

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

**Condensed Consolidated Interim Financial Statements
for the 9 months 2018**

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Statement of management's responsibilities for the preparation and approval of the Condensed Consolidated Interim Financial Statements for the 9 months ended 30 September 2018



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

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


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

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

Management is also responsible for:

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

The Condensed Consolidated Interim Financial Statements for 9 months ended 30 September 2018 were approved on 29 November 2018 by:



V. G. Saveliev
General Director



A. Y. Chikhanchin
Deputy General Director for Commerce
and Finance

PJSC AEROFLOT**Condensed Consolidated Interim Statement**

of Profit or Loss for the 3 and 9 months ended 30 September 2018

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

	Note	Three months ended		Nine months ended	
		30 September 2018	30 September 2017	30 September 2018	30 September 2017
Traffic revenue	4	182,283	153,819	422,813	361,802
Other revenue	5	18,240	16,096	43,532	42,971
Revenue		200,523	169,915	466,345	404,773
Operating costs, excluding staff costs, depreciation and amortisation	6	(140,403)	(108,936)	(359,748)	(289,635)
Staff costs	7	(19,656)	(22,186)	(61,315)	(60,509)
Depreciation and amortisation		(3,196)	(3,408)	(9,590)	(10,412)
Other operating income and expenses, net		(143)	(1,221)	1,154	(2,355)
Operating costs		(163,398)	(135,751)	(429,499)	(362,911)
Operating Profit		37,125	34,164	36,846	41,862
Loss on investments, net		(110)	(36)	(3)	(108)
Finance income	8	2,043	1,566	3,311	6,349
Finance costs	8	(1,852)	(2,171)	(5,365)	(6,331)
Hedging result	17	(1,941)	(1,478)	(4,925)	(4,226)
Share of results of associates		136	106	179	140
Profit before income tax		35,401	32,151	30,043	37,686
Income tax	9	(7,683)	(7,890)	(7,553)	(10,537)
PROFIT FOR THE PERIOD		27,718	24,261	22,490	27,149
<i>Attributable to:</i>					
Shareholders of the Company		27,841	24,124	22,830	26,993
Non-controlling interest		(123)	137	(340)	156
PROFIT FOR THE PERIOD		27,718	24,261	22,490	27,149
Basic and diluted profit per share (in Roubles per share)		25.3	22.7	20.6	25.5
Weighted average number of shares outstanding (millions)		1,101.3	1,062.7	1,107.5	1,058.9

Approved on 29 November 2018 and signed on behalf of management



V. G. Saveliev
 General Director



A. Y. Chikhanchin
 Deputy General Director for Commerce and Finance

PJSC AEROFLOT

Condensed Consolidated Interim Statement

of Comprehensive Income for the 3 and 9 months ended 30 September 2018

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

	Note	Three months ended		Nine months ended	
		30 September 2018	30 September 2017	30 September 2018	30 September 2017
Profit for the period		27,718	24,261	22,490	27,149
Other comprehensive (loss)/profit:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Effect from hedging revenue with foreign currency liabilities	17	(2,400)	3,365	(7,504)	9,231
Deferred tax related to a profit/(loss) from cash-flow hedging instruments		480	(673)	1,501	(1,846)
Other comprehensive (loss)/profit for the period		(1,920)	2,692	(6,003)	7,385
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		25,798	26,953	16,487	34,534
<i>Total comprehensive (loss)/profit attributable to:</i>					
Shareholders of the Company		25,921	26,816	16,827	34,378
Non-controlling interest		(123)	137	(340)	156
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		25,798	26,953	16,487	34,534

The Condensed Consolidated Interim Statement of Comprehensive Income is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32

PJSC AEROFLOTCondensed Consolidated Interim Statement of Financial Position
as at 30 September 2018*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	30 September 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	22	51,709	45,978
Short-term financial investments	22	8,342	8,931
Accounts receivable and prepayments	10	88,904	92,932
Current income tax prepayment		671	3,580
Aircraft lease security deposits		839	423
Expendable spare parts and inventories		13,979	12,811
Assets classified as held for sale	13	8,452	3,125
Other current assets		596	422
Total current assets		173,492	168,202
Non-current assets			
Property, plant and equipment	12	88,996	97,932
Prepayments for aircraft	11	16,156	13,089
Deferred tax assets		10,639	10,396
Goodwill		6,660	6,660
Long-term financial investments		6,024	3,338
Intangible assets		1,847	2,054
Aircraft lease security deposits		3,881	1,602
Investments in associates		485	329
Other non-current assets		28,615	19,728
Total non-current assets		163,303	155,128
TOTAL ASSETS		336,795	323,330
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	14	73,659	67,953
Unearned traffic revenue		48,073	43,695
Deferred revenue related to the frequent flyer programme	15	3,368	1,720
Provisions for liabilities	16	7,442	9,433
Finance lease liabilities	17	15,453	16,015
Short-term loans and borrowings and current portion of long-term loans and borrowings	18	175	-
Liabilities related to assets classified as held for sale	13	8,534	2,210
Current income tax liabilities		448	-
Total current liabilities		157,152	141,026
Non-current liabilities			
Long-term loans and borrowings	18	3,327	3,181
Finance lease liabilities	17	76,996	84,674
Provisions for liabilities	16	24,530	16,949
Deferred tax liabilities		94	68
Deferred revenue related to the frequent flyer programme	15	3,447	3,842
Other non-current liabilities		6,406	6,291
Total non-current liabilities		114,800	115,005
TOTAL LIABILITIES		271,952	256,031
Equity			
Share capital	19	1,359	1,359
Treasury shares buyback reserve	19	(7,040)	-
Accumulated profit on disposal of treasury shares		7,864	7,864
Investment revaluation reserve		-	(5)
Hedge reserve	17	(31,162)	(25,159)
Retained earnings		91,199	81,476
Equity attributable to shareholders of the Company		62,220	65,535
Non-controlling interest		2,623	1,764
TOTAL EQUITY		64,843	67,299
TOTAL LIABILITIES AND EQUITY		336,795	323,330

The Condensed Consolidated Interim Statement of Financial Position is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32

PJSC AEROFLOTCondensed Consolidated Interim Statement
of Cash Flows for the 9 months ended 30 September 2018*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	9m 2018	9m 2017
Cash flows from operating activities:			
Profit before income tax		30,043	37,686
<i>Adjustments for:</i>			
Depreciation and amortisation		9,590	10,412
Change in impairment provision for accounts receivable and prepayments		1,043	(343)
Change in impairment provision for obsolete expendable spare parts and inventory		(8)	(40)
Change in impairment provision for property, plant and equipment	12	34	(34)
Loss on disposal of property, plant and equipment and intangible assets		500	520
Profit from disposal of assets classified as held for sale	13	(35)	(201)
Change in cost of investments		3	108
Hedging result	17	4,925	4,226
Change in provisions for liabilities	16	7,007	9,553
Interest expense	8	4,554	6,012
Interest income	8	(3,311)	(3,602)
Foreign exchange loss/(gain), net	8	535	(2,747)
Dividend income		(61)	(24)
Other finance expenses/(income), net	8	276	319
Other operating (income)/expenses, net		(213)	(460)
Total operating cash flows before working capital changes		54,882	61,385
Increase in accounts receivable and prepayments		(17,522)	(24,731)
Increase in expendable spare parts and inventories		(1,160)	(1,678)
Increase in accounts payable and accrued liabilities		3,082	27,835
Total operating cash flows after working capital changes		39,282	62,811
Change in restricted cash	26	(191)	(1,664)
Income tax paid		(4,392)	(7,364)
Income tax refunded		1,382	1,067
Net cash flows from operating activities		36,081	54,850

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32

PJSC AEROFLOTCondensed Consolidated Interim Statement
of Cash Flows for the 9 months ended 30 September 2018*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	Note	9m 2018	9m 2017
<i>Cash flows from investing activities:</i>			
Deposits return		14,988	9,388
Deposits placement		(14,065)	(12,322)
Proceeds from sale of property, plant and equipment		67	83
Proceeds from sale of assets held for sale		3,101	1,148
Interest received		2,431	3,050
Purchases of property, plant and equipment and intangible assets		(8,592)	(3,889)
Dividends received		105	39
Prepayments for aircraft		(8,836)	(6,630)
Return of prepayments for aircraft		21,096	18,669
Repayment of operating lease security deposits		(2,246)	(201)
Return of operating lease security deposits		-	69
Net cash flows from investing activities		8,049	9,404
<i>Cash flows from financing activities:</i>			
Placement of loans and borrowings	18	350	-
Repayment of loans and borrowings	18	(87)	(17,417)
Proceeds from sale of own shares		-	8,086
Repayment of the principal element of finance lease liabilities	17	(14,754)	(10,468)
Interest paid		(3,789)	(4,699)
Dividends paid		(14,262)	(18,845)
Purchase of treasury shares	19	(7,040)	-
Net cash used in financing activities		(39,582)	(43,343)
Effect of exchange rate fluctuations on cash and cash equivalents		1,183	(299)
Net increase in cash and cash equivalents		5,731	20,612
Cash and cash equivalents at the beginning of the period		45,978	31,476
Cash and cash equivalents at the end of the period		51,709	52,088
<i>Non-cash transactions as part of the investing activities:</i>			
Property, plant and equipment acquired under finance leases		-	1,872

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32

PJSC AEROFLOT

Condensed Consolidated Interim Statement

of Changes in Equity for the 9 months ended 30 September 2018

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



Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated profit on disposal of treasury shares and treasury shares buyback reserve	Investment revaluation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2017		1,359	(1,912)	(5)	(34,187)	77,198	42,453	(1,684)	40,769
Profit for the period		-	-	-	-	26,993	26,993	156	27,149
Profit from hedging net of related deferred tax	17	-	-	-	7,385	-	7,385	-	7,385
Total other comprehensive profit							7,385	-	7,385
Total comprehensive profit							34,378	156	34,534
Disposal of treasury shares	19	-	9,776	-	-	-	9,776	-	9,776
Sale of shares to holders of non-controlling interest		-	-	-	-	-	-	3,589	3,589
Dividends declared	20	-	-	-	-	(18,594)	(18,594)	(270)	(18,864)
30 September 2017		1,359	7,864	(5)	(26,802)	85,597	68,013	1,791	69,804
1 January 2018		1,359	7,864	(5)	(25,159)	81,476	65,535	1,764	67,299
The impact of the new standards (IFRS 9, IFRS 15)	3	-	-	5	-	1,115	1,120	(17)	1,103
Total restated									
1 January 2018		1,359	7,864	-	(25,159)	82,591	66,655	1,747	68,402
Profit/(loss) for the period		-	-	-	-	22,830	22,830	(340)	22,490
Loss from hedging net of related deferred tax	17	-	-	-	(6,003)	-	(6,003)	-	(6,003)
Total other comprehensive loss							(6,003)	-	(6,003)
Total comprehensive profit/(loss)							16,827	(340)	16,487
Additions of treasury shares	19	-	(7,040)	-	-	-	(7,040)	-	(7,040)
Sale of shares to holders of non-controlling interest	14	-	-	-	-	-	-	1,500	1,500
Dividends declared	20	-	-	-	-	(14,222)	(14,222)	(284)	(14,506)
30 September 2018		1,359	824	-	(31,162)	91,199	62,220	2,623	64,843

The Condensed Consolidated Interim Statement of Changes in Equity is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 32

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 9 months ended 30 September 2018

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



1. NATURE OF THE BUSINESS

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

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

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

As at 30 September 2018 and 31 December 2017, the Government of the Russian Federation (the “RF”) represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 9 months ended 30 September 2018

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

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

The table below provides information on the Group's aircraft fleet as at 30 September 2018 (number of items):

TYPE OF AIRCRAFT	OWNERSHIP	PSJC AEROFLOT	JSC AK ROSSIYA	JSC AK AURORA	LLC AK POBEDA	GROUP TOTAL
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		-	-	7	-	7
Airbus A319	Finance lease	-	9	-	-	9
Airbus A321	Finance lease	9	-	-	-	9
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
An-148	Finance lease	-	5	-	-	5
Total aircraft under finance leases		27	14	-	-	41
SSJ 100	Operating lease	50	-	-	-	50
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	80	5	-	-	85
Airbus A321	Operating lease	30	-	-	-	30
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	42	16	-	22	80
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	7	9	-	-	16
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
Total aircraft under operating leases		223	56	18	22	319
Total fleet		250	70	25	22	367

As at 30 September 2018, 5 An-148 aircraft and 1 An-24 aircraft were leased out.

2. BASIS OF PREPARATION***Basis of preparation***

The Group's Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's Consolidated Financial Statements for the year ended 31 December 2017, which have been prepared in accordance with IFRS.

Foreign currency translation

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

	Official exchange rates	
	RUB / USD 1.00	RUB / EUR 1.00
As at 30 September 2018	65.59	76.23
Average rate for 9 months 2018	61.44	73.29
As at 31 December 2017	57.60	68.87
Average rate for 9 months 2017	58.33	64.93

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

In preparing the Condensed Consolidated Interim Financial Statements, the Group followed principal accounting policies that are consistent with those disclosed in the Consolidated Financial Statements for the year ended 31 December 2017 and as at this date, with the exception of changes required in accordance with new standards listed below.

Adoption of IFRS 9 "Financial Instruments"

Starting from 1 January 2018, the Group applies IFRS 9 "Financial Instruments". As the Group has elected to apply the transitional provisions in accordance with p. 7.2.15 and p. 7.2.26 of IFRS 9, the comparative figures have not been restated.

The accounting policies were changed to comply with IFRS 9, which replaces the provisions of IAS 39 that relate to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosures".

Accounting policies applied from 1 January 2018 in respect of investments and other financial assets***Classification of financial assets***

Since 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- (i) those to be measured subsequently at fair value through profit or loss, and;
- (ii) those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics.

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Classification of financial assets (continued)

The principal amount of a debt is the fair value of a financial asset upon initial recognition. Interest includes only reimbursement for the time value of money, for credit risk in respect of principal that remains outstanding during a particular period of time and for other usual risks and costs associated with lending, as well as profit margins.

The Group classifies the following financial assets at fair value through profit or loss:

- (i) equity investments;
- (ii) financial assets mandatorily measured at fair value through profit or loss.

Measurement of financial assets

At initial recognition, the Group measures a financial asset at its fair value plus (unless a financial asset is measured at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

a) Debt instruments

There are two measurement categories into which the Group classifies its debt instruments:

- (i) *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the Consolidated Interim Statement of Profit or Loss in the period when incurred.
- (ii) *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

b) Equity instruments

The Group subsequently measures all equity investments at fair value. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets classified as fair value through profit or loss are recognised in gain/losses from investments in the Condensed Consolidated Interim Statement of Profit or Loss. Revaluation gains/losses on equity investments measured at fair value through other comprehensive income, are recognised in other comprehensive income, together with other effects on changes in fair value.

Impairment of debt financial assets

The Group assesses expected credit losses associated with its debt financial instruments carried at amortised cost taking into account the available historical and forecast information.

The Group determines the probability of default upon initial recognition of an asset. In doing so, it takes into account available reasonable and verifiable forecast information.

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Impairment of debt financial assets (continued)

A default on a financial asset takes place in cases when the counterparty does not make payments under the contract within 90 days after the due date.

For assets with expected life of more than one year, the Group takes into account any significant increase in credit risk at each balance sheet date, comparing the default risk of the asset at the reporting date with the risk of default on the asset at the date of initial recognition. A significant increase in credit risk occurs when the counterparty does not make payments under the contract within 30 days after the due date, and also based on such factors as changes in external credit ratings and information about other negative events affecting counterparty's ability to make a payment.

Financial assets are written off when there are no reasonable expectations of recovering a financial asset. Assets that are impossible to sell and for which all necessary procedures have been completed with purpose of full or partial recovery and the final amount of the loss is determined are written off against the provision for impairment. Subsequent recoveries of amounts previously written off are allocated to the account for impairment losses in profit or loss.

Hedge accounting

The currency risk management policy and the hedging strategy of the Group's currency risk remain unchanged in the application of IFRS 9. Cash flow hedge accounting continues to be applied to existing hedging relationships.

IFRS 9 eliminates the requirement to assess the effectiveness of a hedge in the range of 80-125%, and the effectiveness of the hedge is estimated based on the existence of an economic relationship between the instrument and the hedged item. However, in accordance with IFRS 9, discounting of hedged cash flows is required to assess the effectiveness of the hedge. Accordingly, the Group updated its approach to assessing the effectiveness of the hedge, and identified as a hedged item the future highly probable revenue equal to the amount of cash flows from financial leases on a non-discount basis. This change has a prospective effect from 1 January 2018, and has no impact on the Group's opening balance as a result of the adoption of a new standard in accounting for hedging (IFRS 9).

The main changes in respect of financial instruments under the transition to IFRS 9

The main changes in accounting policy for the recognition of financial instruments upon adoption of IFRS 9 compared to the accounting policy that was in effect in previous reporting periods are explained below:

(i) Classification and measurement of financial instruments

As at 1 January 2018, the Group's management has assessed which business models apply to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories. A business model for cash and cash equivalents, debt financial investments and financial receivables is to hold these assets to collect the contractual cash flows.

(ii) Reclassification from available-for-sale financial assets to financial assets at fair value, which changes are recognised in profit or loss

The Group did not apply the election possibility of classifying equity investments into the category measured at fair value through other comprehensive income. Equity investments were reclassified from available-for-sale to financial assets at fair value through profit or loss (as at 1 January 2018: RUB 5,826 million). Profit from revaluation at fair value in amount RUB 2,574 million was recognised in retained earnings as at 1 January 2018. During 9 months 2018, the revaluation income at fair value on these investments in the amount of RUB 144 million was recognised in Condensed Consolidated Interim Statement of Profit or Loss.

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Notes to the Condensed Consolidated Interim Financial Statements
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3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The main changes in respect of financial instruments under the transition to IFRS 9 (continued)

The table below compares the classification of financial assets into the previous valuation categories in accordance with IAS 39 with their new classification in accordance with IFRS 9 as of 1 January 2018:

	<u>Measurement category</u>		<u>Carrying value per IAS 39 (31 December 2017)</u>	<u>Remeasurement</u>		<u>Carrying value per IFRS 9 (1 January 2018)</u>
	<u>IAS 39</u>	<u>IFRS 9</u>		<u>Expected credit losses</u>	<u>Other</u>	
Cash and cash equivalents	Loans And Accounts Receivable	Measured at amortized cost	45,978	-	-	45,978
Investments in debt securities	Available-For-Sale	Measured at amortized cost	56	-	-	56
Investments in equity securities	Available-For-Sale	Measured at fair value through profit or loss	3,252	-	2,574	5,826
Financial accounts receivables	Loans And Accounts Receivable	Measured at amortized cost	34,991	(40)	-	34,951
Aircraft lease security deposits	Loans And Accounts Receivable	Measured at amortized cost	2,025	-	-	2,025
Debt financial investments	Loans And Accounts Receivable	Measured at amortized cost	8,961	(30)	-	8,931
Total loans and accounts receivable			45,977	(70)	-	45,907
Other financial assets	Loans And Accounts Receivable	Measured at amortized cost	583	-	-	583
Total financial assets			95,846	(70)	2,574	98,350

There were no significant changes in respect of financial obligations.

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3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The main changes in respect of financial instruments under the transition to IFRS 9 (continued)

The movement of the gross book value (before deducting the provision) of financial assets is presented in the table below:

	Cash and cash equivalents	Financial accounts receivables	Debt financial investments	Equity financial investments	Aircraft lease security deposits	Other financial assets	Total
Gross book value per IAS 39 (opening balance at 1 January 2018)	45,978	46,339	18,457	3,252	2,025	583	116,634
Amounts adjusted through retained earnings at the beginning of the period	-	-	-	2,574	-	-	2,574
Gross book value per IFRS 9 (opening balance at 1 January 2018)	45,978	46,339	18,457	5,826	2,025	583	119,208
Change in gross book value for the period	5,736	13,806	(447)	130	2,704	873	22,802
Gross book value at 30 September 2018	51,714	60,145	18,010	5,956	4,729	1,456	142,010

Movements in the provision for impairment of financial assets are as follows:

	Financial accounts receivable	Other financial assets	Total impairment provision
1 January 2018 – IAS 39	(11,348)	(9,440)	(20,788)
Amounts adjusted through retained earnings at the beginning of the period	(40)	(30)	(70)
1 January 2018 – IFRS 9	(11,388)	(9,470)	(20,858)
Provision increase	(1,115)	(145)	(1,260)
Provision release	28	-	28
Provision recovery	149	-	149
30 September 2018	(12,326)	(9,615)	(21,941)

Adoption of IFRS 15 “Revenue from contracts with customers”

Starting from 1 January 2018, the accounting policy on revenue recognition has been amended to bring it in line with IFRS 15 “Revenue from contracts with customers”, which replaces the provisions of IAS 18 “Revenue” and other standards and interpretations relating to revenue recognition.

In accordance with the transition provisions of IFRS 15, the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the Consolidated Financial Statements for the year-ending 31 December 2018 which will be the first year when the Group will adopt IFRS 15.

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Adoption of IFRS 15 “Revenue from contracts with customers” (continued)

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to be recognised in the Consolidated Financial Statements.

The main changes in the accounting policy on revenue recognition from adoption of IFRS 15 compared to that used in previous reporting periods are explained below:

(i) *Accounting for frequent flyer programme referred to as Aeroflot Bonus from own flights;*

The Group operates a frequent flyer programme referred to as Aeroflot-Bonus (programme). Subject to the programme’s terms, to increase customer loyalty, Aeroflot-Bonus miles are awarded for the use of the Group’s services and its partners. The miles earned entitle members to a number of benefits such as free flights, flight class upgrades and redeem miles for special awards from programme partners if the additional conditions of the programme are met.

In previous reporting periods, the consideration received from the sale of tickets to passengers was distributed between obligation attributable to the bonus miles and the obligation to provide a seat on the selected flight according to the purchased ticket using the residual method. Under this method, a portion of the consideration received which was equal to the fair value of the bonus miles was recognised within liabilities under frequent flyer programme. The remaining part of consideration was recognised as the traffic revenue when the transportation service had been provided.

According to IFRS 15, the Group evaluates the goods or services under the agreement with the customer and identifies performance obligations for each distinct promise to transfer the good or service to the customer. The agreement between the Programme participant and the Company is a ticket for a regular flight purchased by the passenger. Under this agreement, there are two performance obligations to be performed: to provide the passenger with a seat on the selected flight (performance obligation No. 1); to provide the passenger with services in the future (flight class upgrades or other goods and services) for the amount of accrued bonus miles (performance obligation No. 2). Thus, different to the method applied in the previous periods, the allocation of transaction price to each performance obligation is performed on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. The selling price of a ticket for a regular flight of the Company (performance obligation No. 1) is the tariff established by the Company on the specified route at the time of the sale, regardless of whether the customer is a Programme participant or not. The stand-alone selling price of one separate bonus mile (performance obligation No. 2) is a tool for determining the cost of services that will be provided in the future to the Programme participant. The management determines the cost of the future service (or part of it) per bonus mile equal to the assessment of the fair value of the service per mile based on the tariffs applicable to that service in the reporting period.

As at 1 January 2018, as a result of IFRS 15 adoption in terms of accounting the Aeroflot Bonus programme the amount of obligations under these programme increased and the amount of retained earnings reduced by RUB 1,116 million.

(ii) *Accounting for change fees;*

In previous reporting periods, revenue from change fees was recognised as other revenue at the moment when change to booking was provided.

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Adoption of IFRS 15 “Revenue from contracts with customers” (continued)

According to IFRS 15, the service for changes in bookings is not distinguishable and is part of the performance obligation to provide a seat for the passenger on the selected flight. A change to booking is a modification of the agreement, which the Group considers as if it were a termination of the existing agreement and conclusion of a new one. Revenue from the new agreement (this revenue includes revenue from ticket sales and service change fees) is recognised when transportation services are provided as traffic revenue. Where a route in agreement consists of several segments, revenue from change fees is recognised at the time of fulfillment of the performance obligation of transportation services for the first segment of the route.

As at 1 January 2018, as a result of IFRS 15 adoption in terms of changes in recognition of revenue from change fees the amount of liabilities to passengers as unearned transport revenue increased by RUB 357 million and the amount of retained earnings decreased by RUB 285 million including deferred tax in the amount of RUB 72 million.

(iii) Accounting for commission fees payable to agents;

The Group uses a practical expedient in accordance with IFRS 15, and recognizes commission fees payable to agents on sale of tickets as sales and marketing expenses within operating expenses in the Consolidated Statement of Profit or Loss in the period of the sale of the tickets, as according to the current tariffs of the Group the period of performance an obligations on transportation of passengers does not exceed one year. This approach is consistent with the approach used in previous reporting periods.

In summary, management made the following adjustments to the amounts recognised in the Condensed Consolidated Interim Statement of Financial Position of the Group as at 1 January 2018, which is the date of initial application:

	IAS 18 carrying amount 31 December 2017	IFRS 15 influence	IFRS 15 carrying amount 1 January 2018
Deferred revenue related to frequent flyer programme, current part	1,720	575	2,295
Unearned traffic revenue	43,695	357	44,052
Deferred revenue related to frequent flyer programme, non-current part	3,842	-	3,842
Accounts payable and accrued liabilities	2,566	541	3,107
Other non-current liabilities	2,563	-	2,563

Changes in reporting figures of the Condensed Consolidated Interim Financial Statements in the current reporting period as a result of the application of the new accounting policy under IFRS 15 compared to the prior accounting policy under IAS 18 and other standards and interpretations on revenue, are not considered significant.

The total impact of new standards IFRS 15 and IFRS 9 on the Group’s retained earnings as at 1 January 2018 is as follows:

	2018
Opening retained earnings at 1 January 2018 – before new standards restatement	81,476
IFRS 9 adoption impact	2,504
IFRS 15 adoption impact	(1,473)
Changes in deferred tax assets on adoption IFRS 15	72
Opening retained earnings at 1 January 2018 - after IFRS 9/IFRS 15 adoption	82,579

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3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Critical accounting estimates and judgments

In preparing these Condensed Consolidated Interim Financial Statements, the Group's management makes estimates, judgements and assumptions that affect the implementation of accounting policy and the reported amounts of assets, liabilities, gains and losses. Actual results may deviate from declared estimates. Judgements regarding the accounting policy provisions and valuation methods applied by management when preparing these Condensed Consolidated Interim Financial Statements correspond to those used when preparing Consolidated Financial Statements for the year ended 31 December 2017, and as at this date, except for changes in accounting estimates with respect to the amount of income tax expenses.

Income tax expense

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

4. TRAFFIC REVENUE

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Scheduled passenger flights	163,439	139,309	379,408	327,726
Charter passenger flights	14,183	10,393	30,566	22,776
Cargo flights	4,661	4,117	12,839	11,300
Total traffic revenue	182,283	153,819	422,813	361,802

5. OTHER REVENUE

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Airline agreements revenue	11,905	8,890	27,020	24,223
Revenue from partners under the frequent flyer programme	3,821	3,586	9,504	8,703
Sales of goods on board	447	385	1,244	1,153
In-flight catering services	533	629	1,239	1,304
Ground handling and maintenance	139	301	426	1,018
Hotel revenue	145	118	407	327
Refuelling services	8	3	17	197
Other revenue	1,242	2,184	3,675	6,046
Total other revenue	18,240	16,096	43,532	42,971

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for the 9 months ended 30 September 2018*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***6. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION**

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Operating lease expenses	24,027	17,056	63,768	47,710
Aircraft servicing	24,320	22,691	62,512	59,820
Aircraft maintenance	11,750	10,566	32,009	26,247
Passenger services expenses	7,314	6,053	17,756	14,886
Administration and general expenses	5,371	4,405	14,484	12,093
Communication expenses	3,581	3,550	10,886	10,798
Food cost for in-flight catering	3,242	3,021	8,426	7,727
Sales and marketing expenses	3,029	4,934	7,994	11,753
Insurance expenses	682	504	1,744	1,511
Cost of goods sold on board	126	201	657	637
Customs duties	246	330	753	1,032
Other expenses	2,635	1,898	6,794	5,477
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	86,323	75,209	227,783	199,691
Aircraft fuel	54,080	33,727	131,965	89,944
Total operating costs less staff costs and depreciation and amortisation	140,403	108,936	359,748	289,635

7. STAFF COSTS

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Wages and salaries	15,729	17,097	47,382	47,105
Pension costs	3,140	3,857	10,779	10,069
Social security costs	787	1,232	3,154	3,335
Total staff costs	19,656	22,186	61,315	60,509

Pension costs include:

- compulsory payments to the RF Pension Fund,
- contributions to a non-government pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 9 months 2018, 20% for 9 months 2017) of the transfers made personally by the employees participating in the programme, and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under defined benefit pension plans.

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Payments to the RF Pension Fund	3,129	3,848	10,739	10,067
Change in pension plans	11	9	40	2
Total pension costs	3,140	3,857	10,779	10,069

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Notes to the Condensed Consolidated Interim Financial Statements
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**8 FINANCE INCOME AND COSTS**

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
<i>Finance income:</i>				
Interest income	1,192	1,212	3,311	3,602
Gain on foreign exchange, net	-	354	-	2,747
Other finance income	851	-	-	-
Total finance income	2,043	1,566	3,311	6,349
<i>Finance costs:</i>				
Interest expense	(1,680)	(2,106)	(4,554)	(6,012)
Loss on foreign exchange, net	(172)	-	(535)	-
Other finance costs	-	(65)	(276)	(319)
Total finance costs	(1,852)	(2,171)	(5,365)	(6,331)

9. INCOME TAX

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

The expected weighted average annual income tax rate applied to profitable Group companies for the 9 months 2018 equaled to 21 – 47% (9 months 2017: 0 – 25%). Expected weighted average annual income tax rate applied to loss making Group companies for the 9 months 2018 equaled to 19% (9 months 2017: 0 – 26%). Change in expected income tax rate is connected with the change in share of non-deductible expenses.

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Current income tax charge	(7,107)	(9,253)	(6,197)	(11,091)
Change in deferred income tax	(576)	1,363	(1,356)	554
Income tax	(7,683)	(7,890)	(7,553)	(10,537)

In the reporting period, the Group has utilised deferred tax assets from tax losses of its subsidiaries in amount of RUB 18 million.

In the reporting period, the Group did not recognise deferred tax assets from tax losses in the amount RUB 4 million.

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2018	31 December 2017
Trade accounts receivable	44,993	36,853
Other financial receivables	15,152	9,486
Less impairment provision	(12,326)	(11,348)
Total financial receivables	47,819	34,991
Prepayments to suppliers	15,466	13,803
VAT and other taxes recoverable	15,437	15,842
Prepayments for delivery of aircraft	7,079	25,285
Deferred customs duties related to the imported aircraft under operating leases, current portion	180	397
Other receivables	3,522	3,152
Less impairment provision	(599)	(538)
Total accounts receivable and prepayments	88,904	92,932

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**10. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)**

As at 30 September 2018 and 31 December 2017, the current part of prepayments for aircraft includes prepayments for the acquisition of the following aircraft:

Type of aircraft	30 September 2018		31 December 2017	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Boeing B787	-	-	22	-
Boeing B777	2	2019	1	2018
Airbus A320	1	2018	10	2018
Airbus A321	-	-	5	2018

As at 30 September 2018, the expected type of lease for these aircraft is not defined yet.

Due to changes in the plan of aircraft purchases, prepayments for Boeing B787 were reclassified by the Group from the prepayments for delivery of aircraft to other financial receivables as at 30 September 2018.

The Group paid advances in amount of RUB 8,747 million for 15 aircraft delivered under operating lease during 9 months of 2018 (for 9 months of 2017: RUB 9,196 million for 14 aircraft). The above mentioned advances were recognised as part of prepayments to suppliers and other non-current assets. These assets should be written off to operating lease expenses over the term of the operating lease agreements.

11. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 30 September 2018 and 31 December 2017, the non-current portions of prepayments for aircraft was RUB 16,156 million and RUB 13,089 million, respectively. Changes in the non-current portion of prepayments are due to the approaching aircraft delivery dates as well as new non-current prepayments.

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

As at 30 September 2018 and 31 December 2017, the non-current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

Type of aircraft	30 September 2018		31 December 2017	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Airbus A350	22	2020-2023	22	2019-2023
Boeing B777	3	2020-2021	5	2019-2021

As at 30 September 2018, the expected type of lease for these aircraft is not defined yet.

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12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<i>Cost</i>						
1 January 2017	8,147	112,942	10,131	23,937	4,721	159,878
Additions	926	-	4	2,779	1,067	4,776
Capitalised expenditures	-	299	-	-	1,075	1,374
Disposals	(122)	(1,283)	(76)	(489)	(34)	(2,004)
Transfers from assets classified as held for sale	(114)	(6,476)	-	-	-	(6,590)
Transfers	2,784	1,770	29	343	(4,926)	-
30 September 2017	11,621	107,252	10,088	26,570	1,903	157,434
1 January 2018	12,583	107,176	10,151	27,606	3,627	161,143
Additions	2,958	-	33	2,270	2,051	7,312
Capitalised expenditures	-	1,334	-	-	475	1,809
Disposals	(322)	(740)	(11)	(612)	(40)	(1,725)
Transfers to assets classified as held for sale (Note 13)	(252)	(16,354)	-	-	-	(16,606)
Transfers	-	795	3	609	(1,407)	-
30 September 2018	14,967	92,211	10,176	29,873	4,706	151,933
<i>Accumulated depreciation and impairment</i>						
1 January 2017	(1,511)	(36,756)	(4,970)	(11,671)	(73)	(54,981)
Charge for the year	(1,030)	(6,286)	(187)	(2,343)	-	(9,846)
Recovery of impairment provision	32	-	2	-	-	34
Disposals	54	696	63	373	-	1,186
Transfers to assets classified as held for sale	21	3,637	-	-	-	3,658
30 September 2017	(2,434)	(38,709)	(5,092)	(13,641)	(73)	(59,949)
1 January 2018	(2,892)	(40,691)	(5,169)	(14,384)	(75)	(63,211)
Charge for the year	(1,135)	(5,363)	(199)	(2,402)	-	(9,099)
Recovery/(charge) of impairment provision	(2)	-	-	(33)	1	(34)
Disposals	121	505	7	525	-	1,158
Transfers to assets classified as held for sale (Note 13)	50	8,199	-	-	-	8,249
30 September 2018	(3,858)	(37,350)	(5,361)	(16,294)	(74)	(62,937)
<i>Carrying amount</i>						
1 January 2018	9,691	66,485	4,982	13,222	3,552	97,932
30 September 2018	11,109	54,861	4,815	13,579	4,632	88,996

Capitalised borrowing costs for 9 months 2018 amounted to RUB 475 million (9 months 2017: RUB 1,075 million). The capitalisation rate of interest expenses and translation differences for the period was 3.6% p.a. (9 months 2017: 3.5% p.a.).

13. ASSETS CLASSIFIED AS HELD FOR SALE

As at 30 September 2018, 9 Airbus A321 aircraft (31 December 2017: 4 aircraft) operated under finance lease agreements were targeted for disposal; therefore, at the end of the reporting period these assets and related liabilities were classified as held for sale.

As at 30 September 2018, the amount of net assets held for sale amounted to RUB 82 million (31 December 2017: RUB 915 million).

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	Initial cost of property, plant and equipment	Accumulated depreciation and impairment	Total assets	Total liabilities
1 January 2018	6,759	(3,634)	3,125	(2,210)
Additions (Note 12)	16,606	(8,249)	8,357	(8,756)
Disposals	(6,759)	3,693	(3,066)	3,615
Release of impairment provision	-	36	36	-
Revaluation	-	-	-	(1,183)
30 September 2018	16,606	(8,154)	8,452	(8,534)

During 9 months 2018 the Group disposed of 4 Airbus A321 aircraft (during 9 months 2017: 2 Airbus A321 aircraft). Profit from disposal of mentioned aircraft amounted to RUB 35 million (during 9 months 2017: RUB 201 million).

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 September 2018	31 December 2017
Accounts payable	43,668	34,095
Other financial payables	4,887	6,880
Dividends payable	309	65
Total financial payables	48,864	41,040
Staff and social funds related liabilities	17,843	19,434
Other current liabilities related to the frequent flyer programme (Note 15)	3,570	2,566
Other taxes payable	1,498	2,626
Advances received (other than unearned traffic revenue)	1,226	1,451
Other payables	658	836
Total accounts payable and accrued liabilities	73,659	67,953

As at 30 September 2018 previously recognized payables to the Ministry of Property and Land Relations of the Sakhalin Region for contributing to the share capital of JSC AK Aurora in amount of RUB 1,500 million were classified as a non-controlling interest in the Condensed Consolidated Statement of Changes in Equity due to registration of the new charter of JSC AK Aurora on 5 July 2018.

15. DEFERRED REVENUE AND OTHER LIABILITIES RELATED TO THE FREQUENT FLYER PROGRAMME

Deferred revenue and other accrued liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 30 September 2018 and 31 December 2017 represent the number of bonus miles earned when flying on Group flights, but unused by Aeroflot Bonus programme members, and the number of bonus miles earned by programme members for using programme partners' services, respectively; they are estimated at value of obligation to be fulfilled in accordance with IFRS 15 requirement. Other accrued liabilities related to the frequent flyer programme also include the number of accumulated but not used bonus miles, which value reflects the best estimate of the expenditure, necessary to settle the existing obligation in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets".

	30 September 2018	31 December 2017
Deferred revenue related to the frequent flyer programme, current	3,368	1,720
Deferred revenue related to the frequent flyer programme, non-current	3,447	3,842
Other current liabilities related to the frequent flyer programme (Note 14)	3,570	2,566
Other non-current liabilities related to the frequent flyer programme	2,637	2,563
Total deferred revenue and other liabilities related to the frequent flyer programme	13,022	10,691

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	Regular repairs and maintenance works	Other provisions	Total provisions
1 January 2017	13,510	2,585	16,095
Charge of provision for the period	10,133	2,388	12,521
Use of provision for the period	(822)	(40)	(862)
Release of provision for the period	(1,618)	(1,350)	(2,968)
Unwinding of the discount	2,097	-	2,097
Foreign exchange profit, net	(641)	(19)	(660)
30 September 2017	22,659	3,564	26,223
1 January 2018	24,654	1,728	26,382
Charge of provision for the period	9,578	164	9,742
Use of provision for the period	(4,895)	(34)	(4,929)
Release of provision for the period	(2,728)	(7)	(2,735)
Unwinding of the discount	1,522	-	1,522
Foreign exchange loss, net	3,655	1	3,656
Other changes	-	(1,666)	(1,666)
30 September 2018	31,786	186	31,972
		30 September 2018	31 December 2017
Current liabilities		7,442	9,433
Non-current liabilities		24,530	16,949
Total provisions		31,972	26,382

Litigations

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 26).

As at 30 September 2018, the previously accrued provision of RUB 1,666 million for obligations to pay capitalized social payments stipulated by the legislation of the Russian Federation in connection with the start of a bankruptcy proceedings against JSC Donavia was reclassified to accounts payable.

Regular repairs and maintenance works

As at 30 September 2018, the Group made a provision of RUB 31,786 million (31 December 2017: RUB 24,654 million) for regular repairs and maintenance works of aircraft used under operating lease terms. Change in provision for regular repairs and maintenance works for 9 months 2018 amounted to RUB 6,850 million (9 months 2017: RUB 8,515 million) and was recorded within other operating income and expenses.

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**17. FINANCE LEASE LIABILITIES**

The Group leases aircraft from third and related parties under finance lease agreements. The list of aircraft that the Group has operated under finance lease agreements as at 30 September 2018 is disclosed in Note 1.

	30 September 2018	31 December 2017
Total outstanding payments on finance lease contracts	101,613	111,270
Future finance lease interest expense	(9,164)	(10,581)
Total finance lease liabilities	92,449	100,689
<i>Including:</i>		
Current finance lease liabilities	15,453	16,015
Non-current finance lease liabilities	76,996	84,674
Total finance lease liabilities	92,449	100,689

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

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the finance lease liabilities denominated in the same currency. The Group applies cash flow hedge accounting model to this hedging relationship, in accordance with IFRS 9 “Financial Instruments”.

As at 30 September 2018, finance lease liabilities and liabilities related to assets held for sale in the amount of RUB 95,100 million denominated in US dollars (31 December 2017: RUB 96,271 million) were designated as a hedging instrument for highly probable revenue forecasted for the period 2018 – 2026 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities match the future cash inflows on the revenue being hedged. As at 30 September 2018, accumulated foreign currency loss of RUB 38,952 million (before deferred income tax) on the finance lease liabilities (31 December 2017: RUB 31,449 million), representing an effective portion of the hedge, was recognised in the hedge reserve. The loss reclassified from the hedge reserve to profit or loss for 9 months 2018 was RUB 4,925 million (for 9 months 2017: RUB 4,226 million).

18. LOANS AND BORROWINGS

	30 September 2018	31 December 2017
<i>Short-term loans and borrowings:</i>		
Short-term loans in Russian Roubles	175	-
Total short-term loans and borrowings	175	-
<i>Long-term loans and borrowings:</i>		
Long-term loans in Russian Roubles	2,888	2,800
Long-term loans and borrowings in US dollars	439	381
Total long-term loans and borrowings	3,327	3,181

The main changes in loans and borrowings during reporting period

The Group has withdrawn a non-revolving credit line with PJSC Sberbank (fixed interest rate) in the amount of RUB 350 million. The credit line is unsecured and issued for the period up to March 2020.

As at 30 September 2018, the Group does not have assets transferred to secure loans and borrowings.

As at 30 September 2018 and 31 December 2017, the fair values of loans and borrowings were not materially different from their carrying amounts.

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18. LOANS AND BORROWINGS (CONTINUED)

Exchange bonds program

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

Undrawn commitments

As at 30 September 2018, the Group was able to raise RUB 81,461 million in cash (31 December 2017: RUB 103,175 million).

19. SHARE CAPITAL

As at 30 September 2018 and 31 December 2017, share capital was equal to RUB 1,359 million.

	Number of ordinary shares authorised and issued (shares)	Number of treasury shares (shares)	Number of ordinary shares outstanding (shares)
31 December 2017	1,110,616,299	-	1,110,616,299
30 September 2018	1,110,616,299	(47,817,796)	1,062,798,503

On 25 June 2018, the General Meeting of Shareholders of the Company decided to make a major transaction in which there is an interest - operating lease of fifty new MS-21-300 aircraft. Owners of voting shares who voted against this decision or did not participate in voting on this issue were entitled to claim the buyback by the Company of all or part of their shares. As at 30 September 2018, the total number of treasury shares purchased by the Company from shareholders was 47,817,796.

In September 2017, the Company sold 53,716,189 its own shares, previously bought out by the subsidiary LLC Aeroflot Finance.

These ordinary shares carry voting rights in the same proportion as other ordinary shares.

All issued shares are fully paid. In addition to the shares that have been placed the Company is entitled to place 250,000,000 ordinary registered shares (31 December 2017: 250,000,000 shares) with par value of RUB 1 per share (31 December 2017: RUB 1 per share). Each ordinary share gives a right to one vote.

The Company's shares are listed on the Moscow Exchange ("MICEX"). As at 30 September 2018 and 31 December 2017, weighted average price was RUB 106.35 and RUB 139.10 per share, respectively.

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 30 September 2018 and 31 December 2017, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 7.06 per GDR and EUR 9.91 per GDR, respectively.

20. DIVIDENDS

At the annual shareholders' meeting held on 25 June 2018 the shareholders approved dividends in respect of 2017 in the amount of RUB 12.8053 per share totalling to RUB 14,222 million for the Company's total declared and placed shares. All dividends are declared and paid in Russian Roubles.

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

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**21. OPERATING SEGMENTS**

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

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

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

Group assets are located mainly in Russian Federation.

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

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
Nine months 2018				
External sales	463,051	3,294	-	466,345
Inter-segment sales	519	16,570	(17,089)	-
Total revenue	463,570	19,864	(17,089)	466,345
Operating profit	34,897	1,949	-	36,846
Loss on investments, net				(3)
Finance income				3,311
Finance costs				(5,365)
Hedging result				(4,925)
Share of financial results of associates				179
Profit before income tax				30,043
Income tax				(7,553)
Profit for the period				22,490
	Passenger traffic	Other	Inter-segment sales elimination	Total Group
Nine months 2017				
External sales	401,481	3,292	-	404,773
Inter-segment sales	468	14,541	(15,009)	-
Total revenue	401,949	17,833	(15,009)	404,773
Operating profit	40,053	1,809	-	41,862
Loss on investments, net				(108)
Finance income				6,349
Finance costs				(6,331)
Hedging result				(4,226)
Share of financial results of associates				140
Profit before income tax				37,686
Income tax				(10,537)
Profit for the period				27,149

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Three months ended 30 September 2018	Passenger traffic	Other	Inter-segment sales elimination	Total Group
External sales	199,254	1,269	-	200,523
Inter-segment sales	184	6,594	(6,778)	-
Total revenue	199,438	7,863	(6,778)	200,523
Operating profit	35,889	1,236	-	37,125
Loss on investments, net				(110)
Finance income				2,043
Finance costs				(1,852)
Hedging result				(1,941)
Share of financial results of associates				136
Profit before income tax				35,401
Income tax				(7,683)
Profit for the period				27,718

Three months ended 30 September 2017	Passenger traffic	Other	Inter-segment sales elimination	Total Group
External sales	168,585	1,330	-	169,915
Inter-segment sales	156	5,617	(5,773)	-
Total revenue	168,741	6,947	(5,773)	169,915
Operating profit	32,971	1,193	-	34,164
Loss on investments, net				(36)
Finance income				1,566
Finance costs				(2,171)
Hedging result				(1,478)
Share of financial results of associates				106
Profit before income tax				32,151
Income tax				(7,890)
Profit for the period				24,261

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are mainly represented by investments in JSC MASH that do not have market quotes. The fair value measurement of JSC MASH cost belong to Level 3 in the fair value hierarchy and are determined through a regular estimation of the expected discounted cash flows, where one or more of the significant inputs is not based on observable market data, including the following: (i) the discount rate determined using the CAPM; (ii) the forecast of passenger traffic and the number of take-off and landing operations based on the evaluation of historical data and public information; (iii) the growth rate of tariffs for ground handling and airport services; and (iv) the amount of capital investments estimated based on the forecast information published by JSC MASH.

Liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 30 September 2018 and 31 December 2017, the fair values of financial payables (Note 14), finance lease liabilities (Note 17), loans and borrowings (Note 18) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2.

During 9 months of 2018 and 9 months 2017 there was no transfer between levels 1, 2 or 3 of the fair value hierarchy.

The classification of financial assets and liabilities as at 30 September 2018 is stated below:

	Measured at amortised cost	Measured at fair value through profit or loss	Total
Cash and cash equivalents	51,709	-	51,709
Short-term financial investments	8,342	-	8,342
Financial receivables (Note 10)	47,819	-	47,819
Aircraft lease security deposits	4,720	-	4,720
Long-term financial instruments	68	5,956	6,024
Other current assets	596	-	596
Other non-current assets	860	-	860
Total financial assets	114,114	5,956	120,070
		Financial liabilities	Total
Financial payables (Note 14)		48,864	48,864
Finance lease liabilities (Note 17)		92,449	92,449
Loans and borrowings (Note 18)		3,502	3,502
Other non-current liabilities		350	350
Total financial liabilities		145,165	145,165

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**22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The classification of financial assets and liabilities as at 31 December 2017 is stated below:

	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	45,978	-	45,978
Short-term financial investments	8,931	-	8,931
Financial receivables (Note 10)	34,991	-	34,991
Aircraft lease security deposits	2,025	-	2,025
Long-term financial instruments	32	3,306	3,338
Other current assets	422	-	422
Other non-current assets	161	-	161
Total financial assets	92,540	3,306	95,846

	Financial liabilities	Total
Financial payables (Note 14)	41,040	41,040
Finance lease liabilities (Note 17)	100,689	100,689
Loans and borrowings (Note 18)	3,181	3,181
Other non-current liabilities	306	306
Total financial liabilities	145,216	145,216

23. RELATED-PARTY TRANSACTIONS

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

As at 30 September 2018 and 31 December 2017, the outstanding balances with related parties and income and expense items with related parties for 9 months 2018 and 9 months 2017 were disclosed below.

Associates

In April 2018, the Group acquired a 26% stake in “Aeromar-Krasnodar” Ltd, which is based at Krasnodar International Airport. The main activity of the organization is airline catering.

As at 30 September 2018 and 31 December 2017, the outstanding balances with associates and income and expense items with associates for 9 months 2018 and 9 months 2017 were as follows:

	30 September 2018	31 December 2017
Liabilities		
Accounts payable and accrued liabilities	192	84

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**23. RELATED-PARTY TRANSACTIONS (CONTINUED)**

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

	Three months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Transactions				
Sales to associates	1	2	4	5
Purchase of goods and services from associates	747	272	1,996	1,377

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

Government-related entities

As at 30 September 2018 and 31 December 2017, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% stake in the Company. As the Group operates in an economic environment where the entities and credit organizations are directly or indirectly controlled by the Government of the RF through the relevant government authorities, agencies, affiliations and other organizations (government-related entities).

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

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

- banking services;
- investments in JSC MASH;
- finance and operating lease;
- guarantees on liabilities;
- purchase of aircraft fuel;
- purchase of air navigation and airport services; and
- government subsidies including those provided for compensating of lost income from passenger flights in certain directions under government programmes.

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

	30 September 2018	31 December 2017
Assets		
Cash	26,450	22,539

The amounts of the Group's finance and operating lease liabilities (including liabilities related to assets held for sale) are disclosed in Notes 13, 17 and 24. The share of liabilities to the government-related entities is approximately 74% for finance lease (including liabilities related to assets held for sale) and about 67% for operating lease (31 December 2017: 71% and 49%, respectively).

For 9 months 2018 the share of Group's transactions with government-related entities is about 24% of operating costs, and about 2% of revenue (9 months 2017: about 22% and about 2%, respectively). These expenses primarily include costs of motor fuels supplies, expenses for operating lease of aircraft and aircraft engines as well as air navigation and aircraft maintenance services in the airports.

23. RELATED-PARTY TRANSACTIONS (CONTINUED)

As at 30 September 2018, the Group issued guarantees for the amount of RUB 1,152 million to a government entity to secure obligations under tender procedures (31 December 2017: RUB 1,618 million).

Transactions with the Russian Government also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 6, 7, 9,10 and 14.

Compensation of key management personnel

The remuneration of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as other compensations, amounted to RUB 1,172 million for 9 months 2018 (9 months 2017: RUB 3,833 million).

These remunerations are mainly represented by short-term payments. Such amounts are stated before personal income tax but exclude mandatory insurance contributions to non-budgetary funds. According to Russian legislation, the Group makes contributions to the Russian State pension fund as part of compulsory social insurance contributions for all its employees, including key management personnel.

Bonus programmes based on the Group's capitalisation

In 2016 the Group approved bonus programmes for its key management personnel and members of the Company's Board of Directors. These programmes run for 3.5 years and are to be exercised in 4 tranches of cash payments. The amounts of payments depend on the level of increase in the Company's capitalisation, the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalisation by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 30 September 2018, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2018 till 30 September 2018 and amount of payment deferred till the end of the programmes.

Income in connection with the recovery of the reserve of future expenses under bonus programme and its expenses related to discounting amounted to RUB 2,222 million for 9 months 2018 and was reflected in labour costs and other finance costs respectively (9 months 2017: RUB 339 million). As at 30 September 2018, the outstanding amount of the liability under these programmes was RUB 220 million (31 December 2017: RUB 2,558 million).

24. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 23) are as follows:

	30 September 2018	31 December 2017
On demand or within 1 year	93,932	73,565
Later than 1 year and not later than 5 years	349,892	272,048
Later than 5 years	556,444	314,968
Total operating lease commitments	1,000,268	660,581

As at 30 September 2018, the Group entered into a number of agreements with Russian banks under which the banks guarantee the payment of the Group's liabilities under existing aircraft lease agreements.

25. CAPITAL COMMITMENTS

As at 30 September 2018, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 246,377 million (31 December 2017: RUB 394,937 million). These commitments mainly relate to purchase 22 Airbus A-350 (31 December 2017: 22 aircraft), 5 Boeing B777 (31 December 2017: 6 aircraft), 22 Boeing B-787 aircraft and 15 Airbus A-320/321 aircraft as at 31 December 2017. Group expects to use supplied aircraft under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

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

The economy of the Russian Federation displays certain characteristics of an emerging market. It is particularly sensitive to oil and gas price fluctuations. The legal, tax and regulatory frameworks of the RF continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continue growing in 2018, after overcoming the economic recession in previous years. Though, ongoing political tension in the region and international sanctions against certain Russian companies and individuals have a negative impact on the Russian economy. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

Tax contingencies

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

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

Since 1 July 2015, the Russian Government has decided to decrease VAT on domestic passenger and luggage carriage by air to 10% for two years, in 2017 the term was extended until 31 December 2020. This is aimed at improving the financial and economic position of the airlines providing domestic services.

In accordance with amendments to the Russian Tax Code made in 2015, excise duties charged on the aviation fuel obtained by the Group's airlines are subject to deduction using the following special coefficients: 2.08 for 2017, 2.08 for 2018. Reimbursement of fuel excise tax for 9 months 2018 amounted to RUB 7,155 million (9 months 2017: RUB 6,420 million) and was recorded within other operating income and expenses.

26. CONTINGENCIES (CONTINUED)***Tax contingencies (continued)***

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

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

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

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

In addition to the above matters, as at 30 September 2018 and 31 December 2017 management estimates that the Group has no possible obligations from exposure to other than remote tax risks. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these Condensed Consolidated Interim Statements, if these are challenged by the tax authorities.

Insurance

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

Litigations

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

As at 30 September 2018 the Group's subsidiaries JSC Orenair and JSC Donavia were within bankruptcy process, thus their assets of RUB 1,513 million (31 December 2017: RUB 1,779 million), including cash and cash equivalents in the amount of RUB 596 million (31 December 2017: RUB 422 million), have had limited availability to the Group as it is defined by Russian legislation.