**(1 127)**	(752)
Total	**(78 196)**	(67 434)

7. Other income and expenses

Other income of the Group:

	2016	2015
Recovery of provisions	**4 435**	998
Dividends received	**120**	46
Income on lease	**240**	215
Income from sale of other assets	**1 675**	386
Write-off of accounts payable	**87**	120
Compensation under insured event	**38**	1 770
Other income	**2 252**	6 050
Total	**8 847**	9 585

Other expenses of the Group:

	2016	2015
Provisions accrued	**(3 850)**	(13 372)
Write-off and impairment of work in progress	**(235)**	(2 498)
Write-off and change in provision for doubtful accounts receivable	**(1 008)**	(3 242)
Property and other tax expense	**(959)**	(944)
Charity and social expenses	**(1 089)**	(1 155)
Loss on disposal of property, plant and equipment and intangible assets	**(1 297)**	(1 844)
Fines and penalties	**(1 061)**	(1 002)
Bank commissions	**(699)**	(384)
Other expenses	**(4 301)**	(6 359)
Total	**(14 499)**	(30 800)

(In millions of Russian Rubles)

8. Interest income and expenses

	2016	2015
Interest expense	**(38 578)**	(33 885)
Government grant related to compensation of interest expense	**7 950**	7 490
	(30 628)	(26 395)
Interest income	**6 008**	8 588
Net interest expense	**(24 620)**	(17 807)

Description of government grants received by the Group is disclosed in Note 24.

9. Other financial results

	2016	2015
Net foreign exchange gain (loss)	**5 289**	(2 962)
Net profit on finance lease	**117**	155
Profit (loss) on derivative financial instruments	**1 483**	(14 320)
Other finance income and expense	**1 450**	(101)
Total	**8 339**	(17 228)

Profit /(loss) on derivative financial instruments is the financial result on the currency swap for the US dollar exchange rate, which was purchased by JSC "RSK" MiG" in 2014.

Other finance income and expense include profit from the exchange of shares of JSC “Oboronprom” in the amount of RUB 923 million, as described in Note 14.

10. Income tax

	2016	2015
Current income tax expense		
Current income tax	**(675)**	(4 485)
Adjustments of prior years	**(60)**	118
Total	**(735)**	(4 367)
Deferred income tax benefit (expense)		
Origination and reversal of temporary differences	**2 890**	(3 018)
Change in recognized deferred tax assets	**(1 558)**	1 886
Total	**1 332**	(1 132)
Total income tax benefit (expense)	**597**	(5 499)

Reconciliation between income tax expense and the result of multiplying the profit (loss) before tax by the current rate, which for companies of the Group for 2016 was 20% (2015: 20%):

	2016	2015
Loss before income tax	**(5 078)**	(104 447)
Income tax at the applicable tax rate	**1 016**	20 889
Non-deductible/ non-taxable items	**1 298**	(28 432)
Change in recognized deferred taxes	**(107)**	262
Income taxed at other rates	**14**	3
Unrecognised deferred tax assets	**(1 556)**	2 168
Foreign currency translation	**(68)**	(389)
Total income tax benefit/(expense)	**597**	(5 499)

Movement of deferred tax assets (DTA) and liabilities (DTL) during **2016**:

(In millions of Russian Rubles)

	31 December 2015		Recognized in profit or loss	Recognized in other comprehensive income	Foreign currency translation	31 December 2016	
	DTA	DTL				DTA	DTL
Property, plant and equipment	**1 682**	**(15 671)**	**(1 169)**	**-**	**2 507**	**119**	**(12 770)**
Intangible assets	**2 310**	**(9 772)**	**(585)**	**-**	**762**	**4 352**	**(11 637)**
Investments	**662**	**(996)**	**(1 810)**	**-**	**5**	**235**	**(2 374)**
Inventories	**13 385**	**(6 770)**	**6 967**	**-**	**(568)**	**14 801**	**(1 787)**
Trade and other receivables	**922**	**(9 100)**	**(1 058)**	**-**	**1 075**	**2 460**	**(10 621)**
Trade and other payables	**7 611**	**(7 018)**	**(3 594)**	**-**	**(483)**	**3 605**	**(7 089)**
Loans and borrowings	**7 383**	**(1 599)**	**(2 162)**	**-**	**(1 700)**	**5 613**	**(3 691)**
Provisions	**2 311**	**(26)**	**2 146**	**(25)**	**(88)**	**4 321**	**(3)**
Tax loss carry-forwards	**14 254**	**-**	**2 597**	**-**	**(2 759)**	**14 092**	**-**
Total tax assets (liabilities)	**50 520**	**(50 952)**	**1 332**	**(25)**	**(1 249)**	**49 598**	**(49 972)**
Offset	**(37 275)**	**37 275**	**-**	**-**	**-**	**(33 485)**	**33 485**
Net tax assets (liabilities)	**13 245**	**(13 677)**	**1 332**	**(25)**	**(1 249)**	**16 113**	**(16 487)**

Movement of deferred tax assets and liabilities during **2015**:

	1 January 2015		Recognized in profit or loss	Recognized in other comprehensive income	Foreign currency translation	31 December 2015	
	DTA	DTL				DTA	DTL
Property, plant and equipment	3 559	(14 803)	1 976	-	(4 721)	1 682	(15 671)
Intangible assets	4 437	(11 873)	2 435	-	(2 461)	2 310	(9 772)
Investments	529	(925)	2	-	60	662	(996)
Inventories	23 114	(14 601)	(2 004)	-	106	13 385	(6 770)
Trade and other receivables	1 694	(7 857)	(824)	-	(1 191)	922	(9 100)
Trade and other payables	10 045	(12 241)	1 821	-	968	7 611	(7 018)
Loans and borrowings	2 612	1 563	29	-	1 580	7 383	(1 599)
Provisions	1 548	(414)	1 134	(33)	50	2 311	(26)
Tax loss carry-forwards	16 453	-	(5 701)	-	3 502	14 254	-
Total tax assets (liabilities)	63 991	(61 151)	(1 132)	(33)	(2 107)	50 520	(50 952)
Offset	(51 418)	51 418	-	-	-	(37 275)	37 275
Net tax assets (liabilities)	12 573	(9 733)	(1 132)	(33)	(2 107)	13 245	(13 677)

Unrecognized deferred tax assets presented in the table below:

	2016	2015
Unrecognized deferred tax assets for temporary differences	**(2 495)**	(4 758)
Tax loss carry-forwards	**(8 585)**	(9 107)
Total	**(11 080)**	(13 865)

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

A temporary difference as at 31 December 2016 of RUB 96 277 million (2015: RUB 69 096 million) relating to investments in subsidiaries has not been recognised because the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(In millions of Russian Rubles)

11. Property, plant and equipment

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2015	78 856	104 561	12 892	31 484	227 793
Additions and transfers	15 017	10 756	1 233	2 206	29 212
Reclassification to PPE	-	605	736	-	1 341
Disposals	(2 207)	(5 070)	(283)	-	(7 560)
Foreign currency translation	7 582	16 928	462	1 503	26 475
At 31 December 2015	99 248	127 780	15 040	35 193	277 261
Additions and transfers	**2 925**	**17 743**	**806**	**5 154**	**26 628**
Reclassification to PPE	**621**	**-**	**-**	**1 327**	**1 948**
Disposals	**(809)**	**(3 466)**	**(370)**	**-**	**(4 645)**
Foreign currency translation	**(5 898)**	**(12 609)**	**(551)**	**(1 173)**	**(20 231)**
At 31 December 2016	**96 087**	**129 448**	**14 925**	**40 501**	**280 961**
Depreciation					
At 1 January 2015	(15 058)	(61 060)	(7 470)	-	(83 588)
Depreciation charge	(2 190)	(9 517)	(2 003)	-	(13 710)
Disposals	234	5 082	171	-	5 487
Foreign currency translation	(2 032)	(10 654)	(337)	-	(13 023)
At 31 December 2015	(19 046)	(76 149)	(9 639)	-	(104 834)
Depreciation charge	**(2 709)**	**(8 644)**	**(1 870)**	**-**	**(13 223)**
Impairment	**-**	**(482)**	**-**	**-**	**(482)**
Disposal	**303**	**3 301**	**135**	**-**	**3 739**
Foreign currency translation	**1 519**	**7 346**	**407**	**-**	**9 272**
At 31 December 2016	**(19 933)**	**(74 628)**	**(10 967)**	**-**	**(105 528)**
Net book value					
At 1 January 2015	63 798	43 501	5 422	31 484	144 205
At 31 December 2015	80 202	51 631	5 401	35 193	172 427
At 31 December 2016	**76 154**	**54 820**	**3 958**	**40 501**	**175 433**

Assets in operating lease

Plant and equipment include aircraft provided to customers under operating lease agreements. As at 31 December 2016, the net book value of these aircraft amounted to RUB 1 470 million (31 December 2015: RUB 2 467 million).

Leased plant and equipment

The Group leases in part of production equipment under finance lease agreements. At 31 December 2016, the net book value of equipment obtained under finance lease was RUB 12 092 million (31 December 2015: RUB 9 978 million). Finance lease liabilities are disclosed in Note 22.

Collateral

As at 31 December 2016, property, plant and equipment items with the carrying amount of RUB 6 615 million (31 December 2015: RUB 6 184 million) are pledged as collateral to secure loans and borrowings.

Capitalised borrowing costs

Additions to property, plant and equipment for 2016 include RUB 826 millions of capitalised borrowing costs (2015: RUB 929 million).

(In millions of Russian Rubles)

12. Intangible assets

	Development costs	Software	Advances given for development costs	Total
Cost				
At 1 January 2015	114 789	5 459	932	121 180
Addition	9 488	1 207	1 445	12 140
Government grants	(493)	-	-	(493)
Disposal	(2 188)	(1 127)	(199)	(3 514)
Foreign currency translation differences	30 820	623	411	31 854
At 31 December 2015	152 416	6 162	2 589	161 167
Addition	**12 601**	**2 222**	**1 442**	**16 265**
Government grants	**(381)**	**-**	**-**	**(381)**
Disposal	**(1 408)**	**(794)**	**-**	**(2 202)**
Foreign currency translation differences	**(23 803)**	**(420)**	**(244)**	**(24 467)**
At 31 December 2016	**139 425**	**7 170**	**3 787**	**150 382**
Amortization and impairment				
At 1 January 2015	(24 798)	(2 630)	-	(27 428)
Amortization charge	(4 061)	(1 058)	-	(5 119)
Impairment	(28 833)	-	-	(28 833)
Disposal	762	594	-	1 356
Foreign currency translation differences	(12 514)	(266)	-	(12 780)
At 31 December 2015	(69 444)	(3 360)	-	(72 804)
Amortization charge	**(3 911)**	**(1 267)**	**-**	**(5 178)**
Impairment	**-**	**-**	**(221)**	**(221)**
Disposal	**-**	**789**	**-**	**789**
Foreign currency translation differences	**11 217**	**168**	**-**	**11 385**
At 31 December 2016	**(62 138)**	**(3 670)**	**(221)**	**(66 029)**
Carrying amount				
At 1 January 2015	89 991	2 829	932	93 752
At 31 December 2015	82 972	2 802	2 589	88 363
At 31 December 2016	**77 287**	**3 500**	**3 566**	**84 353**

Research and development costs

Capitalized research and development costs comprise the following programs:

	31 December 2016	31 December 2015
SSJ-100	**35 222**	39 399
MS-21	**18 146**	13 952
Yak-130	**9 280**	12 035
Other	**14 640**	17 587
Total	**77 288**	82 973

The development of the Sukhoi Super Jet – 100 and MC – 21 aircraft is included in the State Program of the Russian Federation "Development of the aircraft industry for 2013-2025". Following this program, the Group receives financing from the Federal Government. Appropriate funds are received under the contract with the Ministry of Industry and Trade which is structured as a contract for development services and as direct subsidies from the budget to cover certain types of expenses.

SSJ – 100. The Group obtained the Type Certificate for serial aircraft production and subsequently deliveries commenced to the first customers. Management concluded that development costs capitalised up to the date of the Type Certificate met the requirement of IAS 38 Intangible assets as 'available for use' which triggered commencement of amortisation of these costs based on the unit-of-production method. Management expects that certain development activities are still required to complete the development of the aircraft to ensure its operating capabilities and required aviation standards in the target markets.

(In millions of Russian Rubles)

MC – 21. Production of MC-21 aircraft and provision of services to customers under certain military programmes will commence in 2017, respectively. Consequently, the related intangible assets are not amortised.

Yak – 130 and other. Research and development for Yak-130 and other projects are largely completed, and assets are considered as available for use. Amortization is charged by the write-off method in proportion to the volume of production. Management reviews these assets for signs of impairment and, if necessary, conducts impairment tests.

Capitalised borrowing costs

Additions to development costs for the year ended 31 December 2016 include RUB 742 million of capitalised borrowing costs (2015: RUB 1 583 million).

13. Investments in associates and joint ventures

As at 31 December 2016, the Group owned significant influence interests in JSC “Ilyushin Finance Co” (“IFC”), “SuperJet International” S.p.A (“SJI”) and Multirole Transport Aircraft Ltd (“MTAL”).

IFC purchases, sells and leases out civil aircraft, and organizes after-sales support, modernization and construction of aircrafts. During the periods ended 31 December 2015 and 31 December 2016 no cash contributions were made to equity of IFC.

SJI is established by the Group together with Alenia Aeronautica S.P.A (since 1 January 2016 as a result of restructuring the group "Finmeccanica"). The main activity of the company is the marketing and sales of SSJ-100 aircraft in Europe, Africa, North and South America, the development and installation of interiors for aircraft, after-sales service, training of pilots and technical services.

During 2016, the Group's contribution to SJI capital amounted to RUB 1 698 million (2015: RUB 1 934 million), without a change in ownership. The Group's share in the total aggregate income of SJI for 2016 was RUB 100 million (2015: loss of RUB 454 million). The loss from impairment of investments in the company for 2016 amounted to RUB 866 million (2015: -). At 31 December 2016 the provided loans include a loan issued by SJI in the amount of RUB 993 million (31 December 2015: -). The loan is denominated in EUR, the interest rate is 3.9% per annum, the maturity date is 25 June 2021. For more information on loans and borrowings, see Note 21.

At 31 December 2016, the Group provided a guarantee for the repayment of SJI's debt in the amount of RUB 9 029 million (31 December 2015: -). The currency of the debt is EUR. Debt should be repaid in semi-annual equal instalments by December 6, 2020. Management of the Group believes that SJI will timely repay its obligations.

The Group provided guarantees for repayment of debts on loans issued to the buyer of SSJ-100 aircraft. Guarantees come into force only if it is recognized that the reason for non-repayment of loans was the inadequate performance by SJI of obligations under the contract of sale of aircraft or corruption. At 31 December 2016, the amount of guarantees was RUB 8 310 million. The guarantee obligation is denominated in US dollars.

In 2012 the Group contributed RUB 618 million to the share capital of the newly established joint venture Multirole Transport Aircraft Ltd. (MTAL). MTS Program is being executed by MTAL under the Agreement on cooperation in the development and production of multirole transport aircraft between the Government of the Russian Federation and the Republic of India. During the periods ended 31 December 2015 and 31 December 2016, no cash contributions were made to equity of MTA Ltd.

The following is summarized financial information relating to the Group's associates for **2016**:

	IFC	SJI	MTAL	Total
Ownership interest	**49.53%**	**49.00%**	**48.35%**	
Current assets	**19 094**	**25 701**	**1 017**	**45 812**
Non-current assets	**4 870**	**3 622**	**1 496**	**9 988**
Total assets	**23 964**	**29 323**	**2 513**	**55 800**
Current liabilities	**9 290**	**18 343**	**27**	**27 660**
Non-current liabilities	**5 954**	**9 031**	**-**	**14 985**
Total liabilities	**15 244**	**27 374**	**27**	**42 645**

(In millions of Russian Rubles)

	IFC	SJI	MTAL	Total
Revenue	**10 311**	**17 749**	**139**	**28 199**
Expenses	**(8 639)**	**(18 390)**	**(18)**	**(27 047)**
Other comprehensive (loss)/income	**(3 799)**	**845**	**-**	**(2 954)**
Comprehensive (loss)/income for the year	**(2 127)**	**204**	**121**	**(1 802)**
Group share of (loss)/ profit	**(828)**	**(314)**	**58**	**(1 084)**

The following is summarized financial information relating to the Group's associates for **2015**:

	IFC	SJI	MTAL	Total
Ownership interest	**49.52%**	**49.00%**	**48.35%**	
Current assets	19 094	19 516	937	39 547
Non-current assets	5 824	5 113	1 420	12 357
Total assets	24 918	24 629	2 357	51 904
Current liabilities	12 247	22 175	9	34 431
Non-current liabilities	6 546	2 360	-	8 906
Total liabilities	18 793	24 535	9	43 337
Revenue	12 027	12 461	123	24 611
Expenses	(10 886)	(13 081)	(54)	(24 021)
Other comprehensive loss	(2 468)	(306)	-	(2 774)
Comprehensive (loss)/income for the year	(1 327)	(926)	69	(2 184)
Group share of (loss)/ profit	(666)	(304)	34	(936)

Below is a summary of movements in the investments in associates and joint ventures:

	IFC	SJI	MTAL	Total
At 1 January 2015	5 786	-	617	6 403
Group's share of (loss)/ profit	(666)	(304)	34	(936)
Group's share in comprehensive expense	-	(150)	-	(150)
Liabilities to an associate	-	(1 345)	-	(1 345)
Investments in equity	-	1 934	-	1 934
Foreign currency translation differences	-	(89)	-	(89)
At 31 December 2015	5 120	46	651	5 817
Group's share of (loss)/ profit	**(828)**	**(314)**	**58**	**(1 084)**
Group's share in comprehensive income	**25**	**414**		**439**
Investments in equity	**-**	**1 698**	**-**	**1 698**
Impairment	**-**	**(866)**	**-**	**(866)**
Foreign currency translation differences	**-**	**(23)**	**(25)**	**(48)**
At 31 December 2016	**4 317**	**955**	**684**	**5 956**

14. Other investments

	31 December 2016	31 December 2015

Non-current		
Available-for-sale investments	**913**	5 003
Loans given	**1 290**	309
Other non-current financial assets	**25**	-
Total	**2 228**	5 312
Current		
Available-for-sale investments	**1 043**	11
Deposits	**147**	91
Loans given	**1 690**	145
Total	**2 880**	247

In 2016, the Group exchanged its shareholding in JSC “OPK “Oboronprom” recognised in investments available for sale in the amount of RUB 5 354 million for the shareholding in PJSC “Sukhoi” valued at RUB 1 540 million and the right to receive a fixed number of shares of JSC “United Engine Corporation” for the issue in the process of registration valued at RUB 3 814 million. The package of shares of JSC "United Engine Corporation" in the amount of RUB 3 814 million was received on 28 March 2017. The income from this exchange of RUB 923 million is reflected in other finance income and costs disclosed in Note 9.

The remaining investments available for sale are represented by unlisted securities of the aviation and military industries. For these securities there is no active market, as well as there were no transactions in the recent past, so their fair value can’t be reliably estimated. In the opinion of management, at the balance sheet date, the likelihood of a material difference between their fair value and the carrying amount is not significant.

15. Inventories

The Group’s inventories are mainly represented by work in progress, raw materials and supplies, and finished products and goods for sale.

	31 December 2016	31 December 2015
Raw materials and supplies	**42 043**	30 882
Aircraft components	**73 051**	59 645
Finished products and goods for sale	**5 036**	6 251
Provision for write-off to net realizable value	**(4 769)**	(3 597)
	115 361	93 181
Work in progress	**71 586**	72 197
Provision for write-off of work in progress	**(6 991)**	(7 910)
Total	**179 956**	157 468

16. Trade and other receivables

Non-current receivables of the Group are as follows:

	31 December 2016	31 December 2015
Non-current		
Advances to suppliers	**4 606**	4 025
Other receivables	**1 583**	1 472
Impairment of other receivables	**-**	(100)
Total non-current receivables	**6 189**	5 397

Current receivables of the Group are as follows:

(In millions of Russian Rubles)

	31 December 2016	31 December 2015
Current		
Accrued debt on construction contracts	**18 230**	19 346
Trade receivables	**131 220**	96 074
Impairment of trade receivables	**(5 900)**	(7 242)
Total trade receivables	**143 550**	108 178
VAT recoverable	**37 645**	27 048
Advances to suppliers	**90 501**	90 481
Other advances	**45 702**	31 301
Amounts due from tax authorities	**457**	2 195
Other receivables	**4 982**	25 201
Impairment of other receivables	**(4 683)**	(5 517)
Total current receivables	**318 154**	278 887

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in Note 26.

As part of the Russian Federation's implementation of the state armaments development program for 2011-2020, the companies of the Group concluded long-term contracts with the Ministry of Defense providing for the production and supply of military equipment. Under the terms of these treaties, a significant part of the Defense Ministry's liabilities are paid with a deferral, which is why contracts are concluded with state-controlled banks to provide credit lines secured by the guarantees of the Ministry of Finance.

Settlements on such lines of credit are automatically made, as the funds are transferred by the Ministry of Defense under construction contracts, and not at the discretion of the Group. Therefore, these loans are not financial liabilities; they are offset with the receivables of the Ministry of Defense. The amount of the offsetting at 31 December 2016 was RUB 49 526 million (31 December 2015: RUB 65 323 million).

17. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Bank balances, RUB	**135 310**	71 947
Bank balances in foreign currency	**23 158**	66 138
Deposits	**10 166**	16 698
Letters of credit	**4 000**	102
Other cash and cash equivalents	**99**	360
Total	**172 733**	155 245

As at 31 December 2016, part of cash and cash equivalents in the amount RUB 79 944 million (31 December 2015: RUB 42 185 million) has a restriction on use within the framework of the Government defense order. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

18. Non-current assets held for sale

Management of the Group annually approves the register of the program for the sale of non-core assets with a list of non-core assets of the Group companies subject for sale. Management reviews these assets for signs of impairment and, if necessary, conducts impairment tests. At 31 December 2016, assets held for sale amounted to RUB 1 294 million (31 December 2015: RUB 1 158 million), which mainly consist of buildings and land.

19. Equity

(In millions of Russian Rubles)

Share capital and additional paid in capital

	Ordinary shares	
	31 December 2016	**31 December 2015**
Shares authorized for issue at the beginning of the reporting period	**455 863 749 128**	319 654 789 158
Par value at 1 January, RUB	**0.86**	0.86
In circulation at the beginning of the reporting period	**360 059 133 965**	233 975 842 153
Issued shares	**31 533 047 975**	126 083 291 812
Total issued shares in circulation at the end of the reporting period	**391 592 181 940**	360 059 133 965

As at 31 December 2016, share capital amounted to RUB 310 891 (31 December 2015: RUB 202 843 million) and additional paid in capital amounted to RUB 4 566 million (31 December 2015: RUB 4 566 million).

As at 31 December 2016, the authorized and paid-in share capital comprised 391 592 181 940 shares with a par value of RUB 0.86. There were 59 528 212 490 shares authorized for issue with a par value of RUB 0.86.

Prepaid shares reserve

Prepaid shares represent cash and property contributions related to additional share issue not yet registered at the end of the reporting period. As at 31 December 2016, prepaid shares amounted to RUB 42 608 million (31 December 2015: RUB 114 220 million).

The Group classifies loans in the amount of RUB 8 990 million attracted for the purpose of fulfilment of the federal target program as prepaid shares due to the fact that these loans will be repaid through transfer into ownership of the Russian Federation of the parent company share package.

Treasury shares

Treasury shares comprise the cost of the Company's shares held by the Group companies. As at 31 December 2016 and 31 December 2015, the Group held 309 940 889 treasury shares equal to RUB 267 million.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group companies with a functional currency other than the Russian Ruble. As at 31 December 2016, translation reserve equals RUB 20 343 million (31 December 2015: RUB 51 304 million).

Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the financial statements of the Company prepared in accordance with the laws of the Russian Federation and Russian Accounting Principles. At 31 December 2016, the Company had an accumulated loss amounting to RUB 7 231 million (31 December 2015: accumulated loss of RUB 4 070 million).

Before these consolidated financial statements were authorised for issue, no decision had been made with regard to dividend payment for 2016.

Shareholders' contributions to equity of the Company

In September 2016, the Russian Federation transferred a state-owned block of 58 944 307 shares of JSC "RSK "MiG" or 50.28% of the share capital as payment for the additional issue of the Company in the amount of RUB 6 787 000 000.

In September 2016, the Russian Federation transferred a state-owned block of 836 853 263 shares of PJSC "Tupolev" or 2.85% of the share capital as payment for the additional issue of the Company in the amount of RUB 428 000 000.

In September 2016, the Russian Federation transferred a state-owned block of 786 520 shares of JSC "LII. Gromov Flight Research Institute " or 4.74% of the share capital as a payment for the additional issue of the Company in the amount of RUB 187 120 973.

(In millions of Russian Rubles)

In October 2016, the Russian Federation transferred a state-owned block of 3 979 045 shares of PJSC “Company Sukhoi” or 5.04% of the share capital as payment for the additional issue of the Company in the amount of RUB 10 698 000 000.

In November 2016, the Russian Federation transferred a state-owned block of 2 054 880 shares of JSC "LII. Gromov Flight Research Institute " or 12.38% of the share capital as payment for the additional issue of the Company in the amount of RUB 488 879 027.

These contributions significantly influenced the change in non-controlling interests. The difference between the amount of adjustment of non-controlling interests and the fair value of compensation was recognized directly in equity and attributed to the owners of the Company.

Material non-controlling interest

The following table summarises the information relating to each of the Group’s subsidiaries that has material non-controlling interest (NCI):

			2016	**2015**
PJSC “Company Sukhoi”	(“Sukhoi”)	Russia	**17.97%**	23.97%
JSC “Sukhoi Civil Aircraft”	(“SCA”)	Russia	**17.97%**	28.17%
PJSC “Corporation Irkut”	(“Irkut”)	Russia	**6.13%**	6.69%

Presented financial information is the amount before exclusion of operations between the Group companies.

Summarized statement of financial position as at 31 December **2016**:

	“Sukhoi”	**“SCA”**	**“Irkut”**
Non-current assets	**52 745**	**64 344**	**83 253**
Current assets	**162 943**	**72 858**	**176 715**
Long-term liabilities	**(72 622)**	**(16 366)**	**(118 595)**
Short-term liabilities	**(118 682)**	**(49 973)**	**(78 369)**
Net assets	**24 384**	**70 863**	**63 004**
Attributable to:			
owners of the Company	**20 002**	**58 130**	**59 143**
non-controlling interest	**4 382**	**12 733**	**3 861**

Net assets attributable to non-controlling interests in the total amount of RUB 1 912 million belong to other companies of the Group with an insignificant share of non-controlling shareholders.

Summarized statement of financial position as at 31 December **2015**:

	“Sukhoi”	**“SCA”**	**“Irkut”**
Non-current assets	136 143	72 451	90 226
Current assets	132 347	90 402	135 416
Long-term liabilities	(52 699)	(106 236)	(84 012)
Short-term liabilities	(102 968)	(53 589)	(68 777)
Net assets	112 823	3 028	72 853
Attributable to:			
owners of the Company	85 782	2 205	67 976
non-controlling interest	27 041	823	4 877

Summarized comprehensive income for **2016**:

	“Sukhoi”	**“SCA”**	**“Irkut”**
Revenue	**108 977**	**48 724**	**107 643**
Profit (loss) for the period	**7 932**	**(31 842)**	**1 350**
Other comprehensive income (expense)	**489**	**(3 217)**	**(8 878)**
Comprehensive income (expense)	**8 421**	**(35 059)**	**(7 528)**
Attributable to:			
owners of the Company	**6 555**	**(25 905)**	**(7 036)**
non-controlling interest	**1 866**	**(9 154)**	**(492)**
Dividends paid to non-controlling interests	**324**	**-**	**38**

(In millions of Russian Rubles)

The comprehensive income attributable to non-controlling interests in the total amount of RUB 3 174 million belongs to other companies of the Group with an insignificant participation of non-controlling shareholders, including JSC “RSK "MiG", in which the Company owners’ share was 43.36% up to September 2016.

Summarized comprehensive income for **2015**:

	“Sukhoi”	“SCA”	“Irkut”
Revenue	104 311	34 482	84 484
Loss for the period	(6 551)	(23 362)	(2 383)
Other comprehensive (expense)/income	(108)	13 787	11 982
Comprehensive (expense)/income	(6 659)	(9 575)	9 559
Attributable to:			
owners of the Company	(4 320)	(5 866	8 812
non-controlling interest	(2 339)	(3 709)	747
Dividends paid to non-controlling interests	-	-	-

Summarized cash flows for **2016**:

	“Sukhoi”	“SCA”	“Irkut”
Operating activities	**(19 625)**	**(19 329)**	**(17 175)**
Investing activities	**(9 125)**	**(3 514)**	**(6 706)**
Financing activities	**16 557**	**16 459**	**61 556**

Summarized cash flows for **2015**:

	“Sukhoi”	“SCA”	“Irkut”
Operating activities	(2 713)	(13 216)	(9 942)
Investing activities	(14 303)	(2 614)	(2 363)
Financing activities	42 213	27 150	7 367

20. Loss per share

The calculation of basic loss per share for 2016 is based on the loss attributable to ordinary shareholders of RUB 2 497 million (2015: RUB 82 362 million), and the weighted average number of 366 818 417 110 outstanding ordinary shares (2015: 285 213 363 367 shares).

Thousands of shares	**31 December 2016**	**31 December 2015**
Issued shares at 1 January	**360 059 133 965**	233 975 842 153
Effect of treasury shares	**(309 940 889)**	(309 940 889)
Effect of issued shares	**7 069 224 034**	51 547 462 103
Weighted average number of shares for the period	**366 818 417 110**	285 213 363 367

21. Loans and borrowings

This note provides information about the contractual terms of the Group’s loans and borrowings, which are measured at amortized cost.

Long-term loans and borrowings

	31 December 2016	**31 December 2015**
Non-current liabilities		
Secured bank loans	**64 101**	65 556
Unsecured bank loans	**107 694**	74 657
Secured bonds issued	**46 280**	46 634
Unsecured bonds issued	**5 052**	8 097
Total	**223 127**	194 944

(In millions of Russian Rubles)

Short-term loans and borrowings

	31 December 2016	31 December 2015
Current liabilities		
Secured bank loans	**35 040**	21 580
Unsecured bank loans	**105 200**	80 368
Unsecured borrowings	**2 024**	2 705
Secured bonds issued	**1 187**	3 407
Unsecured bonds issued	**3 425**	17
Total	**146 876**	108 077

Detailed information on the Group's exposure to interest rate and currency risks, as well as liquidity risk, is disclosed in Note 26.

Analysis of loans and borrowings by currencies and interest rates:

	Interest rate	31 December 2016	31 December 2015
RUB	10% - 17%	**275 134**	205 655
USD	4% - 12%	**72 218**	76 490
EUR	7% - 12%	**22 651**	19 898
GBP	9% - 11%	**-**	978
Total		**370 003**	303 021

Analysis of long-term loans and borrowings by maturity:

	31 December 2016	31 December 2015
From one year to two years	**77 545**	46 657
From two to five years	**58 216**	68 359
Over five years	**87 366**	79 928
Total	**223 127**	194 944

Security

As at 31 December 2016, the Group loans are secured with property, plant and equipment with a carrying amount of RUB 6 615 million (31 December 2015: RUB 6 184 million).

Also, loans are collateralized by rights to receive future revenues from export sales of the Group companies.

Non-convertible interest-bearing bonds

As at 22 February 2011, the Federal Financial Markets Service of Russia registered the issue of 46 280 000 non-convertible interest-bearing bonds of the Company payable to bearer with a par value of RUB 1 000. Bonds have 18 coupon periods. Duration of 1-17 coupon periods is established equal to 182 days with a coupon rate of 8 % per annum. The duration of the 18th coupon period is established equal to 196 days. The coupon rate is 8 % per annum. Bonds are secured with the state guarantee of the Russian Federation. The funds raised from placement of the bonds were used for repayment and restructuring of bank loans for the purpose of financing the development and production activities of the Group.

Covenants compliance

Secured bank loans have a number of restrictions (covenants), some of which are not complied with as at 31 December 2016 and 31 December 2015. Management of the Group does not expect the outflow of assets due to non-fulfilment of the terms of contracts, but recognizes the outstanding amount of RUB 4 000 million for long-term loans as at 31 December 2016 and 31 December 2015 as a short-term loan.

(In millions of Russian Rubles)

22. Finance lease liabilities

Finance lease liabilities as at 31 December **2016** are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**3 375**	**1 578**	**1 797**
Between one and five years	**14 865**	**5 052**	**9 813**
Total	**18 240**	**6 630**	**11 610**

Finance lease liabilities as at 31 December **2015** are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	2 638	1 655	983
Between one and five years	12 631	7 679	4 952
Total	15 269	9 334	5 935

Finance lease liabilities are secured by leased assets.

23. Trade and other payables

Non-current liabilities of the Group:

	31 December 2016	31 December 2015
Advances from customers related to construction contracts	**25 681**	40 688
Other advances from customers	**23 742**	2 378
Trade payables	**1 996**	302
Other payables	**339**	958
Total	**51 758**	44 326

Current liabilities of the Group:

	31 December 2016	31 December 2015
Advances from customers, related to construction contracts	**70 021**	30 777
Other advances from customers	**138 702**	157 804
Trade payables	**84 466**	68 484
Other payables	**21 123**	30 321
Settlements with employees	**8 106**	7 817
VAT payable	**6 813**	4 728
Other taxes payable	**4 251**	4 617
Total	**333 482**	304 548

The Group's exposure to currency risk and liquidity risk associated with trade and other payables is disclosed in Note 26.

24. Government grants

The Government support of the Group companies is provided within the framework of the state programs of the Russian Federation "Development of the aviation industry for 2013-2025" and "Development of the military-industrial complex". The Government pays for research and development work for the creation of aircraft "MS-21", SSJ-100 and wide-body long-range aircraft.

(In millions of Russian Rubles)

The government also subsidizes interest on loans received for technical retooling, the implementation of innovative and investment projects on release of hi-tech products, implementation of projects within the framework of the Government defense order and Federal Target Program "Development of the military-industrial complex for 2011 – 2020", export of industrial products for military purposes to leasing companies for purchase of aircraft, as well as lease payments for technological equipment.

The summary of government grants received by the Group is presented below:

	2016	2015
Government grants related to assets	**499**	485
Government grants related to compensation of interest expense	**7 950**	7 490
Other government grants related to income	**4 002**	242
Total	**12 451**	8 217

25. Employee benefits

	2016	2015
Fair value of plan assets	**1 332**	1 083
Present value of obligations	**(6 232)**	(4 934)
Deficit in the plan	**(4 900)**	(3 851)
Total employee benefit liabilities	**(4 900)**	(3 851)

Certain Group subsidiaries make contributions to defined benefit plans that provide benefits in the form of annual pensions or one-off lump-sum payments upon employee retirement. Those plans entitle a retired employee to receive payments based on the number of years of service and other factors representing individual merit of performance. Those factors also determine whether the pension is life pension or a pension with limited number of years of payout. Amounts of lump-sum payments are also determined based on the number of years of service in an organisation.

Movements in the present value of the defined benefit obligations:

	2016	2015
Defined benefit obligations at 1 January	**(4 934)**	(4 463)
Current service cost	**(1 086)**	(330)
Cost of past services	**(144)**	-
Benefits paid	**207**	389
Actuarial gain (loss)	**112**	(77)
Interest cost	**(404)**	(396)
Foreign currency translation	**17**	(57)
Defined benefit obligations at 31 December	**(6 232)**	**(4 934)**

Short-term employee benefit obligations amount to RUB 417 million (31 December 2015: RUB 571 million).

Movements in the present value of the defined benefit plan assets:

	2016	2015
Fair value of plan assets at 1 January	**1 083**	790
Expected return on the plan's assets	**114**	88
Benefits paid by the plan	**(131)**	(139)
Contributions paid into the plan	**342**	433
Actuarial loss	**(76)**	(89)
Fair value of plan assets at 31 December	**1 332**	1 083

Plan assets comprise low–risk income-earning financial instruments.

The following expenses are recognized in the consolidated statement of profit or loss:

	2016	2015
Current service cost	**(1 085)**	(331)
Expected return on plan's assets	**113**	89
Interest expense	**(404)**	(396)
Total recognised in profit or loss	**(1 376)**	(638)
Actuarial gains and losses recognised in the statement of comprehensive income	**(2)**	(182)
Total	**(1 378)**	(820)

(In millions of Russian Rubles)

The calculation of the defined benefit obligation is sensitive to the mortality assumptions. As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives is considered reasonably possible in the next financial year.

Principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

	2016	2015
Discount rate	**8.5%**	9.6%
Expected rate of return on plan assets	**8.2%**	8.2%
Future pension and salary increases	**4.7%**	5.6%
Average life expectancy of members from the date of retirement:		
Male	**15 years**	15 years
Female	**21 years**	21 years

26. Financial risks management

The Group is exposed to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

The Group's Board of Directors is responsible for approving the risk management policies and oversees their implementation. The Executive Board, a Group operational management body, and the Group President are responsible for developing and monitoring the Group's risk management policies. The Executive Board and President report regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

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

The main customers of the Group are the Government of the Russian Federation and governments of other countries. The Group's exposure to credit risk is influenced mainly by the economic and political situation in the Russian Federation and these countries. The Group monitors closely all changes which occur in the target countries.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of credits. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Credit evaluations are performed on all customers requiring credit over a certain amount.

As at 31 December 2016 and 31 December 2015, the Group did not have any contractual commitments to extend financial guarantees, credit and other assistance.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

(In millions of Russian Rubles)

	31 December 2016	31 December 2015
Finance lease receivables	**2 094**	2 569
Loans given	**2 980**	454
Deposits	**147**	91
Trade receivables	**125 320**	88 832
Accrued debt on construction contracts	**18 230**	19 346
Other receivables	**1 882**	21 056
Cash and cash equivalents	**172 733**	155 245
Total	**323 386**	287 593

The ageing of trade receivables at the reporting date was as follows:

	2016		2015	
	Carrying amount	Impairment	Carrying amount	Impairment
Not past due	**125 637**	**(411)**	89 317	(482)
Less than one year past due	**132**	**(36)**	604	(603)
Past due more than one year	**5 451**	**(5 451)**	6 153	(6 150)
Total	**131 220**	**(5 898)**	96 074	(7 235)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

	2016	2015
Balance as at 1 January	**(7 235)**	(6 011)
Recovery (write-off) of provision for impairment	**143**	(175)
Foreign currency translation	**1 194**	(1 049)
Balance as at 31 December	**(5 898)**	(7 235)

The provision of impairment of receivables and held-to-maturity investments is made when the Group is certain that no recovery of the amount owed is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2016 and at 31 December 2015, the Group does not have any collective impairment provision on its receivables or its held-to-maturity investments.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15-30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting at 31 December **2016**:

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
Loans and borrowings	**370 003**	**446 932**	**173 467**	**229 343**	**44 122**
Finance lease liabilities	**11 610**	**18 340**	**3 351**	**10 958**	**4 031**
Other payables	**27**	**146**	**119**	**10**	**17**
Trade and other payables	**107 924**	**107 565**	**105 589**	**1 976**	**-**
Total	**489 564**	**572 983**	**282 526**	**242 287**	**48 170**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting at 31 December **2015**:

(In millions of Russian Rubles)

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
Loans and borrowings	303 020	411 704	145 201	229 886	36 617
Finance lease liabilities	5 935	17 270	3 040	10 118	4 112
Other payables	490	490	429	40	21
Trade and other payables	106 230	105 987	103 367	2 620	-
Total	415 675	535 451	252 037	242 664	40 750

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures and hold them within acceptable parameters.

The Group assumes financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, and those risks that arise from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk in order to prevent financial losses and damage to the Group's reputation, exercising cost –effective approach and avoiding control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated primarily in US Dollars (USD) and Euro (EUR), currencies other than the respective functional currency of Group entities.

Interest on borrowings is denominated in currencies of the respective loan, that match the cash flows generated by the underlying operations of the Group, primarily USD, but also RUB and EUR. This provides an economic hedge.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary.

(In millions of Russian Rubles)

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, primarily the Rubles (RUB), but also U.S. Dollars (USD), which is the functional currency of the Group's subsidiary PJSC "Irkut Corporation" and JSC "Sukhoi Civil Aircraft". The currencies in which these transactions primarily are dominated are USD, EUR and RUB.

Balances in a currency other than the functional currency of the Group at 31 December **2016**:

	USD	EUR	RUB
Cash and cash equivalents	**21 273**	**2 414**	**44 242**
Trade receivables	**71 910**	**5 827**	**13 613**
Loans and borrowings	**(70 333)**	**(23 645)**	**(68 555)**
Finance lease liabilities	**(287)**	**(4)**	**(11 251)**
Trade and other payables	**(30 148)**	**(3 418)**	**(17 525)**
Gross exposure	**(7 585)**	**(18 826)**	**(39 476)**

Balances in a currency other than the functional currency of the Group at 31 December **2015**:

	USD	EUR	RUB
Cash and cash equivalents	31 526	1 833	28 375
Trade receivables	64 647	1 658	26 285
Loans and borrowings	(72 498)	(19 897)	(31 477)
Finance lease liabilities	(5 565)	(35)	(62)
Trade and other payables	(28 975)	(3 136)	(13 019)
Gross exposure	(10 865)	(19 577)	10 102

The following significant exchange rates were applied during the year:

	Average rate		Rate at year-end	
	2016	2015	2016	2015
USD	**67,0349**	60,9574	**60,6669**	72,8827
EUR	**74,2310**	67,7725	**63,8111**	79,6972

Sensitivity analysis

A 10% strengthening (weakening) of RUB against the USD at the reporting date would have increased (decreased) net profit for the year by RUB 606 million (2015: RUB 869 million).

A 10% strengthening (weakening) of RUB against the EUR at the reporting date would have increased (decreased) net profit for the year by RUB 1 506 million (2015: RUB 1 566 million).

Interest rate risk

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	2016	2015
Fixed rate instruments		
Financial assets	**15 846**	22 156
Financial liabilities	**(372 065)**	(295 238)
	(356 219)	(273 082)
Variable rate instruments		
Financial liabilities	**(7 013)**	(14 206)

Cash flow sensitivity analysis for variable rate instruments

An increase in interest rates by one percentage point at the reporting date for 2016 would have increased loss for the year by RUB 6 million (2015: RUB 11 million). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(In millions of Russian Rubles)

27. Capital management

The Group's objectives in equity management are to ensure the principle of business continuity, ensure an acceptable level of profitability for shareholders, respect the interests of other interested parties, and maintain an optimal capital structure that reduces capital costs. To maintain or adjust the equity structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The management policy is to maintain a strong initial equity in order to keep investors, creditors, stay on the market and support the development of business in the future. Management controls the return on equity. Management seeks to maintain a balance between higher returns, which are possible with a higher level of borrowing, and those benefits and security that give a stable position of capital.

For the Group, the net debt to equity ratio as at the end of the reporting year was as follows:

	2016	2015
Debt obligations	**370 003**	303 021
Less: cash and cash equivalents	**(172 733)**	(155 245)
Net debt	**197 270**	147 776
Equity	**154 789**	176 968
Net debt to equity ratio	***1,27***	*0,84*

During 2016, the Group's approach to the issue of capital management has not changed.

28. Provisions

Movement of provisions for **2016**:

	Warranty	Onerous and loss-making contracts	Claims	Provision for development and service	Other	Total
Long-term provisions at 1 January	**-**	**8 127**	**7 249**	**-**	**-**	**15 376**
Short-term provisions at 1 January	**3 049**	**4 579**	**5 468**	**2 070**	**3 609**	**18 775**
Provisions made during the period	**5 172**	**1 941**	**3 812**	**344**	**3 591**	**14 860**
Provisions used during the period	**(2 141)**	**(838)**	**(87)**	**(363)**	**(3 639)**	**(7 068)**
Provisions reversed during the period	**(280)**	**(352)**	**(405)**	**(74)**	**-**	**(1 111)**
Foreign currency translation differences	**(434)**	**-**	**-**	**-**	**-**	**(434)**
Long-term provisions at 31 January	**1 153**	**5 669**	**3 514**	**-**	**633**	**10 969**
Short-term provisions at 31 January	**4 213**	**7 788**	**12 523**	**1 977**	**2 928**	**29 429**

Movement in provisions for **2015**:

	Warranty	Onerous and loss-making contracts	Claims	Reserve for development and service	Other	Total
Short-term provisions at 1 January	1 897	579	425	1 744	3 679	8 324
Provisions made during the period	5 803	12 706	12 923	2 326	214	33 972
Provisions used during the period	(4 714)	-	(380)	(1 101)	(284)	(6 479)
Provisions reversed during the period	(87)	(627)	(251)	(899)	-	(1 864)
Foreign currency translation differences	150	48	-	-	-	198
Long-term provisions at 31 January	-	8 127	7 249	-	-	15 376
Short-term provisions at 31 January	3 049	4 579	5 468	2 070	3 609	18 775

Warranty

The Group provides product warranties on certain products it manufactures. Generally, aircraft sales are accompanied by a twelve to twenty four month warranty period that covers systems, accessories, equipment, parts and software manufactured by the Group to certain contractual specifications. Warranty coverage includes non-conformance to specifications and defects in material and workmanship.

The warranty liability recorded at each balance sheet date reflects the estimated number of months of warranty coverage outstanding for products produced multiplied by the expected monthly warranty payments, as well as additional amounts, if necessary, for certain major warranty issues that exceed a normal claims level.

Onerous contracts

The provision for onerous and loss-making contracts is recognized when the Group's expected revenues under the contract are lower than the inevitable costs to be incurred in order to fulfil obligations under the contract. The provision is measured as the present value of the lower of the amounts: the expected costs of termination of the contract (the claim by the contractor in the form of fines and penalties), and the expected net cost of continuing with the obligations of the contract.

The provision for loss-making contracts is recognized if it is probable that the aggregate costs will exceed the total revenues under long-term contracts. The expected loss is recognized by the Group as an expense in the period when such a probability appeared.

Claims

Claims include provisions for legal and tax claims. A provision for legal claims is recognized when the Group acts as a defendant in a court of law and, in the opinion of the lawyers, the probability of payments to the plaintiff is high, except for cases when the amount of such payments can’t be reliably estimated. A provision for legal claims is estimated as the amount of probable payments and is recognized as an expense of the reporting period. The same approach is used to assess and reflect claims of tax authorities.

In case of violation of the established deadline for all work or the timing of completion of the stages, the customers, in accordance with the terms of the contracts, have the right to demand payment of a penalty. As the practice shows, customers usually enjoy this right, therefore, the Group makes provisions for fines and penalties for late fulfilment of contracts, disclosing them as part of claims provisions.

Other

The other provisions include provisions for supply of flight crews, training, and guarantees of the net book value of aircraft.

29. Fair values

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

- Level 1 inputs: quoted (unadjusted) prices in active markets for identical assets or liabilities available to the entity;
- Level 2 inputs: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs: unobservable inputs for the asset or liability.

In accordance with the Company estimates the fair value of financial assets and liabilities does not materially differ from their carrying amounts. For receivables and payables with a remaining useful life of less than one year their notional amount is deemed to reflect their fair value. For loans and borrowings and all other financial instruments fair value is determined based on discounted future principal and interest cash flows.

The interest rates used to discount estimated cash flows, where applicable, are based on the market rates of financial instruments with similar market risk exposure.

The following table shows the analysis of the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities, if their carrying amount is a reasonable approximation of fair value.

(In millions of Russian Rubles)

Financial instruments not measured at fair value with a different carrying amount and fair value at 31 December **2016**:

	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Other investments	**1 042**	**1 042**	**-**	**-**	**1 042**
Loans and borrowings	**(370 003)**	**(55 944)**	**(314 059)**	**-**	**(370 003)**

Financial instruments not measured at fair value with a different carrying amount and fair value at 31 December **2015**:

	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Loans and borrowings	(303 021)	(58 155)	(244 866)	-	(303 021)

30. Operating lease

The Group companies lease-in property, plant and equipment for their operations on the terms of operating leases. Below is the analysis of the amounts due by the terms of future lease payments:

	2016	**2015**
Less than one year	**808**	529
Between one and five years	**1 627**	2 166
More than five years	**26 325**	32 646
Total	**28 760**	35 341

31. Contingencies

Insurance

The insurance industry in the Russian Federation is in a development stage and many forms of insurance protection common for developed countries are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from its operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

Except for the information disclosed in the consolidated financial statements, the Group does not have significant claims relating to its primary business. Management believes that none of these claims, individually or collectively, will have a material adverse effect on the Group's operations.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation, seeking to identify cases of unjustified tax benefits.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental contingencies

Governmental authorities are continually considering environmental regulations and their enforcement and the Group regularly evaluates its obligations related thereto. As obligations are determined, they are recognized in accounting. The outcome of environmental liabilities under proposed or any future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated. Under current levels of enforcement of existing legislation, management believes there are no liabilities, which will have a material effect on the financial position or the operating results of the Group.

Net book value guarantee

Certain contracts for aircraft delivery include the obligation of the residual value guarantee, whereby the Group is obliged to repurchase the aircraft at a specific date after its delivery for a predetermined value at the customer's request. According to the management assessment, the guarantees provided do not bear significant financial risks at the reporting date.

The following factors contribute to this assessment:

- the estimated cost of the aircraft at the guarantee exercise date significantly exceeds the guaranteed residual value (GRV);
- the exercise dates of the outstanding asset value guarantees fall on the 10th anniversary after aircraft delivery which represents at least half of average aircraft useful life;
- the substantial portion of maintenance costs required to keep the aircraft in the adequate airworthiness condition is borne by the customers.

Capital-related commitments

As at 31 December 2016, the Group is committed to capital expenditure involving purchase and construction of PPE in the amount of RUB 25 733 million (2015: RUB 41 923 million).

32. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one of them has the ability to control the other, is under common control, or may exercise significant influence in making other financial or operational decisions by the other party.

The Government of the Russian Federation in the person of the Federal Agency for State Property Management is the ultimate controlling party of the Group. Related parties also include key management and their close relatives, as well as subsidiaries and associates of the Group.

Transactions with associates are disclosed in Note 13.

Transactions with government related entities

The Group operates in an industry controlled by organizations directly or indirectly controlled by the Russian Federation through government, agencies, affiliated and other organizations (hereinafter referred to as "state-owned companies"). The Group conducts transactions with such organizations, including the sale and purchase of goods, materials, the provision and consumption of services, the lease of assets, deposit placement and borrowing.

The Group established a unified policy of procurement and approval of transactions for the purchase of products and services, regardless of whether the counterparty has a share of state participation or not. The main activity of the Group is the construction of military and civil aircraft and research and development works under contracts with the Ministry of Defense of the Russian Federation and foreign governments. The specifics and conditions of contractual agreements with state-owned companies may depend on various factors, such as the complexity of work performance and the volume of output, the possibility of state budget financing and the availability of other government tasks. The Group's management controls the size, timing and other factors of the contractual arrangements in order to determine whether this will lead to a specific transaction that can be qualified as significant in aggregate.

By the end of 2016, the Group's management estimated that the Group's aggregate volume of significant transactions with state-owned companies was 66% (2015: 93%) of total revenues, 43% (2015: 29%) of purchased materials, equipment and services, and 77% of the total number of loans (2015: 64%).

(In millions of Russian Rubles)

Cash balances with banks with a controlling interest of government at 31 December 2016 amounted to RUB 159 359 million (31 December 2015: RUB 148 818 million), of which RUB 78 115 million (31 December 2015: RUB 40 460 million) has a restriction on the use under state defense orders and federal target programs. The balance of accounts receivable and payable regarding settlements with organizations under state control at 31 December 2016 amounted to RUB 35 736 million and RUB 203 179 million, accordingly.

During 2016 the Group received government guarantees from the Russian Federation in accordance with the current resolutions of the Government of the Russian Federation in the amount of RUB 2 055 million (2015: RUB 10 219 million).

Key management personnel compensation

The Company refers its president, vice-presidents and members of the Management Board to the key management personnel. Compensations to key management personnel, including social contributions to the extra-budgetary funds, amounted to RUB 217 million in 2016 (2015: RUB 124 million) and are included in staff costs disclosed in Note 6. The increase is related to payments, when the employment contract is terminated upon the change of key management personnel associated with the introduction of a new organizational structure that occurred in 2016 (Note 1).

33. Significant subsidiaries

The list of significant subsidiaries as at 31 December 2016 and 31 December 2015 is presented below:

	Effective ownership	
	31 December 2016	**31 December 2015**
PJSC “Company Sukhoi”	**82.03%**	76.03%
JSC “RSK “MiG”	**100.00%**	43.36%
PJSC “Irkut Corporation”	**93.87%**	93.31%
JSC “Sukhoi Civil Aircraft”	**82.03%**	71.83%
JSC “Aerocompozit”	**99.45%**	99.27%
LLC “UAC- Integration Center”	**100.00%**	100.00%
OJSC “IL”	**90.98%**	90.05%
JSC “Aviastar-SP”	**99.96%**	99.80%
PJSC “VASO”	**99.64%**	99.58%
OJSC “Myasishchev Design Bureau”	**100.00%**	100.00%
JSC “UAC-TS”	**100.00%**	100.00%
PJSC “Tupolev”	**98.93%**	95.95%
PJSC “TANTK Imeni G.M. Berieva”	**96.69%**	96.03%
OJSC “M. M. Gromov Flight Research Institute”	**94.08%**	76.97%
LLC “UAC-Purchases”	**100.00%**	100.00%
LLC “UAC-Capital”	**100.00%**	100.00%

On 21 January 2016, the general meetings of shareholders of PJSC "NAZ" Sokol "and JSC" “RSK “MiG” made a decision on the reorganization of PJSC "NAZ "Sokol" in the form of merger to JSC "RSK" MiG". Starting from 29 April 2016, PJSC" NAZ "Sokol" is part of JSC “RSK “MiG”.

Subsidiaries of the Group - PJSC “Company Sukhoi”, JSC “RSK “MiG”, PJSC “Tupolev”, PJSC “TANTK Imeni G.M. Berieva”, OJSC “IL”, PJSC “VASO” and JSC “Aviastar-SP” held additional share issues in favour of the Company during 2016, as a result of which the ownership interest in these subsidiaries increased.

34. Subsequent events

In March 2017, the Company together with the limited liability company "China Civil Aircraft Corporation" (hereinafter "COMAC"), registered in the Shanghai Free Trade Zone a joint venture, a limited liability company "China-Russia International Commercial Aircraft Company" (hereinafter "CRCAIC") for the development, production, sales and after-sales service of a long-haul wide-body aircraft. Ownership interests in the CRCAIC are 50% for PJSC “UAC” and 50% for COMAC.