PUBLIC JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

IFRS Consolidated Financial Statements
for the year ended 31 December 2018

Contents

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

Management is responsible for the preparation of Consolidated Financial Statements that present fairly the consolidated financial position of the Group as at 31 December 2018, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether International Financial Reporting Standards (IFRS) have been complied with, subject to any material departures that are properly disclosed and explained in the notes to Consolidated Financial Statements; and
- preparing the Consolidated 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 the financial results of its operations and cash flows and which enable them to ensure that the Consolidated Financial Statements of the Group are prepared in accordance with IFRS;
- 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 Group's assets; and
- preventing and detecting fraud and other irregularities.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2018 (presented on pages 7 to 80) were approved on 4 March 2019 and signed on behalf of management by:

V. G. Saveliev General Director	**A. Y. Chikhanchin** Deputy General Director for Commerce and Finance

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Aeroflot:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Aeroflot and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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.

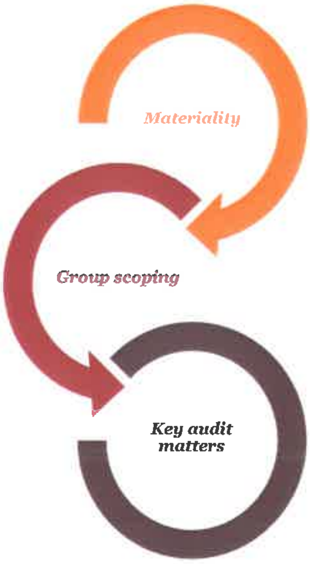
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview



- Overall group materiality: Russian roubles ("RUB") 6,110 million, which represents 1% of revenue for the reporting year.

- We conducted our audit work at four companies of the Group: PJSC Aeroflot, JSC Rossiya Airlines, LLC Pobeda Airlines and JSC Aeromar;
- In respect of the other Group companies, we primarily performed analytical procedures;
- Our audit scope addressed 99% of the Group's revenue and more than 90% of the Group's profit before tax.

- Key audit matter: effect of adoption of IFRS 15, *Revenue from contracts with customers*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RUB 6,110 million
How we determined it	1% of revenue for the reporting year

Rationale for the materiality benchmark applied	We chose revenue as the materiality benchmark. Given the volatility of the Group's financial results, revenue represents a more appropriate measure of the size of the business and risks of misstatement than profit before tax. We chose 1% of the benchmark, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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.

Key audit matter	How our audit addressed the key audit matter
Effect of adoption of IFRS 15, Revenue from contracts with customers *See Notes 2, 3, 4, 5, 25* Starting from 1 January 2018 a new revenue recognition standard IFRS 15, *Revenue from contracts* with customers came in force. The effect from adoption of the new standard recorded within opening retained earnings in consolidated statement of financial position equalled to RUB 1,473 million. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed, in case certain criteria are satisfied. The Group has different revenue streams and variety of contract terms with customers relating to passenger revenue and other	Management developed a new accounting policy to account for revenue from contracts with customers for all revenue streams, introduced new accounting rules and conducted an analysis of existing revenue streams. We reviewed the analysis and new accounting policies provided to us by the management for each significant revenue stream and performed the following procedures: • critically assessed how individual revenue streams were determined, including the reconciliation of the identified streams with the revenue recorded in previous periods, and review whether the transaction price was determined correctly in relation to each revenue stream; • analysed the key terms of the standard contracts used by the Group for each significant revenue stream; • evaluated the differences in accounting policy choices under the new standard on revenue recognition and previous standards for each revenue stream; • performed detailed testing of the sample of revenue transactions for significant revenue streams and assessed weather the revenue recognition criteria for this transactions are in line with the selected accounting

Key audit matter	How our audit addressed the key audit matter
Effect of adoption of IFRS 15, Revenue from contracts with customers (continued) revenue. Due to this, the Group had to conduct a detailed analysis of the contract terms with customers to evaluate and account for the effect of the transition to the new standard and revise some key judgments. Main components of revenue and expenses, that were taken into account by the Group to evaluate the effect of transition to the new standard included the following operations: • Revenue from frequent flyers loyalty programme "Aeroflot-Bonus"; • Commission fees (change fees) paid by the passengers to change booking terms for the regular Group flights; • Passenger traffic revenue earned under code-share and interline agreements with other airlines; • revenue from flight tickets not flown by the passenger and not claimed for reimbursement or exchange; • accounting for direct costs related to sales of tickets to customers (booking services, agent fees); The most significant effect from transition to the new standards relates to the following operations: • accounting for bookings change fees (changes in flight dates, direction, flight number, class); revenue from such fees is now recognised at the moment when the flight is completed under the main contract with passenger (ticket), and not in the moment when changes to the initial booking have been made; • accounting for revenue and contract liabilities under the frequent flyers loyalty program "Aeroflot-Bonus" in relation to the allocation of the transaction price (ticket price) between the price for the bought flight and amount of the discount to the future	principles for revenue recognition, including review whether the period for recognition of revenue from change fees was determined correctly; • checked the reasonableness of the approach and management judgments to allocate the transaction price under the contract (ticket) between separate performance obligations to account for the operations under the frequent flyer program "Aeroflot- Bonus", as well as checked mathematical accuracy of the model developed by the Group's specialists to calculated the contract liability under this program; • evaluated the validity of the practical accounting simplifications in relation to the costs incurred to sell tickets to passengers and the financing component under the contracts with customers; • evaluated weather the modified retrospective approach was applied correctly on transition to the new standard. We checked the relevant disclosures in the consolidated financial statements in terms of their consistency with the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 15, *Revenue from Contracts with Customers.* None of the above procedures revealed significant discrepancies between the selected accounting policies and the requirements of the new standard, or any other significant error in the presentation of information in the consolidated financial statements of the Group.

Key audit matter	How our audit addressed the key audit matter
Effect of adoption of IFRS 15, Revenue from contracts with customers (continued) flight to be bought for bonus miles. Starting from 1 January 2018 the allocation method is based on relative stand-alone selling prices for each performance obligation under the contract instead of residual method of price allocation used before. We focused on this matter due to importance of the "Revenue" line in the consolidated financial statements to the users as a one of the key performance measures as well as due to material amount of "Revenue" line to the financial statements as a whole.	

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, as well as the accounting processes and controls and the industry in which the Group operates.

We identified the following significant components in respect of which we carried out the audit:

- PJSC Aeroflot;
- JSC Rossiya Airlines;
- LLC Pobeda Airlines;
- JSC Aeromar.

The work in respect of material components was performed by the us as a Group Auditor.

We also performed analytical procedures for other Group companies that, in our opinion, had no material qualitative or quantitative effect on the Group's consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the describe the other information not yet received e.g. the Annual report and Issuer's Report for the 1 Quarter 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which 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 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 when it becomes available 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.

When we read Annual report, Issuer's Report for the 1 Quarter 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

The certified auditor responsible for the audit resulting in this independent auditor's report is Andrey Nikolaevich Korablev.

AO PricewaterhouseCoopers Audit

4 March 2019

Moscow, Russian Federation

A.N. Korablev, certified auditor (licence No. 01-000389), AO PricewaterhouseCoopers Audit

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

	Note	2018	2017
Traffic revenue	5	553,192	474,916
Other revenue	6	58,378	58,018
Revenue		**611,570**	**532,934**
Operating costs, excluding staff costs, depreciation and amortisation	7	(496,337)	(394,528)
Staff costs	8	(82,817)	(82,801)
Depreciation and amortisation	19, 23	(12,912)	(14,084)
Other operating income/(expenses), net	9	153	(1,110)
Operating costs		**(591,913)**	**(492,523)**
Operating profit		**19,657**	**40,411**
Loss from impairment and fair value changes of investments, net	17	(689)	(144)
Finance income	10	4,164	7,127
Finance costs	10	(7,904)	(8,225)
Hedging result	27	(6,788)	(5,613)
Share of results of associates		254	170
Result from disposal of subsidiaries	22	1,240	-
Profit before income tax		**9,934**	**33,726**
Income tax	11	(4,221)	(10,666)
PROFIT FOR THE YEAR		**5,713**	**23,060**
Attributable to:			
Shareholders of the Company		6,589	22,872
Non-controlling interest		(876)	188
PROFIT FOR THE YEAR		**5,713**	**23,060**
Basic and diluted profit per share (in Roubles per share)		**6.0**	**21.3**
Weighted average number of shares outstanding (millions)	31	**1,096.2**	**1,071.9**

Approved on 4 March 2019 and signed on behalf of management

V. G. Saveliev
General Director

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

The Consolidated Statement of Profit or Loss is to be read in conjunction with the notes to, and forms a part of, the Consolidated Financial Statements presented on pages 7 to 80

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

	Note	2018	2017
Profit for the period		**5,713**	**23,060**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Effect from hedging revenue with foreign currency liabilities	27	(10,873)	11,285
Deferred tax related to a result from cash-flow hedging	11	2,175	(2,257)
Other comprehensive (loss)/income for the year		**(8,698)**	**9,028**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(2,985)**	**32,088**
Total comprehensive (loss)/income attributable to:			
Shareholders of the Company		(2,109)	31,900
Non-controlling interest		(876)	188
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(2,985)**	**32,088**

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

	Note	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	12	23,711	45,978
Short-term financial investments	17	6,437	8,931
Accounts receivable and prepayments	14	87,868	92,932
Current income tax prepayment		5,488	3,580
Aircraft lease security deposits	13	525	423
Expendable spare parts and inventories	16	14,659	12,811
Assets classified as held for sale	20	6,404	3,125
Other current assets	41	226	422
Total current assets		**145,318**	**168,202**
Non-current assets			
Property, plant and equipment	19	90,964	97,932
Prepayments for aircraft	15	21,148	13,089
Deferred tax assets	11	12,002	10,396
Goodwill	24	6,660	6,660
Long-term financial investments	17	5,393	3,338
Intangible assets	23	2,250	2,054
Aircraft lease security deposits	13	4,356	1,602
Investments in associates		545	329
Other non-current assets	18	27,990	19,728
Total non-current assets		**171,308**	**155,128**
TOTAL ASSETS		**316,626**	**323,330**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	21, 25	69,346	67,953
Unearned traffic revenue	25	49,874	43,695
Deferred revenue related to the frequent flyer programme	25	4,086	1,720
Provisions for liabilities	26	11,393	9,433
Finance lease liabilities	27	15,219	16,015
Short-term loans and borrowings and current portion of long-term loans and borrowings	28	175	-
Liabilities related to assets classified as held for sale	20	6,623	2,210
Current income tax liabilities		19	-
Total current liabilities		**156,735**	**141,026**
Non-current liabilities			
Long-term loans and borrowings	28	3,311	3,181
Finance lease liabilities	27	78,005	84,674
Provisions for liabilities	26	23,753	16,949
Deferred tax liabilities	11	137	68
Deferred revenue related to the frequent flyer programme	25	3,282	3,842
Other non-current liabilities	29	6,068	6,291
Total non-current liabilities		**114,556**	**115,005**
TOTAL LIABILITIES		**271,291**	**256,031**
Equity			
Share capital	31	1,359	1,359
Treasury shares buyback reserve	31	(7,040)	-
Accumulated profit on disposal of treasury shares	31	7,864	7,864
Investment revaluation reserve		-	(5)
Hedge reserve	27	(33,857)	(25,159)
Retained earnings		74,958	81,476
Equity attributable to shareholders of the Company		**43,284**	**65,535**
Non-controlling interest		2,051	1,764
TOTAL EQUITY		**45,335**	**67,299**
TOTAL LIABILITIES AND EQUITY		**316,626**	**323,330**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forms a part of, the Consolidated Financial Statements presented on pages 7 to 80

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

	Note	2018 г.	2017 г.
Cash flows from operating activities:			
Profit before income tax		9,934	33,726
Adjustments for:			
Depreciation and amortisation	19, 23	12,912	14,084
Change in impairment provision for accounts receivable and prepayments	9	1,217	(338)
Change in impairment provision for obsolete expendable spare parts and inventory		9	(99)
Change in impairment provision for property, plant and equipment	19	36	(24)
Loss on disposal of subsidiaries	22	(1,240)	-
(Gain)/loss on disposal of property, plant and equipment and intangible assets		(518)	852
Profit from disposal of assets classified as held for sale	9, 20	(206)	(182)
Change in cost of investments	17	689	144
Hedging result	27	6,788	5,613
Change in provisions for liabilities	9, 26	10,135	11,190
Interest expense	10	6,445	8,179
Interest income	10	(4,156)	(4,718)
Foreign exchange loss/(gain), net	10	1,086	(2,409)
Dividend income		(93)	(88)
Other finance expenses/(income), net	10	365	46
Other operating (income)/expenses, net		(302)	(646)
Total operating cash flows before working capital changes		**43,101**	**65,330**
Increase in accounts receivable and prepayments		(15,916)	(27,816)
Increase in expendable spare parts and inventories		(1,856)	(2,672)
(Decrease)/increase in accounts payable and accrued liabilities		(612)	24,964
Total operating cash flows after working capital changes		**24,717**	**59,806**
Change in restricted cash	41	178	(435)
Income tax paid		(7,101)	(13,019)
Income tax refunded		1,701	1,080
Net cash flows from operating activities		**19,495**	**47,432**

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

	Note	2018 г.	2017 г.
Cash flows from investing activities:			
Deposits return		23,926	13,649
Deposits placement		(21,152)	(16,300)
Proceeds from sale of property, plant and equipment		93	88
Proceeds from sale of assets held for sale		4,203	1,856
Interest received		3,115	4,241
Purchases of property, plant and equipment and intangible assets	19, 23	(13,131)	(7,681)
Dividends received		136	59
Prepayments for aircraft	15	(13,888)	(7,931)
Return of prepayments for aircraft	15	23,968	26,274
Repayment of operating lease security deposits	13	(2,428)	(211)
Return of operating lease security deposits	13	-	325
Net cash flows from investing activities		**4,842**	**14,369**
Cash flows from financing activities:			
Placement of loans and borrowings	28	350	-
Repayment of loans and borrowings		(131)	(17,417)
Proceeds from sale of own shares		-	9,730
Repayment of the principal element of finance lease liabilities	27	(21,955)	(15,513)
Interest paid		(5,207)	(4,762)
Dividends paid	36	(14,543)	(18,859)
Purchase of treasury shares	31	(7,040)	-
Net cash used in financing activities		**(48,526)**	**(46,821)**
Effect of exchange rate fluctuations on cash and cash equivalents		1,922	(478)
Net increase in cash and cash equivalents		**(22,267)**	**14,502**
Cash and cash equivalents at the beginning of the period	12	45,978	31,476
Cash and cash equivalents at the end of the period	**12**	**23,711**	**45,978**
Non-cash transactions as part of the investing activities:			
Property, plant and equipment acquired under finance leases		2,448	1,872

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Consolidated Financial Statements presented on pages 7 to 80

(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 year		-	-	-	-	**22,872**	**22,872**	**188**	**23,060**
Profit from hedging net of related deferred tax	27	-	-	-	9,028	-	9,028	-	9,028
Total other comprehensive income							**9,028**	**-**	**9,028**
Total comprehensive income							**31,900**	**188**	**32,088**
Disposal of treasury shares	31	-	9,776	-	-	-	9,776	-	9,776
Capital increase in companies with non-controlling interest		-	-	-	-	-	-	3,589	3,589
Dividends declared	32	-	-	-	-	(18,594)	(18,594)	(329)	(18,923)
31 December 2017		**1,359**	**7,864**	**(5)**	**(25,159)**	**81,476**	**65,535**	**1,764**	**67,299**
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)	4	**-**	**-**	**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 year		-	-	-	-	**6,589**	**6,589**	**(876)**	**5,713**
Loss from hedging net of related deferred tax	27	-	-	-	(8,698)	-	(8,698)	-	(8,698)
Total other comprehensive loss							**(8,698)**	**-**	**(8,698)**
Total comprehensive loss							**(2,109)**	**(876)**	**(2,985)**
Purchase of treasury shares	31	-	(7,040)	-	-	-	(7,040)	-	(7,040)
Capital increase in companies with non-controlling interest	21	-	-	-	-	-	-	1,500	1,500
Dividends declared	32	-	-	-	-	(14,222)	(14,222)	(320)	(14,542)
31 December 2018		**1,359**	**824**	**-**	**(33,857)**	**74,958**	**43,284**	**2,051**	**45,335**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forms a part of, the Consolidated Financial Statements presented on pages 7 to 80

(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 31 December 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.

The principal subsidiaries are:

Company name	Registered address	Principal activity	31 December 2018	31 December 2017
JSC Rossiya airlines ("AK Rossiya")	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
LLC Pobeda Airlines ("Pobeda")	Moscow, RF	Airline	100.00%	100.00%
JSC Aurora Airlines ("AK Aurora")	Yuzhno-Sakhalinsk, RF	Airline	51.00%	51.00%
LLC Aeroflot-Finance ("Aeroflot-Finance")	Moscow, RF	Finance services	100.00%	100.00%
JSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
JSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%
LLC A-Technics	Moscow, RF	Technical maintenance	100.00%	100.00%
JSC Orenburg airlines ("Orenburgavia")(Note 22)	Orenburg, RF	Airline	-	100.00%
JSC Donavia ("Donavia")	Rostov-on-Don, RF	Airline	100.00%	100.00%

1. NATURE OF THE BUSINESS (CONTINUED)

The Group's major associate is:

Company name	Registered address	Principal activity	31 December 2018	31 December 2017
JSC Sheremetyevo Bezopasnost	Moscow Region, RF	Aviation security	45.00%	45.00%

(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 31 December 2018 (number of aircraft):

TYPE OF AIRCRAFT	OWNERSHIP	PJSC AEROFLOT	JSC AK ROSSIYA	JSC AK AURORA	LLC AK POBEDA	GROUP TOTAL
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		**-**	**-**	**7**	**-**	**7**
Airbus A319	Finance lease	-	9	-	-	9
Airbus A321	Finance lease	7	-	-	-	7
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
Total aircraft under finance leases		**25**	**9**	**-**	**-**	**34**
SSJ 100	Operating lease	50	-	-	-	50
Airbus A319	Operating lease	-	16	10	-	26
Airbus A320	Operating lease	80	5	-	-	85
Airbus A321	Operating lease	30	-	-	-	30
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	47	16	-	24	87
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	7	10	-	-	17
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		**228**	**56**	**18**	**24**	**326**
Total fleet		**253**	**65**	**25**	**24**	**367**

As at 31 December 2018, 1 An-24 aircraft was leased out.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of presentation

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010. The Consolidated Financial Statements are presented in millions of Russian Roubles ("RUB million"), except where specifically noted otherwise.

These Consolidated Financial Statements have been prepared on the historical cost convention except for financial instruments which are initially recognised at fair value and financial instruments measured at fair value through profit or loss. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. In addition to changes in accounting policies as a result of the transition to IFRS 9 and IFRS 15 from 1 January 2018, these principles were applied consistently for all periods presented in the Financial Statements, unless otherwise indicated. See Notes 4 and 42. The main accounting policies for financial investments and revenue recognition applied up to 31 December 2017 are presented in Note 42.

All significant subsidiaries directly or indirectly controlled by the Group are included in these Consolidated Financial Statements. A list of the Group's principal subsidiaries is set out in Note 1.

Going concern

Management prepared these Consolidated Financial Statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB" or "rouble"), the presentation currency of the Group's Consolidated Financial Statements is the Russian Rouble as well.

Consolidation

Subsidiaries represent investees, including structured entities, which the Group controls, as the Group:

(i) has the powers to control significant operations which has a considerable impact on the investee's income,

(ii) runs the risks related to variable income from its involvement with investee or is entitled to such income, and

(iii) is able to use its powers with regard to the investee in order to influence the amount of its income.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidation (continued)

Subsidiaries are included in the Consolidated Financial Statements at the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities received in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured through the deduction of net assets of the acquired entity from the total of the following amounts: consideration transferred for the acquired entity, non-controlling share in the acquiree and fair value of the existing equity interest in the acquiree held immediately by the Group before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt securities as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

The Group measures non-controlling interest that represents the ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at:

a) fair value, or

b) in proportion to the non-controlling share in the net assets of the acquiree.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Company and its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the transferred consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the Consolidated Statement of Changes in Equity.

Investments in associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows:

(i) the Group's share of profits or losses of associates is included in the Consolidated Statement of Profit or Loss for the year as a share of financial results of associates,

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Investments in associates (continued)

(ii) the Group's share in other comprehensive income is recorded as a separate line item in other comprehensive income,

(iii) all other changes in the Group's share of the carrying value of net assets of the associates are recorded in the Consolidated Statement of Profit or Loss within the share of financial results of equity accounted investments.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the associate's assets.

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest in an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group performs goodwill impairment testing at least on an annual basis and whenever there are indications that goodwill may be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently recovered. Goodwill is allocated to the cash generating units (namely, the Group's subsidiaries or business units). These units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

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

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Transactions in foreign currencies are recorded at the rates of exchange on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities denominated in foreign currency into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in the Consolidated Statement of Profit or Loss for the year within finance income or costs except for foreign exchange differences arising on translation of hedge financial instruments. Foreign exchange differences on hedge instruments are recognised in other comprehensive income.

Translation at year-end rates does not apply to non-monetary items in the Consolidated Statement of Financial Position that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value revaluation gain or loss.

The table below presents US Dollar and Euro to rouble exchange rates used for the translation of monetary assets and liabilities into foreign currencies:

	Official exchange rates	
	Roubles for 1 US Dollar	**Roubles for 1 Euro**
31 December 2018	69.47	79.46
Average rate for 2018	62.71	73.95
31 December 2017	57.60	68.87
Average rate for 2017	58.35	65.90

Revenue recognition

Starting from 1 January 2018, the Group adopted IFRS 15 "Revenue from contracts with customers". 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. For more information on the effect of the changes in the accounting policies, please refer to Note 4.

Revenue is recognized at the moment or upon transfer of control over goods or services to the customer at the transaction price. The transaction price is the amount of compensation, the right to which the Group expects to receive in exchange for the transfer of the promised goods or services to customers. Revenue is amount for goods and services sold in the ordinary course of business, net of taxes accrued on the revenue.

Passenger flights: Revenues from the sale of tickets are recognised upon delivery of air-transport services. The price of tickets sold and valid, that have not been used at the reporting date, is recognised in the Group's Consolidated Statement of Financial Position (unearned transportation revenue) within current liabilities. The balance on this account is reduced as the Group continues to provide related transportation services, or when the passenger returns the ticket. The price of tickets that were sold but will not be used is recognised as sales revenue at the reporting date, in line with the analysis of historical data on income from unused tickets.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Revenue recognition (continued)

Revenue from the service for changes in bookings (service fees for changes in booking terms) is recognised when transportation services are provided. Where a passenger's route consists of several segments and transportation for such rout is formalised by one single agreement for aviation services, revenue for changes in booking terms is recognised at the time of completing transportation on the first segment of the route.

Commission fees payable to agents for the sale of air tickets are recognised as sales and marketing expenses within operating expenses in the Consolidated Statement of Profit and Loss in the period of the sale of the tickets by agents, as according to the current tariffs of the Group, the period of performance of obligations on transportation of passengers does not exceed one year.

Revenue from passenger flights also includes revenue under codeshare agreements signed by the Group with certain airlines, whereby the Group and the airlines sell seats for each other's flights (hereinafter, "Codeshare Agreements"). Revenue from the sale of tickets for the flights of other airlines under Codeshare Agreements is recognised when air transport services are provided and is included in net income within traffic revenue in the Group's Consolidated Statement of Profit and Loss. Revenue from the sale of seats to the Group's flights by other airlines is recognised when air transport services have been fully provided, within traffic revenue in the Group's Consolidated Statement of Profit and Loss.

Revenue from passenger flights includes revenue under interline agreements signed between the Group and other airlines, whereby the airlines use their blank forms to document transportation under the regular flights of their partner airlines. The airline can issue tickets for any flights whose entire route or several segments of one route will be carried out by another carrier. Revenue from any flights that were provided by a partner under an interline agreement, but were documented on the blank forms of the Group is recognised when the air transport services have been rendered by the partner in the amount of net income, within traffic revenue, in the Group's Consolidated Statement of Profit and Loss.

The Group is entitled for commission fees at the time interline agreement partner or codeshare agreement partner perform the flight, which corresponds to the moment of fulfilment the obligation to the final passenger and represents the basis for settlements with the partner under the agreement.

In the case when agreement (ticket) with passenger includes two or more route segments (performance obligations) on mixed terms: flights to be performed by Group companies and flights to be performed by interline or codeshare partner, revenue is recognised when air transport services are provided and is included in full amount for Group flights or in the amount of net income for the flights of interline or codeshare partner within traffic revenue in the Group's Consolidated Statement of Profit and Loss.

Cargo flights: Revenue from cargo flights is recognised within traffic revenue when aviation services are provided. The price of sold but not yet delivered cargo flight services is reported in the Group's Consolidated Statement of Financial Position as accounts payable and accrued liabilities.

Flight catering: Flight catering revenue is recognised upon the delivery of food on board the airplane, as it is the moment of transferring control over goods to the customers.

Other revenue: Other revenue under bilateral agreements with airlines is recognised as the Group discharges its performance obligations under the terms of each agreement. Revenue from leasing out rooms in the Group's hotel is recognised upon the service delivery. Revenue from the sale of goods is recognised upon transfer of control over assets to the customer, which normally takes place on the date of the goods' shipment to the customer. Revenue from rendering the services is recognised in the period when the services were rendered.

Financing component: Under customer contracts the period between the transfer of promised goods or services to the customer and payment by the customer for such goods or services will exceed one year. Therefore, the Group does not adjust the promised amount of consideration in line with the effect of any significant financing component.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Revenue recognition (continued)

Group Companies have no significant assets under contracts with customers. At the time the unconditional right to income arises, the Group recognizes accounts receivable. Group contractual obligations include: unearned transport revenue from passengers, liabilities under the frequent flyer programme as well as other advances from customers (Note 25).

Segment information

The Group determines and presents operating segments based on the information that internally is provided to the General Director of the Group, who is the Group's chief operating decision maker. Segments whose revenue, financial result or assets are not less than ten percent or more revenue, financial result or assets of all operating segments are reported separately.

Intangible assets

The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software with the useful life from 5 to 15 years. Intangible assets are amortised using the straight-line method over their useful lives. Acquired licenses for computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to disposal.

Property, plant and equipment

Property, plant and equipment are reported at cost, less accumulated depreciation and impairment losses (where appropriate). Depreciation is calculated in order to allocate the cost (less residual value where applicable) over the useful lives of the assets.

(a) Fleet

(i) *Owned aircraft and engines*: Owned fleet consists of foreign-made aircraft, engines are both Russian and foreign-made. The full list of aircraft is presented in Note 1.

(iv) *Finance leased aircraft and engines:* Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright.

(v) *Capitalised costs on regular maintenance works and repairs of aircraft operated under finance lease:* Expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are capitalised. The carrying amount of those parts that are replaced is derecognised from the Group's Consolidated Statement of Financial Position and included in operating costs in the Group's Consolidated Statement of Profit or Loss. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and maintenance costs of aircraft are expensed as incurred and included in operating costs (aircraft maintenance) in the Group's Consolidated Statement of Profit or Loss.

(vi) *Depreciation of fleet:* The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life or lease term, if it is shorter. The airframe, engines and interior of aircraft are depreciated separately over their respective estimated useful lives.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Property, plant and equipment (continued)

The Group's fleet and other fixed assets have the following useful lives:

Airframes of aircraft	20-32 years
Engines	8-10 years
Interiors	5 years
Buildings	15-50 years
Facilities and transport vehicles	3-5 years
Other non-current assets	1-5 years

(vii) *Capitalised leasehold improvements of aircraft used under operating lease:* Capitalised costs that relate to the rented fleet are depreciated over the shorter of: their useful lives and the lease term.

(b) Land, buildings,constructions and other plant and equipment

Property, plant and equipment is stated at the historical US Dollar cost recalculated at the exchange rate on 1 January 2007, the date of the change of the functional currency of the Company and its major subsidiaries from the US Dollar to the Russian Rouble or at the historical cost if property, plant and equipment was acquired after specified date. Depreciation is accrued based on the straight-line method on all property, plant and equipment based upon their expected useful lives or, in the case of leasehold properties, over the duration of the leases or useful life if it is shorter. The useful lives of the Group's property, plant and equipment range from 1 to 50 years. Land is not depreciated.

(c) Construction in progress

Construction in progress represents costs related to construction of property, plant and equipment, including corresponding variable out-of-pocket expenses directly attributable to the cost of construction, as well the acquisition cost of other assets that require assembly or any other preparation. The carrying value of construction in progress is regularly analysed for the potential accrual of the impairment provision.

Gain or loss on disposal of property, plant and equipment

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Group's Consolidated Statement of Profit or Loss for year within operating income or expenses.

Finance lease

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of: the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between reduction of the outstanding liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Corresponding lease liabilities net of future finance expenses are recorded as a separate line item (finance lease liabilities) within current and non-current liabilities in the Group's Consolidated Statement of Financial Position. Interest expenses within lease payments are charged to profit or loss over the lease terms using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Customs duties, legal fees and other initial direct costs increase the total amount recorded in assets in the Group's Consolidated Statement of Financial Position. The interest component of lease payments included in financial costs in the Group's Consolidated Statement of Profit or Loss.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the Consolidated Statement of Financial Position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's Consolidated Statement of Financial Position are not reclassified or re-presented in the comparative Consolidated Statement of Financial Position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs on disposal. Held for sale property, plant and equipment are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the Consolidated Statement of Financial Position.

Capitalisation of borrowing costs

Borrowing costs including interest accrued, foreign exchange difference and other costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (the "qualifying assets") are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The Group considers prepayments for aircraft as the qualifying asset with regard to which borrowing costs and finance lease liabilities are capitalised.

The capitalisation starts when the Group:

(a) bears expenses related to the qualifying asset;

(b) bears borrowing costs; and

(c) takes measures to get the asset ready for intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs related to capital expenditure made on qualifying assets.

Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Impairment of property, plant and equipment

At each reporting date the management reviews its property, plant and equipment to determine whether there is any indication of impairment of those assets. If any such indication exists, the recoverable amount of the asset is estimated by management as the higher of: an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recorded within operating costs in the Group's Consolidated Statement of Profit or Loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Related direct expenses including customs duties for imported leased aircraft are recognised within non-current assets at the time of the aircraft transfer and amortised using a straight-line method over the term of lease agreement. Amortisation charges are recognised within operating costs.

The operating lease agreements include requirements to perform regular repairs and maintenance works during the lease term. Accordingly, the Group accrues a provision in the amount of discounted expenses needed to perform regular repairs and maintenance works. The estimated expenses are based on the most reliable data available at the time of such estimation. The provisions of the operating lease agreements, age and condition of the aircraft and engines, market value of fixtures, key parts and components subject to replacement and the cost of required work are taken into account. The provision is recorded at the discounted value.

The costs of regular capital repairs and maintenance works performed for aircraft held under finance lease are capitalized and amortized over the shorter of (i) the scheduled usage period to the next major inspection event or (ii) the remaining life of the asset or (iii) remaining lease term.

Financial instruments

Since 1 January 2018 the Group implemented IFRS 9 «Financial instruments». According to transition statements of IFRS 9 the Group used simplified method of transition reflecting the impact of the transition of the new standard as at 1 January 2018 in the consolidated financial statements for the year ending 31 December 2018 which will be the first year of the Group's application of IFRS 9. Further details of the impact of this change in accounting policy are provided in Note 4.

Financial instruments – key measurement terms

Fair value – is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial instruments – key measurement terms (continued)

Financial instrument measured at fair value are analysed by levels of the fair value hierarchy as follows:

(i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level 3 measurements, which are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs) Note 37

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments – initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories.

The Group classifies financial assets in the following measurement categories: FVTPL and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial assets – classification and subsequent measurement – business model.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed.

Financial assets – classification and subsequent measurement – cash flow characteristics.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL.

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL.

Explanations regarding the Group's determination of impaired assets and default are provided in Note 36. This note also provides information on the source data, assumptions and calculation methods used in estimating expected credit losses, including an explanation of how the Group includes the forecast information in the expected credit loss models.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition.

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification.

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: [any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.]

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories

Financial liabilities of the Group are classified as subsequently measured at AC.

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial liabilities – derecognition (continued)

Substantial modifications of the terms and conditions of existing financial liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Offsetting financial instrument.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Aircraft lease security deposits

Aircraft lease security deposits represent amounts paid to the lessors of aircraft in accordance with the provisions of operating lease agreements. These security deposits are returned to the Group at the end of the lease period. Security deposits related to lease agreements are presented separately in the Consolidated Statement of Financial Position (aircraft lease security deposits) and initially recorded at fair value and then at amortized cost calculated using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Restricted balances are excluded from cash and cash equivalents for the purposes of the Cash Flow Statement.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Loans and borrowings

Loans and borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Short-term loans and borrowings comprise:

- interest bearing loans and borrowings with a term shorter than one year;

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Loans and borrowings (continued)

- current portion of long-term loans and borrowings.

Long-term loans and borrowings include liabilities with the maturity exceeding one year.

Financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges for a highly probable forecast transaction (cash flow hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Profit or Loss as a separate line below operating result of the Group.

Amounts accumulated in equity are reclassified to profit or loss (as profit or loss from financing activities) in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Profit or Loss within gains and losses from financing activities as a separate line.

The hedging result in the Consolidated Statement of Profit or Loss is the change in the fair value of the hedging derivative financial instruments (realized hedging) and the multidirectional effect of the hedging risk impact on the related hedge transactions recorded in operating activities.

Prepayments

In these Consolidated Financial Statements, prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are included to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the Group's Consolidated Statement of Profit or Loss for the year.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Expendable spare parts and inventories

Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower.

With the release of material values in production and other disposal the costs are determined as the actual acquisition cost of spare parts for aircraft maintenance and as the cost of other inventories on the first-in, first- out ("FIFO") basis.

The Group writes off the full amount of obsolete inventories which the Group does not plan to continue using in its operations.

Value added taxes

Value added tax ("VAT") related to sales of goods or provision of services is recorded as a liability to the budget on an accruals basis. Domestic flights in general are subject to VAT at 10% and international flights are subject to VAT at 0%. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported leased aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT. The recovery of input VAT is typically delayed by up to six months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the date of the Consolidated Statement of Financial Position is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the Consolidated Statement of Financial Position as VAT receivable. VAT receivable that is not expected to be recovered within the twelve months from the reporting date is classified as a non-current asset. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT.

Frequent flyer programme

Since 1999, the Group operates a frequent flyer programme referred to as "Aeroflot Bonus". Subject to the Programme terms, to increase customer loyalty to the Company's services, Aeroflot Bonus miles are awarded for the use of the Group's and its partners' services, and in the form of free promo miles to incentivise participation in the Programme. The miles earned entitle the participants 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.

Starting from 1 January 2018, the Group adopted IFRS 15 "Revenue from contracts with customers", which effected on accounting of liabilities under the "Aeroflot Bonus" programme. For more information on the effect of the changes in the accounting policies, please refer to Note 4.

Revenue for bonus miles is recognised when the Programme participant receives the service through reducing the short-term deferred revenue and other current liabilities based on the estimated value of one bonus mile. The amount of deferred revenue is calculated through allocating the transaction price between performance obligations (ticket sold and bonus miles) pro rata to their relative price of a stand-alone selling price on the date when a ticket to a regular flight is sold to the passenger. On the date of a ticket sale, the Group has two performance obligations: to provide the passenger with a seat on the selected flight and to provide the passenger with the service in the future (flight class upgrades or other goods and services) for the amount of accrued bonus miles.

The estimated value of miles earned, but not used by Aeroflot Bonus participants on the Group's own flights is recognised within short-term and long-term deferred revenue under the frequent flyer programme (Note 25) within current and non-current liabilities in the Group's Consolidated Statement of Financial Position.

The estimated value of bonus miles accumulated by Aerfolot Bonus participants for using the services provided by the partners of the programme is recognised as other accrued current and non-current liabilities under the frequent flyer programme (Notes 25) within accounts payable and accrued liabilities in the Group's Consolidated Statement of Financial Position.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Frequent flyer programme (continued)

The estimated value of bonus miles is the same for the miles accumulated by the participants during the Group flights and for those miles accumulated by the participants for using the Programme partner services.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

Provisions for liabilities

Provisions for liabilities are recognised if, and only if, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate (Note 26). Where the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax

Income taxes have been provided for in the Consolidated Financial Statements in accordance with legislation using tax rates and legislative regulations enacted or substantively enacted at the end of the reporting period. Income tax expense/benefit comprises current and deferred tax and is recognised in the Consolidated Statement of Profit or Loss for the year, unless it should be recorded within other comprehensive income or directly in equity since it relates to transactions which are also recognised within other comprehensive income or directly in equity in this or any other period.

Current tax is the amount expected to be paid to or recovered from budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the Consolidated Financial Statements are authorised prior to filing relevant tax returns. Other tax expenses, except from the income tax, are recorded within other operating costs in the Group's Consolidated Statement of Profit or Loss.

Deferred income tax is provided using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Statement of Financial Position. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilised.

Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that recovery of temporary differences and future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Income tax (continued)

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Uncertain income tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Pensions

The Group makes certain employee benefits payments related to retirement. Pension liabilities are liabilities for defined benefit plans. The amount of expenditures and obligations for such plans is estimated using the projected unit credit method. In this method, the costs of pension payments are reflected in the Consolidated Statement of Profit and Loss in order to evenly distribute the costs over the life of the employee. Gains and losses arising when actuarial calculations change are immediately allocated to other Comprehensive Income. Pension obligations to employees who have not reached retirement age are calculated on the basis of minimum annual payments and do not take into account the possible increase in management of the value of pensions in the future. If such pension payments to employees fall within a period of more than 12 months from the reporting date, they are discounted; a discount rate is applied, determined on the basis of the rate of return government bonds at the reporting date.

The Group also participates in a defined contribution plan, under which the Group has committed to making additional contributions as a percentage (20% in 2018) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Share-based compensation

The title to future equity compensations (shares or share options) to employees for the provided services is measured at fair value of these instruments at the date of the transfer and is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to these awards.

The amount recognised as an expense is adjusted to reflect the number of awards transferable to employees as a result of the final transfer of the right on these tools when the employee fulfills the conditions associated with the length of service, as well as the non-market performance conditions. The effect of revisiting initial estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

2. BASIS AND ACCOUNTING POLICIES OF PREPARATION THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Share-based compensation (continued)

Services, including employee services received in exchange for cash-settled share-based payments, are recognised at the fair value of the liability incurred and are expensed at the moment of its provision. The liability is re-measured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

Treasury shares purchased

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. The Company's shares, which are held as treasury stock or belong to the Company's subsidiaries, are reflected as a reduction of the Group's equity.

The sale or re-issue of such shares does not impact net profit for the current year and is recognised as a change in the shareholders' equity of the Group. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

Dividend distributions and payments by the Company are recorded net of the dividends related to treasury shares.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved by the shareholders in the General Shareholders' Meeting.

Earnings/loss per share

Earnings per share are determined by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of participating shares outstanding during the reporting year. The calculation of diluted earnings per share includes shares planned to be used in the option programme when the average market price of ordinary shares for the period exceeds the exercise price of the options.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives and residual value of property, plant and equipment

The assessment of the useful lives of property, plant and equipment and their residual value are matters of management judgement based on the use of similar assets in prior periods. To determine the useful lives and residual value of property, plant and equipment, management considers the following factors: nature of the expected use, estimated technical obsolescence and physical wear. A change in each of the above conditions or estimates may require the adjustment of future depreciation expenses.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Value of tickets which were sold, but will not be used

The value of tickets that were sold, but will not be used is recognised as sales revenue at the reporting date estimated through analysing historical data on income from unused tickets. The assessment of the probability that the tickets will not be used is a matter of management judgement. A change in these estimates may require an adjustment to the revenue amount in the Consolidated Statement of Profit or Loss (Note 5) and to the transportation revenue not earned in the Consolidated Statement of Financial Position.

Frequent flyer programme

The bonus miles provide customers with a substantial right, which they would not qualify unless they signed the agreement. The Customer could use bonus miles to buy flight tickets in the future or to pay for services of other Programme partners. Therefore, the promise to provide bonus miles to the customer is a separate performance obligation. The transaction price is allocated between the ticket for the Company's regular flight and accrued bonus miles on the basis of a relative stand-alone selling price on the date of executing the agreement.

The stand-alone selling price of a ticket for a regular flight is a tariff established by the Company for a specified route at the time of the sale, regardless of whether or not the customer is a Programme participant.

The stand-alone selling price of one separate bonus mile is a tool for determining the cost of services to be provided in the future to the Programme participant. The Company determines the price of the future service (or part of it) per bonus mile as equal to the Company's assessment of the estimated value of the service per one mile.

At the reporting date, the Group assesses and recognises a performance obligation for the amount of accrued bonus miles accumulated by Aeroflot Bonus Programme participants. The estimate is made based on the statistical information available to the Group and reflects the expected amount of miles to be used after the reporting date multiplied by their estimated value. The assessment of the estimated value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus participants, are a matter of management judgement. A change in these estimates may require an adjustment in deferred revenue, accounts payable and accrued liabilities and other non-current liabilities under the frequent flyer programme in the Consolidated Statement of Financial Position (Note25) and adjustment to revenue in the Consolidated Statement of Profit or Loss (Note 5, 6).

As to the Group own flight tickets sold to the Programme participants, the Group reallocates the transaction price under the contract (ticket) between the obligation to provide a seat for any selected flight and the provision of services in the future for the amount of bonus miles accrued to the Programme participants in respect of the entire portfolio of contracts (tickets purchased by the Programme participants), as the said contracts have similar characteristics. The Group believes that from the perspective of financial statements, the results of applying a single value of transaction price allocation to the entire portfolio of contacts will not materially differ from the price allocation to each separate contract within the portfolio.

The obligation to the customer on bonus miles is fulfilled at the time when air transport services purchased for miles are provided to the customer, or when miles are used to purchase Programme partner's goods and services, and at the time of expiry of miles that were not used to buy flight tickets in accordance with the rules of the Programme.

Compliance with tax legislation

Compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities (Note 41).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Classification of a lease agreement as operating and finance lease

Management applies professional judgement with regard to the classification of aircraft lease agreements as operating and finance lease agreements in order to determine whether all significant risks and rewards related to the ownership of an asset are transferred to the Group in accordance with the agreement and which risks and rewards are significant. A change in these estimates may require a different approach to aircraft accounting.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 24.

Deferred tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from income tax expense and is recorded in the Consolidated Statement of Financial Position. Deferred income tax assets are recognised to the extent that realisation of the related tax deduction is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

ECL measurement.

Measurement of ECLs for all financial instruments at AC is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 53. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Taking into account the short term of assets, the forecasted macroeconomic indicators did not have a significant impact on the level of losses. Detailed information is provided in Note 35.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

New standards and interpretations effective from 1 January 2018

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group.

Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

***Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS* 28** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IAS 40 – “Transfers of Investment Property” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (continued)

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later:

Adoption of IFRS 9 "Financial Instruments" (ammended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

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.

(i) Reclassification from loans and receivables

Following the assessment of its business model for securities within the Group's liquidity portfolio, which are mostly held to collect the contractual cash flowsl, the Group has identified certain securities which are managed separately and for which the past practice has been (and the Group's intention remains) hold to collect the contractual cash flows. Consequently, the Group has assessed that the appropriate business model for this group of securities is held to collect. These securities, which were previously classified as AFS, were reclassified at AC from the date of initial application.

(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 12 months 2018 the revaluation loss at fair value on these investments in the amount of RUB 516 million was recognised in Consolidated Statement of Profit or Loss in line loss from impairment and fair value changes of investments (Note 17).

(iii) Reclassification from available-for-sale financial assets to financial assets at amortised costs.

Investments in debt securities were reclassified from the available-for-sale category under IAS 39 to the amortised cost category under IFRS 9 at the date of transition.

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 on 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).

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (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:

	Measurement category		Carrying value per IAS 39 (31 December 2017)	Remeasurement		Carrying value per IFRS 9 (1 January 2018)
	IAS 39	**IFRS 9**		**Expected credit losses**	**Other**	
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**
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.

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (continued)

The movement of the gross book value (before deducting the provision for ECL) 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	(22,267)	6,269	(2,296)	(516)	2,867	101	**(15,841)**
Gross book value at 31 December 2018	**23,711**	**52,608**	**16,161**	**5,310**	**4,892**	**684**	**103,367**

Movements in the provision for expected credit losses of financial assets are as follows:

	Financial accounts receivable	Other financial assets	Total 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	(1,642)	(182)	(1,824)
Provision release	1,087	-	1,087
Provision recovery	473	-	473
31 December 2018	**(11,470)**	**(9,652)**	**(21,122)**

Adoption of IFRS 15 "Revenue from contracts with customers" (issued on 28 May 2014, amended on 12 April 2016, and effective for annual periods beginning on or after 1 January 2018).

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.

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (continued)

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 in the moment of its signing. The stand-alone 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 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 revenue from service fees for changes to reservations;

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

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.

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (continued)

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 selling tickets;

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 Consolidated 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	Effect of IFRS 15	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 Consolidated 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**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted:

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (continued)

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

According to the preliminary assessment of the management as at 31 December 2018 after the transition to IFRS 16 the Group expects to recognize lease liabilities and right-of-use assets under aircraft lease agreements without early termination option (excluding effect from regular repairs and payments to the lessor’s reserve funds) in approximate amounts of RUB 644,793 million and RUB 486,473 million respectively (after adjustments for prepayments and accrued lease expenses recognized as at 31 December 2018) and deferred tax assets of RUB 31,664 million.

As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, the Group does not expect any significant impact on the consolidated financial statements in respect of recognition of the Group’s activities as a lessor.

It is expected that these standards and interpretations will not have a significant impact on the Group's Consolidated Financial Statements:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 19 “Employee benefits” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

New standards and interpretations effective from 1 January 2018 (continued)

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). The Group is currently assessing the impact of the new standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the new standard on its financial statements.

5. TRAFFIC REVENUE

	2018	**2017**
Scheduled passenger flights	496,454	427,529
Charter passenger flights	37,838	30,861
Cargo flights	18,900	16,526
Total traffic revenue	**553,192**	**474,916**

6. OTHER REVENUE

	2018	**2017**
Airline agreements revenue	36,646	33,196
Revenue from partners under the frequent flyer programme	12,704	11,588
Sales of goods on board	1,667	1,530
In-flight catering services	1,579	1,670
Ground handling and maintenance	560	1,253
Hotel revenue	512	448
Refuelling services	24	199
Other revenue	4,686	8,134
Total other revenue	**58,378**	**58,018**

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

7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION

	2018	2017
Operating lease expenses	88,881	65,793
Aircraft servicing	84,835	76,332
Aircraft maintenance	45,527	36,433
Passenger services expenses	23,754	20,086
Administration and general expenses	20,666	18,390
Communication expenses	15,584	14,795
Food cost for in-flight catering	11,103	10,425
Sales and marketing expenses	11,077	17,749
Insurance expenses	2,274	2,025
Cost of goods sold on board	888	836
Customs duties	1,029	1,520
Other expenses	8,855	7,459
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	**314,473**	**271,843**
Aircraft fuel	181,864	122,685
Total operating costs less staff costs and depreciation and amortisation	**496,337**	**394,528**

8. STAFF COSTS

	2018	2017
Wages and salaries	64,169	63,842
Pension costs	14,541	12,669
Social security costs	4,107	6,290
Total staff costs	**82,817**	**82,801**

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 12 months 2018, 20% for 12 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.

	2018	2017
Payments to the RF Pension Fund	14,500	12,650
Change in pension plans	41	19
Total pension costs	**14,541**	**12,669**

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

9. OTHER OPERATING INCOME AND EXPENSES, NET

	2018	**2017**
Reimbursement of fuel excise tax (Note 41)	9,243	7,889
Fines and penalties received from suppliers	727	661
Accrual/(recovery) of provision for Group other liabilities(Note 26)	(1,625)	796
Accrual/(recovery) of provision for doubtful accounts receivable (Note 14)	(1,217)	338
Profit on disposal of assets classified as held for sale	206	182
Gain on accounts payable write-off	35	62
Insurance compensation received	1,387	49
Loss on accounts receivable write-off	(19)	(24)
Loss on fixed assets disposal and impairment on fixed assets	(1,554)	(828)
Accrual of provision for regular repair and maintenance (Note 26)	(8,510)	(11,986)
Other income/(expense), net	1,480	1,751
Total other operating income/(expenses), net	**153**	**(1,110)**

10 FINANCE INCOME AND COSTS

	2018	**2017**
Finance income:		
Interest income	4,156	4,718
Gain on foreign exchange, net	-	2,409
Other finance income	8	-
Total finance income	**4,164**	**7,127**

	2018	**2017**
Finance costs:		
Interest expense	(6,445)	(8,179)
Loss on foreign exchange, net	(1,086)	-
Other finance costs	(373)	(46)
Total finance costs	**(7,904)**	**(8,225)**

11. INCOME TAX

	2018	**2017**
Current income tax charge	(3,511)	(11,038)
Change in deferred income tax	(710)	372
Income tax	**(4,221)**	**(10,666)**

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

11. INCOME TAX (CONTINUED)

Reconciliation of the income tax estimated based on the applicable tax rate to the income tax is presented below:

	2018	2017
Profit before income tax	9,934	33,726
Tax rate applicable in accordance with Russian legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with Russian legislation	(1,987)	(6,745)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	977	759
Non-deductible expenses	(4,003)	(5,052)
Unrecognised current year tax losses	(5)	(449)
Recognition of previously unrecognised tax losses	-	160
Prior years income tax adjustments	797	661
Income tax	**(4,221)**	**(10,666)**

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

11. INCOME TAX (CONTINUED)

	31 December 2018	Changes for the year	31 December 2017	Changes for the year	31 December 2016
Tax effect of temporary differences					
Tax losses carried	449	429	20	(123)	143
Long-term financial investments	1	(17)	18	(241)	259
Accounts receivable	68	1	67	54	13
Property, plant and equipment	36	(88)	124	(96)	220
Finance lease liabilities	20,028	(188)	20,216	(4,345)	24,561
Accounts payable	10,237	2,022	8,215	3,321	4,894
Deferred tax assets before tax set off	**30,819**		**28,660**		**30,090**
Deferred tax set off	(18,817)		(18,264)		(17,838)
Deferred tax assets after tax set off	**12,002**		**10,396**		**12,252**
Property, plant and equipment	(13,623)	1,076	(14,699)	1,677	(16,376)
Customs duties related to the imported aircraft under operating leases	(30)	75	(105)	106	(211)
Long-term financial investments	(107)	(64)	(43)	(18)	(25)
Accounts receivable	(5,194)	(1,709)	(3,485)	(2,245)	(1,240)
Accounts payable	-	-	-	25	(25)
Deferred tax assets before tax set off	**(18,954)**		**(18,332)**		**(17,877)**
Deferred tax set off	18,817		18,264		17,838
Deferred tax assets after tax set off	**(137)**		**(68)**		**(39)**
Movements for the year, net		1,537		(1,885)	
Less deferred tax recognised directly in other comprehensive income		(2,175)		2,257	
Changes in accounting policy		(72)		-	
Deferred income tax (expense)/income for the year		**(710)**		**372**	

As at 31 December 2018 the Group recognised deferred tax assets from tax losses of subsidiaries in the amount of RUB 449 million (31 December 2017: RUB 20 million).

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

11. INCOME TAX (CONTINUED)

Since 1 January 2017, previously existing restriction of 10 years losses carried forward use was cancelled (which means that the losses incurred since 2007 can be carried forward until complete use). Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been introduced in Russian legislation starting from 1 January 2017. In accordance with the new rules, the amount of used tax loss carry forwards can't exceed 50% of the tax base of relevant year. These changes will not have material impact for the Group's Consolidated Financial Statements.

12. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Bank deposits denominated with maturity of less than 90 days in Roubles	7,870	30,093
Bank deposits denominated with maturity of less than 90 days in US Dollars	380	-
Cash on hand and bank accounts denominated in Roubles	11,525	12,727
Cash on hand and bank accounts denominated in US Dollars	2,468	1,971
Cash on hand and bank accounts denominated in other currencies	606	375
Cash on hand and bank accounts denominated in Euro	262	419
Cash in transit	600	393
Total cash and cash equivalents	**23,711**	**45,978**

Information about the Group's exposure to interest rate risk, sensitivity analysis of financial assets as well as an assessment of impairment based on the risk of default assumption and expected loss ratios are disclosed in Note 35.

As at 31 December 2018 about 65% of the Group's funds are held in 2 highly reliable state-controlled Russian banks – PJSC VTB Bank with long-term credit rating BBB- (S&P rating agency) and PJSC Sberbank with long-term credit rating BBB- (Fitch rating agency) (as at 31 December 2017 49% of Group's cash was held in PJSC VTB Bank with long-term credit rating BB+ (S&P rating agency) and PJSC Sberbank with long-term credit rating BBB- (Fitch rating agency).

The remaining part of the Group's cash is also located primarily in the largest banks of Russia with a long-term credit rating from international rating agencies.

As at 31 December 2018 the Group had restricted cash of RUB 437 million (31 December 2017: RUB 583 million) recorded as part of other non-current assets in the amount RUB 211 million (31 December 2017: RUB 161 million) and as part of other current assets in the amount RUB 226 million (31 December 2017: RUB 422 million) in the Group's Consolidated Statement of Financial Position (Note 41).

13. AIRCRAFT LEASE SECURITY DEPOSITS

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to three monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using an average market yield from 0.1% to 12.6% p.a. in 2018 depending on the currency of the security deposit (2017: from 0,1% to 12.6% p.a.).

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

13. AIRCRAFT LEASE SECURITY DEPOSITS (CONTINUED)

	Aircraft lease security deposits
1 January 2017	**2,501**
Payment of security deposits	211
Amortisation charge for the year	137
Return of security deposits during the year	(325)
Set off against accounts payable	(380)
Foreign exchange difference	(119)
31 December 2017	**2,025**
1 January 2018	**2,025**
Payment of security deposits	2,428
Amortisation charge for the year	187
Finance expenses	(275)
Provision for ECL	(11)
Set off against accounts payable	(365)
Foreign exchange difference	892
31 December 2018	**4,881**

As at 31 December 2018 and 31 December 2017, most of security deposits were granted to large international leasing companies.

The Group's exposure to risks for security deposits under aircraft lease agreements and impairment assessment based on the risk of default assumption and expected loss ratios disclosed in Note 35.

	31 December 2018	31 December 2017
Current portion of security deposits	525	423
Non-current portion of security deposits	4,356	1,602
Total aircraft lease security deposits	**4,881**	**2,025**

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2018	31 December 2017
Trade accounts receivable	39,911	36,853
Other financial receivables	12,697	9,486
Less provision for ECL	(11,470)	(11,348)
Total financial receivables	**41,138**	**34,991**
Prepayments to suppliers	20,823	13,803
VAT and other taxes recoverable	16,987	15,842
Prepayments for delivery of aircraft	5,770	25,285
Deferred customs duties related to the imported aircraft under operating leases, current portion	108	397
Other receivables	3,597	3,152
Less impairment provision	(555)	(538)
Total accounts receivable and prepayments	**87,868**	**92,932**

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

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

As at 31 December 2018 the Group recognised provision for ECL for accounts receivable from OJSC Transaero Airlines for passengers transportation, refuelling services, aircraft servicing and ground handling of RUB 6,301 million (31 December 2017: 7,014 million).

Accounts receivable and prepayments include prepayments for acquisition of aircraft to be delivered within 12 months after the reporting date. Movements on the Prepayments for aircraft line item are due to the approaching aircraft delivery dates as well as the refund of prepayments related to the delivery of aircraft in the current period.

Deferred customs duties of RUB 108 million as of 31 December 2018 (31 December 2017: RUB 397 million) relate to the current portion of paid customs duties on imported aircraft under operating leases. These customs duties are recognised within operating costs in the Group's Consolidated Statement of Profit or Loss over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 18.

Financial receivables are analysed by currencies in Note 35.

As at 31 December 2018 and 31 December 2017, the Group made sufficient provision for expected credit losses for accounts receivable and impairment provision for prepayments. For the purpose of calculating the provision for ECL for financial receivables from 1 January 2018 the Group applies the expected credit losses model in accordance with IFRS 9 instead of the incurred losses model in accordance with IAS 39.

Financial receivables are analysed by credit quality in Note 35.

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

	31 December 2018		31 December 2017	
Type of aircraft	**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	-	-	10	2018
Airbus A321	-	-	5	2018

As at 31 December 2018, the expected type of lease for these aircraft is not defined.

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 31 December 2018.

The movements in provision for ECL for accounts receivable and impairment provision for prepayments are as follows:

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

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

	Impairment provision
1 January 2017	**12,342**
Additional provision for impairment	709
Release of provision	(118)
Recovery of provision	(1,047)
31 December 2017	**11,886**
Changes in accounting policy	40
Additional provision for impairment and ECL	1,713
Release of provision	(1,118)
Recovery of provision	(496)
31 December 2018	**12,025**

15. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 31 December 2018 and 31 December 2017, the non-current portions of prepayments for aircraft was RUB 21,148 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 14).

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

	31 December 2018		31 December 2017	
Type of aircraft	**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 31 December 2018, the expected type of lease for these aircraft is not defined yet.

16. EXPENDABLE SPARE PARTS AND INVENTORIES

	31 December 2018	31 December 2017
Expendable spare parts	11,668	9,805
Fuel	504	738
Other inventories	3,564	3,337
Total expendable spare parts and inventories, gross	**15,736**	**13,880**
Less: written-off obsolete expendable spare parts and inventories	(1,077)	(1,069)
Total expendable spare parts and inventories	**14,659**	**12,811**

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

17. FINANCIAL INVESTMENTS

	31 December 2018	1 January 2018
Investments in equity securities measured at fair value through profit	5,310	5,826
Debt securities accounted at amortised cost	113	116
Total long-term financial investments (before impairment provision)	**5,423**	**5,942**
Less: provision for impairment of long-term financial investments	(30)	(30)
Total long-term financial investments	**5,393**	**5,912**

	31 December 2017
Long term investments:	
Available-for-sale securities	3,252
SITA Investment Certificates	54
Total available-for-sale investments	**3,306**
Other	32
Total long-term financial investments	**3,338**

As at 31 December 2017, available-for-sale securities mainly reflect the cost of the Group's investments in government related company JSC MASH in the share of 2.428% less impaiment loss, which provides services for the aircraft maintenance to passenger and cargo russian and foreign airlines, as well as non-aviation services for enterprises and organizations operating on the territory of Sheremetyevo airport and in the adjacent territory.

Since 1 January 2018, the Group's investment in JSC MASH is estimated at fair value through profit or loss according to the discounted cash flow model and is reflected in the Consolidated Statement of Financial Position in the amount of RUB 5,244 million as at 31 December 2018 (RUB 5,776 million as at 1 January 2018).

To prepare a model related to the absence of quoted market prices, the following factors taken into account by the Group has the most significant impact on the assessment of fair value of this investment:

(a) the weighted average cost of capital equal to 14.5% p.a. in 2018 (as at 1 January 2018: 13.4% p.a) based on public capital markets data, data about peer companies and the actual cost of capital of JSC MASH determined based on the effective rate in financial statements;

(b) forecasts for macro assumptions based on an Economist Intelligence Unit forecast;

(c) passenger traffic in 2019 is planned at the level of 52 million passengers based on data from public sources. Growth rate of passenger traffic in 2020-2026 is evenly distributed, taking into account the growth of up to 82 million passengers till 2026.

The Group performed a sensitivity analysis of key assumptions used in the financial model of JSC MASH. A reasonably possible change in the weighted average cost of debt capital and passenger traffic growth does not result in an significant change in fair value of investments.

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

17. FINANCIAL INVESTMENTS (CONTINUED)

	31 December 2018	31 December 2017
Other short-term financial investments:		
Loans issued and promissory notes of third parties	9,580	9,435
Deposits placed in banks for more than 90 days	6,464	8,931
Other short-term investments	4	5
Total other short-term financial investments (before impairment provision)	**16,048**	**18,371**
Less: provision for impairment of short-term financial investments	(9,611)	(9,440)
Total short-term financial investments	**6,437**	**8,931**

All short-term investments are carried at amortized cost (Note 35).

The provision for impairment is primarily related to the accrual in of a provision for impairment of loans issued by the Group companies in favor of OJSC Transaero Airlines during 2015.

As at 31 December 2018, deposits with maturity for more than 90 days are placed in the largest Russian commercial banks with long-term credit rating not lower than B1 according to Moody's credit rating agency.

18. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	42	162
Prepaid expenses for operating lease transactions	22,710	15,427
Other non-current assets	5,238	4,139
Total other non-current assets	**27,990**	**19,728**

The Group paid advances in amount of RUB 9,117 million for operating lease of 15 aircraft delivered during 12 months of 2018 (during 12 months of 2017: RUB 11,688 million, 18 aircraft). The above mentioned advances were recognised as part of prepaid expenses for operating lease transactions organization. These assets should be written off to operating lease expenses over the term of the operating lease agreements.

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

19. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2017	**8,147**	**112,942**	**10,131**	**23,937**	**4,721**	**159,878**
Additions (i)	2,178	-	28	3,937	2,180	**8,323**
Capitalised expenditures	-	699	-	-	1,216	**1,915**
Disposals	(272)	(1,314)	(91)	(691)	(7)	**(2,375)**
Transfers to assets classified as held for sale (Note 20)	(122)	(6,476)	-	-	-	**(6,598)**
Transfers (ii)	2,652	1,325	83	423	(4,483)	**-**
31 December 2017	**12,583**	**107,176**	**10,151**	**27,606**	**3,627**	**161,143**
Additions (iii)	4,269	-	92	5,192	3,197	**12,750**
Capitalised expenditures	-	2,008	-	-	547	**2,555**
Disposals	(315)	(3,746)	(197)	(811)	(42)	**(5,111)**
Transfers to assets classified as held for sale (Note 20)	(266)	(16,354)	-	-	-	**(16,620)**
Transfers	213	861	6	1,142	(2,222)	**-**
31 December 2018	**16,484**	**89,945**	**10,052**	**33,129**	**5,107**	**154,717**
Accumulated depreciation						
1 January 2017	**(1,511)**	**(36,756)**	**(4,970)**	**(11,671)**	**(73)**	**(54,981)**
Charge for the year	(1,561)	(8,283)	(264)	(3,242)	-	**(13,350)**
Recovery/(accrual) of impairment provision	21	-	-	5	(2)	**24**
Disposals	141	705	65	524	-	**1,435**
Transfers to assets classified as held for sale (Note 20)	18	3,643	-	-	-	**3,661**
31 December 2017	**(2,892)**	**(40,691)**	**(5,169)**	**(14,384)**	**(75)**	**(63,211)**
Charge for the year	(1,633)	(7,103)	(251)	(3,257)	-	**(12,244)**
Recovery/(accrual) of impairment provision	(19)	-	-	2	(19)	**(36)**
Disposals	154	2,491	70	767	-	**3,482**
Transfers to assets classified as held for sale (Note 20)	57	8,199	-	-	-	**8,256**
31 December 2018	**(4,333)**	**(37,104)**	**(5,350)**	**(16,872)**	**(94)**	**(63,753)**
Carrying amount						
31 December 2017	**9,691**	**66,485**	**4,982**	**13,222**	**3,552**	**97,932**
31 December 2018	**12,151**	**52,841**	**4,702**	**16,257**	**5,013**	**90,964**

(i) During 2017 additions mainly relate to the purchase of equipment in finance leases as well as the spare parts for aircraft, used for capital repaires.

(ii) During 2017 transfers primarily relate to 2 aircraft DHC 8 for JCS Avrora.

(iii) During 2018 additions mainly relate to the purchase of equipment in finance leases, the spare parts for aircraft, used for capital repaires as well as purchase of the engine at LLC Pobeda Airlines.

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

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capitalised borrowing costs for 12 months 2018 amounted to RUB 547 million (2017: RUB 1,216 million). Capitalisation rate of interest expenses and forex for the period was 3.1% p.a. (2017: 4.2%).

As at 31 December 2018 the cost of fully depreciated property, plant and equipment was RUB 7,918 million (31 December 2017: RUB 10,033 million).

20. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2018, 7 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 31 December 2018, the amount of net liabilities related to assets classified as held for sale amounted to RUB 219 million (31 December 2017: net assets held for sale amounted to RUB 915 million).

	Initial cost of property, plant and equipment	Accumulated depreciation and impairment	Total assets	Total liabilities
1 January 2017	**3,049**	**(1,909)**	**1,140**	**-**
Additions (Note 19)	6,598	(3,661)	2,937	(2,736)
Disposals	(2,888)	1,916	(972)	465
Release of impairment provision	-	20	20	-
Revaluation	-	-	-	61
31 December 2017	**6,759**	**(3,634)**	**3,125**	**(2,210)**

	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 19)	16,620	(8,256)	8,364	(8,830)
Disposals	(10,833)	5,712	(5,121)	6,044
Release of impairment provision	-	36	36	-
Revaluation	-	-	-	(1,627)
31 December 2018	**12,546**	**(6,142)**	**6,404**	**(6,623)**

During 12 months 2018 the Group disposed of 6 Airbus A321 aircraft (during 12 months 2017: 2 Airbus A321 aircraft). Profit from disposal of mentioned aircraft amounted to RUB 206 million (during 12 months 2017: RUB 182 million).

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

21. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2018	31 December 2017
Accounts payable	40,425	34,095
Other financial payables	4,871	6,880
Dividends payable	64	65
Total financial payables	**45,360**	**41,040**
Staff and social funds related liabilities	16,387	19,434
Other current liabilities related to the frequent flyer programme (Note 25)	4,196	2,566
Other taxes payable	1,323	2,626
Advances received (other than unearned traffic revenue)	1,546	1,451
Other payables	534	836
Total accounts payable and accrued liabilities	**69,346**	**67,953**

As at 31 December 2018, staff related liabilities primarily include salary payable, as well as social contribution liabilities of RUB 8,315 million (31 December 2017: RUB 13,270 million) and the unused vacation accrual of RUB 7,978 million (31 December 2017: RUB 6,071 million).

As at 31 December 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.

Financial payables by currency are analysed in Note 35.

22. DISPOSAL OF SUBSIDIARIES

In December 2018, the Group disposed of JSC Orenburg airlines. A profit from the disposal in the amount of RUB 1,240 million was recognised in profit or loss for 12 months 2018. JSC Orenburg airlines did not conduct any significant operating activities in 2018.

Profit on disposal of JSC Orenburg airlines in 2018 includes the following components:

	JSC Orenburg airlines
Negative net assets of disposed company	18,325
Group's share in negative net assets of disposed company	18,325
Intragroup liabilities, including:	
Accounts payable from disposed subsidiary to the Group	(8,013)
Loan issued by the Group to disposed subsidiary	(9,072)
Profit from disposal	**1,240**

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

23 INTANGIBLE ASSETS

	Software	Licences	Investments in software and R&D	Trademark and client base	Other	Total
Cost						
1 January 2017	**2,840**	**134**	**1,192**	**1,630**	**36**	**5,832**
Additions	552	-	145	-	37	734
Disposals	(14)	-	(3)	-	(3)	(20)
Transfer	415	-	(442)	-	27	-
31 December 2017	**3,793**	**134**	**892**	**1,630**	**97**	**6,546**
Additions	766	-	76	-	25	867
Disposals	(11)	-	-	-	(1)	(12)
Transfer	-	-	(11)	-	11	-
31 December 2018	**4,548**	**134**	**957**	**1,630**	**132**	**7,401**
Accumulated amortisation and impairment						
1 January 2017	**(2,779)**	**(89)**	**-**	**(1,139)**	**-**	**(4,007)**
Charge for the year	(476)	-	(103)	(135)	(20)	(734)
Disposals	13	-	-	234	2	249
31 December 2017	**(3,242)**	**(89)**	**(103)**	**(1,040)**	**(18)**	**(4,492)**
Charge for the year	(285)	-	(209)	(133)	(41)	(668)
Disposals	9	-	-	-	-	9
31 December 2017	**(3,518)**	**(89)**	**(312)**	**(1,173)**	**(59)**	**(5,151)**
Carrying amount						
31 December 2017	**551**	**45**	**789**	**590**	**79**	**2,054**
31 December 2018	**1,030**	**45**	**645**	**457**	**73**	**2,250**

24 GOODWILL

For the purposes of impairment testing, goodwill is allocated between the cash generating units (the "CGUs"), i.e. the Group subsidiaries and/or divisions of companies that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and are not larger than an operating segment of the Group.

The aggregate carrying amount of goodwill, allocated to the Groups' business-units as at 31 December 2018 and as at 31 December 2017 is presented in the table below:

CGU name	31 December 2018	31 December 2017
AK Rossiya	6,502	6,502
AK Aurora	158	158
Total	**6,660**	**6,660**

The recoverable amount of CGU was calculated on the basis of value in use, which was determined by discounting the future cash flows to be generated as a result of the CGU's operations.

Key assumptions against which the recoverable amounts are estimated concerned the discount rate, the rate of return and the growth rate for the calculation of the terminal value.

24 GOODWILL (CONTINUED)

AK Rossiya

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

The discount rate calculation is based on weighted average cost of capital (WACC) and amounts to 14.1% p.a. for the entire forecast period (31 December 2017: 12.8% p.a.).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 2.7% p.a. (2017: 2.7% p.a.).

The budget for 2019 of "AK Rossiya" was adopted as a basis to forecasting the cash flows.

The Group's management has conducted a sensitivity analysis of the goodwill impairment test results to changes in rates of return as the most sensitive indicator. In case of decrease of this rate by 13% even though all other variables held constant, it would result in an impairment of CGU's goodwill in the full amount. The results of the impairment test for goodwill are also sensitive to assumptions regarding seat occupancy and discount rates.

25. ACCOUNTS RECEIVABLE AND LIABILITIES ARISING FROM CONTRACTS WITH CUSTOMERS

The Group has recognised the following liabilities arising from contracts with customers:

	Note	31 December 2018	1 January 2018
Unearned traffic revenue		49,874	44,052
Deferred revenue related to the frequent flyer programme, current		4,086	2,295
Other current liabilities related to the frequent flyer programme	21	4,196	3,107
Other short-term advances received under contracts with customers		106	143
Total current contract liabilities		**58,262**	**49,597**
Deferred revenue related to the frequent flyer programme, non-current		3,282	3,842
Other non-current liabilities related to the frequent flyer programme	29	2,456	2,563
Long-term advances received under contracts with customers		2,500	2,500
Total noncurrent contract liabilities		**8,238**	**8,905**

Information on accounts receivable under contracts with customers is disclosed as part of financial receivables from operating activities (Note 14), except for accounts receivable from settlement agents in the amount of RUB 9 361 million (as of January 1, 2018: RUB 7 728 million).

The principal amount of obligations to customers relates to the cost of tickets sold, but unused at the reporting date, as well as obligations under the frequent flyer programme.

The change in the amount of obligations for tickets sold but unused compared with 2017 was due to the growth in the volume of services rendered, as well as an increase in the fuel surcharge included in the contract price associated with the increase in prices for jet fuel.

The reasons for the change in obligations under the passenger bonuses program are the increase in the rate of accumulation of bonus miles due to the increase in participants and the increase in the volume of services rendered for the carriage of passengers due to the continued development of services. The accumulation of bonus miles is partially offset by their use for similar reasons.

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

25. ACCOUNTS RECEIVABLE AND LIABILITIES ARISING FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

In the current reporting period, revenue was recognized in the amount of RUB 51,351 million in relation to the obligations under the contracts as of 1 January 2018, of which RUB 44,052 million related to advances in the form of unearned transport revenue and RUB 7,299 million to the frequently flying passengers programme.

The main part of long-term performance obligations to customers is the sum of obligations under the frequently flying passengers programme Aeroflot Bonus, which is calculated on the basis of accumulated experience and statistics of previous years on the preferences of passengers in the use of accumulated bonus miles (Note 3).

Deferred revenue and other accrued liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 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 fair value in accordance with IFRIC 13 "Customer loyalty programmes". Other accrued liabilities related to the frequent flyer programme also include the number of accumulated but not used bonus miles, which value reflects the best estimate of the expenditure, necessary to settle the existing obligation in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets".

	31 December 2017
Deferred revenue related to the frequent flyer programme, current	1,720
Deferred revenue related to the frequent flyer programme, non-current	3,842
Other current liabilities related to the frequent flyer programme (Note 21)	2,566
Other non-current liabilities related to the frequent flyer programme (Note 29)	2,563
Total deferred revenue and other liabilities related to the frequent flyer programme	**10,691**

26. PROVISIONS FOR LIABILITIES

	Regular repairs and maintenance works	**Other provisions**	**Total provisions**
1 January 2017	**13,510**	**2,585**	**16,095**
Charge of provision for the year	13,197	1,725	14,922
Use of provision for the year	(2,814)	(36)	(2,850)
Release of provision for the year	(1,211)	(2,521)	(3,732)
Unwinding of the discount	2,807	-	2,807
Foreign exchange profit, net	(835)	(25)	(860)
31 December 2017	**24,654**	**1,728**	**26,382**
Charge of provision for the year	11,804	1,640	13,444
Use of provision for the year	(6,698)	(34)	(6,732)
Release of provision for the year	(3,294)	(15)	(3,309)
Unwinding of the discount	1,756	-	1,756
Foreign exchange loss, net	5,270	1	5,271
Other changes	-	(1,666)	(1,666)
31 December 2018	**33,492**	**1,654**	**35,146**

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

26. PROVISIONS FOR LIABILITIES (CONTINUED)

	31 December 2018	31 December 2017
Current liabilities	11,393	9,433
Non-current liabilities	23,753	16,949
Total provisions	**35,146**	**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 41).

As at 31 December 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 31 December 2018, the Group made a provision of RUB 33,492 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 12 months 2018 amounted to RUB 8,510 million (12 months 2017: RUB 11,986 million) and was recorded within other operating income and expenses (Note 9).

27. 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 31 December 2018 is disclosed in Note 1.

	31 December 2018	31 December 2017
Total outstanding payments on finance lease contracts	101,737	111,270
Future finance lease interest expense	(8,513)	(10,581)
Total finance lease liabilities	**93,224**	**100,689**
Including:		
Current finance lease liabilities	15,219	16,015
Non-current finance lease liabilities	78,005	84,674
Total finance lease liabilities	**93,224**	**100,689**

	31 December 2018			**31 December 2017**		
Due for repayment:	**Principal**	**Future interest expense**	**Total payments**	**Principal**	**Future interest expense**	**Total payments**
On demand or within 1 year	15 219	2 563	17 782	16 015	2 841	18 856
Later than 1 year and not	58 670	5 480	64 150	60 435	6 723	67 158
Later than 5 years	19 335	470	19 805	24 239	1 017	25 256
Итого	**93 224**	**8 513**	**101 737**	**100 689**	**10 581**	**111 270**

Leased aircraft and engines with the carrying amount disclosed in Note 19 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

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

27. FINANCE LEASE LIABILITIES (CONTINUED)

As at 31 December 2018, the total amount of the finance lease liability relating to leased aircraft and aircraft engines amounted to RUB 87 211 million (31 December 2017 – RUB 96,265 million).

As at 31 December 2018, interest payable amounted to RUB 291 million (31 December 2017: RUB 391 million) is included in accounts payable and accrued liabilities.

The effective interest rate for finance lease during 2018 was 2.9% p.a. (in 2017: 3.0% p.a.). Fair value of finance lease liabilities approximate their carrying value.

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 31 December 2018, finance lease liabilities and liabilities related to assets held for sale in the amount of RUB 93,816 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 31 December 2018, accumulated foreign currency loss of RUB 42,321 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 12 months 2018 was RUB 6,788 million (for 12 months 2017: RUB 5,613 million).

In 2018 interest expense on finance leases was RUB 4,466 million (2017: RUB 4,073 million).

28 LOANS AND BORROWINGS

	31 December 2018	31 December 2017
Short-term loans and other borrowings:		
Short-term loans in Russian Roubles	175	-
Total short-term loans and borrowings	**175**	**-**
Long-term loans and other borrowings:		
Long-term loans in Russian Roubles	2,844	2,800
Long-term loans and borrowings in US dollars	467	381
Total long-term loans and borrowings	**3,311**	**3,181**

The main changes in loans and borrowings during reporting period

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

As at 31 December 2018, the Group had no secured loans or borrowings.

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

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

28 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 Birzha 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 Consolidated Financial Statements are not determined

Undrawn commitments

As at 31 December 2018, the Group was able to raise RUB 84,183 million in cash (31 December 2017: RUB 103,175 million) available under existing credit lines granted to the Group by various lending institutions.

29. OTHER NON-CURRENT LIABILITIES

	31 December 2018	31 December 2017
Other non-current liabilities related to frequent flyer programme (Note 25)	2,456	2,563
Defined benefit pension obligation, non-current portion	908	922
Other non-current liabilities	2,704	2,806
Total other non-current liabilities	**6,068**	**6,291**

30. NON-CONTROLLING INTEREST

The following table provides information about the subsidiary (AK Rossiya) with non-controlling interest that is material to the Group:

	2018	2017
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
(Loss)/Profit attributable to non-controlling interest for the year	(1 575)	(532)
Accumulated losses attributable to non-controlling interests in subsidiary	(5 796)	(4 221)

The summarised financial information of AK Rossiya is presented below:

	31 December 2018	31 December 2017
Current assets	13 844	18 539
Non-current assets	13 896	13 371
Current liabilities	25 090	24 854
Non-current liabilities	25 832	23 938

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

30. NON-CONTROLLING INTEREST (CONTINUED)

	2018	2017
Revenue	114 523	94 816
Loss for the year	(6 299)	(2 127)
Comprehensive loss for the year	(6 299)	(2 127)

As at 31 December 2018 and 31 December 2017 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

31. SHARE CAPITAL

As at 31 December 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
31 December 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 31 December 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 31 December 2018 and 31 December 2017, weighted average price was RUB 101.08 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 31 December 2018 and 31 December 2017, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 6.56 per GDR and EUR 9.91 per GDR, respectively.

32. 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. 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.

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

33. 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.

2018	**Passenger traffic**	**Other**	**Inter-segment sales elimination**	**Total Group**
External sales	607,270	4,300	-	611,570
Inter-segment sales	713	21,972	(22,685)	-
Total revenue	**607,983**	**26,272**	**(22,685)**	**611,570**
Operating profit	**17,150**	**2,507**	**-**	**19,657**
Loss from impairment and fair value changes of investments, net				(689)
Finance income				4,164
Finance costs				(7,904)
Hedging result				(6,788)
Share of financial results of associates				254
Subsidiaries disposal				1,240
Profit before income tax				**9,934**
Income tax				(4,221)
Profit for the year				**5,713**

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

33. OPERATING SEGMENTS (CONTINUED)

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
31 December 2018				
Segment assets	291,809	19,358	(12,577)	298,590
Investments in associates	-	545	-	545
Unallocated assets				17,491
Total assets				**316,626**
Segment liabilities	270,077	6,004	(4,946)	271,135
Unallocated liabilities				156
Total liabilities				**271,291**
2018				
Capital expenditures and PP&E additions (Note 19)	13,925	1,380	-	**15,305**
Depreciation (Notes 19)	11,738	506	-	**12,244**

2017	Passenger traffic	Other	Inter-segment sales elimination	Total Group
External sales	528,782	4,152	-	532,934
Inter-segment sales	618	19,675	(20,293)	-
Total revenue	**529,400**	**23,827**	**(20,293)**	**532,934**
Operating profit	**38,041**	**2,370**	**-**	**40,411**
Loss from impairment and fair value changes of investments, net				(144)
Finance income				7,127
Finance costs				(8,225)
Hedging result				(5,613)
Share of financial results of associates				170
Profit before income tax				**33,726**
Income tax				(10,666)
Profit for the year				**23,060**

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

33. OPERATING SEGMENTS (CONTINUED)

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
31 December 2017				
Segment assets	305,156	16,104	(12,235)	309,025
Investments in associates	-	329	-	329
Unallocated assets				13,976
Total assets				**323,330**
Segment liabilities	255,027	5,362	(4,426)	255,963
Unallocated liabilities				68
Total liabilities				**256,031**
2017				
Capital expenditures and PP&E additions (Note 19)	9,417	821	-	**10,238**
Depreciation (Notes 19)	12,985	365	-	**13,350**

	2018	2017
Scheduled passenger flights		
International flights from the RF to:		
Europe	67,939	57,133
Asia	37,455	31,854
America	14,793	12,869
CIS	12,788	11,364
Middle East and Africa	12,435	10,982
Total scheduled passenger revenue from flights from the RF	**145,410**	**124,202**
International flights to the RF from:		
Europe	68,733	57,523
Asia	39,292	34,589
America	14,937	12,966
CIS	12,428	10,992
Middle East and Africa	13,082	10,865
Total scheduled passenger revenue from flights to the RF	**148,472**	**126,935**
Domestic scheduled passenger flights	202,191	176,141
Other international flights	381	251
Total scheduled passenger traffic revenue	**496,454**	**427,529**

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

34. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

Financial assets and liabilities are classified by measurement categories as at 31 December 2018 as follows:

	Measured at amortised cost	Measured at fair value through profit or loss	Total
Cash and cash equivalents (Note 12)	23,711	-	**23,711**
Short-term financial investments (Note 17)	6,437	-	**6,437**
Financial receivables (Note 14)	41,138	-	**41,138**
Aircraft lease security deposits (Note 13)	4,881	-	**4,881**
Long-term financial instruments (Note 17)	83	5,310	**5,393**
Other current assets	226	-	**226**
Other non-current assets	458	-	**458**
Total financial assets	**76,934**	**5,310**	**82,244**

	Financial liabilities	Total
Financial payables (Note 21)	45,360	**45,360**
Finance lease liabilities (Note 27)	93,224	**93,224**
Loans and borrowings (Note 28)	3,486	**3,486**
Other non-current liabilities	201	**201**
Total financial liabilities	**142,271**	**142,271**

Financial assets and liabilities are classified by measurement categories as at 31 December 2017 as follows:

	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents (Note 12)	45,978	-	**45,978**
Short-term financial investments (Note 17)	8,931	-	**8,931**
Financial receivables (Note 14)	34,991	-	**34,991**
Aircraft lease security deposits (Note 13)	2,025	-	**2,025**
Long-term financial instruments (Note 17)	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 21)	41,040	**41,040**
Finance lease liabilities (Note 27)	100,689	**100,689**
Loans and borrowings (Note 28)	3,181	**3,181**
Other non-current liabilities	306	**306**
Total financial liabilities	**145,216**	**145,216**

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

The Group manages risks related to financial instruments, which include market risk (currency risk, interest rate risk and aircraft fuel price risk), credit risk, liquidity risk and capital management risk.

Liquidity risk

The Group is exposed to liquidity risk, i.e. 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 financial conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group utilises a detailed budgeting and cash forecasting process to ensure its liquidity is maintained at appropriate level.

The following are the Group's financial liabilities as at 31 December 2018 and 31 December 2017 by contractual maturity (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

	Average interest rate						
31 December 2018	**Contractual rate**	**Effective rate**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans and borrowings in foreign currency	2.3%	2.3%	-	-	39	467	506
Loans and borrowings in Roubles	8.1%	8.1%	432	290	3,015	-	3,737
Finance lease liabilities	2.9%	2.9%	17,782	17,797	46,353	19,805	101,737
Financial payables			42,664	2,696	-	-	45,360
Total future payments, including future interest payments			**60,878**	**20,783**	**49,407**	**20,272**	**151,340**

	Average interest rate						
31 December 2017	**Contractual rate**	**Effective rate**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans and borrowings in foreign currency	3.1%	3.1%	-	-	-	431	431
Loans and borrowings in Roubles	11.3%	11.3%	240	224	3,200	-	3,664
Finance lease liabilities	2.9%	3.0%	18,856	17,593	49,565	25,256	111,270
Financial payables			41,040	-	-	-	41,040
Total future payments, including future interest payments			**60,136**	**17,817**	**52,765**	**25,687**	**156,405**

As at 31 December 2018, the Group has net short-term liabilities in the amount of RUB 11,417 million (as at 31 December 2017, net current assets in the amount of RUB 27,176 million). In 2018, the Group received a net profit of RUB 5,713 million (in 2017:RUB 23,060million). The financial result for 2018 was adversely affected by a significant increase in prices for aircraft fuel. The cash flow from operating activities for 2018 was positive and amounted to RUB 19,495 million (in 2017: RUB 47,432 million).

The Group Treasury provides financing flexibility through available credit lines. As at 31 December 2018, within the framework of credit lines provided by various credit organizations, the Group had the opportunity to raise additional funds in the amount of RUB 84,183 million (31 December 2017: RUB 103,175 million). In addition to improving liquidity, the Group plans to increase the Group's operating efficiency and further increase cash flow from operating activities.

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Group is exposed to currency risk in relation to revenue as well as purchases and borrowings that are denominated in a currency other than Rouble. The currencies in which these transactions are primarily denominated are Euro and US Dollar.

The Groups analyses the exchange rate trends on a regular basis.

The Group uses long-term lease liabilities nominated in US Dollars as hedging instrument for risk of change in US Dollar exchange rate in relation to revenue (Note 27).

The Group's exposure to foreign currency risk was as follows based on notional amounts of financial instruments:

		31 December 2018				31 December 2017			
In millions of Russian Roubles	Note	US Dollar	Euro	Other currencies*	Total	US Dollar	Euro	Other currencies*	Total
Cash and cash equivalents	12	2,468	262	606	3,336	1,971	419	375	2,765
Financial receivables		23,005	4,771	4,050	31,826	18,669	4,106	3,068	25,843
Aircraft lease security deposits		4,474	-	-	4,474	1,630	-	-	1,630
Other assets		130	78	4	212	99	68	4	171
Total assets		**30,077**	**5,111**	**4,660**	**39,848**	**22,369**	**4,593**	**3,447**	**30,409**
Financial payables		17,382	8,928	5,115	31,425	13,858	7,144	3,884	24,886
Finance lease liabilities		93,224	-	-	93,224	98,513	-	-	98,513
Long-term loans and borrowings	28	467	-	-	467	381	-	-	381
Total liabilities		**111,073**	**8,928**	**5,115**	**125,116**	**112,752**	**7,144**	**3,884**	**123,780**
Total liabilities, net		**(80,996)**	**(3,817)**	**(455)**	**(85,268)**	**(90,383)**	**(2,551)**	**(437)**	**(93,371)**

*currencies other than functional currency of the Group

Strengthening or weakening of listed below currencies against rouble as at 31 December 2018 and 31 December 2017, would change profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	31 December 2018		31 December 2017	
	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/ decrease)	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/ decrease)
Increase in the rate of currency versus rouble:				
US Dollar	20%	2,138	20%	1,301
Euro	20%	(611)	20%	(408)
Other currencies	20%	(73)	20%	(70)
Decrease in the rate of currency versus rouble:				
US Dollar	20%	(2,138)	20%	(1,301)
Euro	20%	611	20%	408
Other currencies	20%	73	20%	70

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

As at 31 December 2018 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 12,778 million. The change of other currencies would have no material impact on equity. As at 31 December 2017 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 14,461 million. The change of other currencies would have no material impact on equity.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial results and cash flows. Changes in interest rates impact primarily on change in cost of borrowings (fixed interest rate borrowings) or future cash flows (variable interest rate borrowings). At the time of raising new borrowings as well as finance lease management uses judgment to decide whether it believes that a fixed or variable interest rate would be more favourable to the Group over the expected period until maturity.

As at 31 December 2018 and 31 December 2017, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2018	**31 December 2017**
Fixed rate financial instruments:		
Financial assets	15,313	39,417
Financial liabilities	(6,232)	(6,621)
Total fixed rate financial instruments	**9,081**	**32,796**
Variable rate financial instruments:		
Financial liabilities	(90,234)	(97,052)
Variable rate financial liabilities	**(90,234)**	**(97,052)**

As at 31 December 2018 and 31 December 2017 the Group had loans and finance lease with variable interest rates. If the variable part of interest rates on loans as at 31 December 2018 and 31 December 2017 were 20% higher or lower than the actual variable part of interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2017: would not have changed significantly).

Aircraft fuel price risk

If the price of Brent crude oil as at 31 December 2018 or 31 December 2017 were 10% higher or lower than the actual price, then, in the absence of changes in other variables (including forecasts of future oil prices), the impact on the consolidated financial result and the amount of the Group's capital would be insignificant.

Capital management risk

The Group manages its capital to ensure its ability to continue as a going concern while maximizing the return to the Company's shareholders through the optimization of the Group's debt to equity ratio.

The Group manages its capital in comparison with rivals in the airline industry on the basis of the following ratios:

- • net debt to total capital,
- • total debt to EBITDA, and
- • net debt to EBITDA.

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Capital management risk (continued)

Total debt consists of short-term and long-term borrowings (including the current portion) (Note 28), finance lease liabilities (Note 27), customs duties payable on imported leased aircraft and defined benefit pension obligation.

Net debt is defined as total debt less cash, cash equivalents and short-term financial investments.

Total capital consists of equity attributable to the Company's shareholders and net debt.

EBITDA is calculated as operating profit before depreciation, amortization and customs duties expenses.

The ratios are as follows:

	As at and for the year ended 31 December 2018	As at and for the year ended 31 December 2017
Total debt	97,618	104,792
Cash and cash equivalents and short-term financial investments	(30,148)	(54,909)
Net debt	67,470	49,883
Equity attributable to shareholders of the Company	43,284	65,535
Total capital	110,754	115,418
EBITDA	33,598	56,015
Net debt/Total capital	0.6	0.4
Total debt/EBITDA	2.9	1.9
Net debt/EBITDA	2.0	0.9

These ratios are analysed by Group's management over time without any limitations.

There were no changes in the Group's approach to capital management in 2018 and 2017.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements in 2018 and 2017, except for minimal share capital according to the legislation.

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 cash and cash equivalents, financial receivables and investments in securities.

Provisions for impairment of financial assets are based on the probability of default and expected loss ratios. The group uses professional judgment when forming these assumptions and the choice of initial data for the calculation of impairment on the basis of the experience of the group in the past, current market conditions and future forecasts of the end of each reporting period.

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets

A summary of the assumptions underpinning the company's expected credit loss model is as follows:

Category	**Company definition of category**	**Basis for recognition of expected credit loss provision**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail)	Lifetime expected losses
Non-performing	Principal and/or interest repayments are 90 days past due	Lifetime expected losses
Write-off	Assets that are not available for sale and for which all necessary procedures have been completed for full or partial recovery and the final amount of the loss has been determined. There is no reasonable expectation of recovery.	Asset is written off

Finance receivables

The group uses categories (portfolios) of financial receivables that reflect the associated credit risk. The classification of portfolios is based on the category of clients and the similar term of debt.

The Group conducts transactions with the following major types of counterparties:

(i) The Group has credit risk associated with travel agents and industry organisations. A significant share of the Group's sales is made via travel agencies. Due to the fact that receivables from travel agents are diversified the overall credit risk related to travel agencies is assessed by management as low.

(ii) Receivables from other airlines and agencies are regulated through the IATA clearing house, in particular for agency sales using BSP and CASS settlement systems, and ARC for part of US agents. Regular settlements ensure that the exposure to credit risk is mitigated to the greatest extent possible.

(iii) Credit risk arising from dealing with government institutions and banks is assessed as low. Management actively monitors its investing performance and in accordance to current policy investing only in liquid securities with high credit ratings. Management does not expect any counterparty to fail to meet its obligations. When working with banks, a system of credit limits is implemented, taking into account that the credit risks that arise when working with banks are limited, and are assessed as low

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Finance receivables (continued)

During the period of trade receivables of less than 12 months, the Group measures its own credit risk through the accrual of provisions to cover expected credit losses. Calculating the level of expected credit losses, the group considers information on the level of past losses for each category of customers. Given the short-term assets, the projected macroeconomic indicators do not have a significant impact on the level of losses. In case of adverse events in the economy, the indicators can be adjusted.For some categories of debtors (mainly agents), the group receives financial security, which is taken into account when calculating the level of expected credit losses. The financial effect of collateral is insignificant.

The group creates provisions to cover credit losses on customers ' trade receivables as follows:

Expected credit losses category	Basis for recognition of expected credit loss provision	Estimated gross carrying amount at default	Lifetime expected credit losses
Performing	Expected credit losses for 12 months. Where the term of the asset is less than 12 months, the estimated credit losses are based on the term of the asset.	40,337	(477)
Underperforming	Lifetime expected losses	262	(8)
Non-performing	Lifetime expected losses	12,009	(10,985)
Total		**52,608**	**(11,470)**

No significant changes to estimation techniques or assumptions were made during the reporting period.

The loss allowance for loans to customers as at 31 December 2018 reconciles to the opening loss allowance for that provision as follows:

	Performing	Underperforming	Non-performing	Total
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	**119**	**41**	**11,228**	**11,388**
Individual financial assets transferred to non - performing (credit-impaired financial assets)	-	-	1,023	**1,023**
New financial assets originated or purchased	477	8	134	**619**
Write-offs	-	-	(1,087)	**(1,087)**
Recoveries	(119)	(41)	(313)	**(473)**
Closing loss allowance as at 31 December 2018 (calculated under IFRS 9)	**477**	**8**	**10,985**	**11,470**

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Finance receivables (continued)

Other assets at amortised cost

During the term of the assets, the Group reflects the debtor's own credit risk through the timely creation of adequate provisions to cover expected credit losses. When calculating the level of expected credit losses, the Group considers information on the level of losses that occurred in previous periods. Projected macroeconomic indicators do not have a significant impact on the level of losses. In case of adverse events in the economy, the indicators can be adjusted. Available observable market information on the credit risk of a financial instrument, including external credit ratings, is also considered.

Category	Asset	Credit loss rate	Basis for recognition of expected credit loss provision	Gross carrying amount	Lifetime expected credit losses
Performing	Cash and cash equivalents	0%	Expected credit losses for 12 months. In cases where the term of the asset is less than 12 months, the estimated losses are based on the term of the asset	23,711	-
	Financial investments	0,12% - 4,26%		6,547	(27)
	Aircraft lease security deposits	0,45% - 1,43%		4,892	(11)
Underperforming	Financial investments	100%		30	(30)
Non-performing	Financial investments	100%		9,584	(9,584)
Total				**44,764**	**(9,652)**

Provisions for impairment of financial investments in the category of non-performing assets are provisions for loans issued by companies of the Group in favor of JSC "Transaero".

There were no significant changes in calculation methods or assumptions during the reporting period.

The maximum exposure to the credit risk net of impairment provision is set out in the table below:

	31 December 2018	31 December 2017
Cash and cash equivalents (excluding petty cash) (Note 12)	23,629	45,891
Financial receivables (Note 14)	41,138	34,991
Short-term financial investments (Note 17)	6,437	8,931
Long-term financial investments (Note 17)	5,393	3,338
Aircraft lease security deposits (Note 13)	4,881	2,025
Other assets	437	583
Total financial assets exposed to credit risk	**81,915**	**95,759**

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Other assets at amortised cost (continued)

Analysis by credit quality of financial receivables is as follows:

	31 December 2017
Past due impaired receivables	
- less than 45 days overdue	4
- 46 days to 90 days overdue	41
- 91 days to 2 years overdue	3,571
- more than 2 years overdue	8,270
Total impaired receivables	**11,886**

	31 December 2017
Past due but not impaired	
- less than 90 days overdue	35
Total past due but not impaired receivables	**35**

Accounts receivable by category of external credit rating are presented in the table below:

	31 December 2017
Accounts receivable with investment rating	5,237
Accounts receivable with non-investment rating	3,510
Accounts receivable without external rating	26,209
Total not overdue and not impaired receivables	**34,956**

Payables of counterparties with investment rating includes payables with a rating at least BBB-

(Fitch and S&P rating agencies) or Baa3 (Moody` rating agency). Payables of counterparties having a rating below the “investing” are classified as "Non-investment rating ". Non-rated payables consist mainly of airline debt, as well as agents BSP, CASS, ARC and direct agents.

Other measures to manage credit risk in the Group are as follows:

- Applying a system of limits. The limits reflect the Group's willingness to bear the credit risk within reasonable limits in order to maintain competitiveness and achievement of business objectives. The limit can be set for any source of risk or an individual counterparty. Qualitative factors that take into account the ownership structure (including the presence of an external investment rating), the period of work with the Group, the existence of lawsuits and quantitative coefficients based on the reporting are applied to establish limits.
- Assessment of credit quality of counterparties (credit ratings). The Group applies the internal credit rating system primarily, but not limited to, for agents that sale of passenger and freight traffic. The counterparty's credit rating is updated on a monthly basis and allows timely response to deteriorating credit quality of the counterparty. The credit rating affects the required amount of financial security under the contract, the recalculation of which also takes place on a monthly basis.

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

35. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Other assets at amortised cost (continued)

- Regular monitoring of credit risk indicators. Indicators of credit risks allow to reveal in advance the growth of the credit risk of an individual counterparty (a group of counterparties). As a result, the Group may take the necessary actions to prevent financial losses in the event of default of the counterparty. Indicators are applied at the ERP system level. When developing indicators, the company applies methods of quantitative statistical analysis, predictive models, as well as expert indicators.
- Regular reporting on credit risk. Providing regular reporting is an essential component that allows interested persons to observe the efficiency of risk reduction measures and the dynamics of its evaluation. The reporting is provided to the management of the Group, interested structural units, audit commissions, and also to the Board of Directors.

Credit risk concentration

As at 31 December 2018 and as at 31 December 2017, a large portion of cash was placed in two banks, which causes the credit risk concentration for the Group (Note 12).

36. CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

The table below summarizes the changes in the Group's liabilities arising from financial activities for each of the periods presented. Cash flows for these liabilities are reflected in the Statement of Cash Flows as part of financial activities:

	Borrowings	Finance lease liabilities	Other liabilities arising from financing activities	Total
1 January 2018	**3,181**	**100,689**	**65**	**103,935**
Cash repayment of liabilities	(385)	(26,908)	(14,543)	(41,836)
Cash inflows	350	-	-	350
Forex adjustments	79	(803)	-	(724)
Other changes not related to cash	261	20,246	14,542	35,049
31 December 2018	**3,486**	**93,224**	**64**	**96,774**

	Borrowings	Finance lease liabilities	Other liabilities arising from financing activities	Total
1 January 2017	**20,367**	**122,736**	**1**	**143,104**
Cash repayment of liabilities	(18,634)	(19,058)	(18,859)	(56,551)
Forex adjustments	350	(1,487)	-	(1,137)
Other changes not related to cash	1,098	(1,502)	18,923	18,519
31 December 2017	**3,181**	**100,689**	**65**	**103,935**

Dividends paid in the amount of RUB 14,543 million are reflected in changes of other liabilities for 2018.

Dividends paid in the amount of RUB 18,859 million are reflected in changes of other liabilities for 2017.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which a financial instrument can be exchanged during a current transaction between interested parties,except in cases of forced sale or liquidation. The best confirmation of fair value is the price of a financial instrument quoted in an active market.

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. Discount rates depend on the credit risk of the counterparty. Carrying amounts of cash and cash equivalents, financial receivables (Note 14), investments, lease security deposits (Note 13), deposits placed for more than 90 days and other financial assets and loans granted (Note 17) are approximately equal to their fair value, which belongs to Level 2 in the fair value hierarchy. Cash and cash equivalents, except for cash, belong to level 2 in the fair value hierarchy and are carried at amortized cost, which is approximately equal to their current fair value.

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 (Note 17).

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 31 December 2018 and 31 December 2017, the fair values of financial payables (Note 21), finance lease liabilities (Note 27), loans and borrowings (Note 28) 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.

38. 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 31 December 2018 and 31 December 2017, the outstanding balances with related parties and income and expense items with related parties for 12 months 2018 and 12 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 31 December 2018 and 31 December 2017, the outstanding balances with associates and income and expense items with associates for 12 months 2018 and 12 months 2017 were as follows:

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

38. RELATED-PARTY TRANSACTIONS (CONTINUED)

Associates (continued)

	31 December 2018	31 December 2017
Liabilities		
Accounts payable and accrued liabilities	136	84

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

	2018	2017
Transactions		
Sales to associates	17	6
Purchase of goods and services from associates	2,753	1,877

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

Government-related entities

As at 31 December 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;
- 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:

	31 December 2018	31 December 2017
Assets		
Cash	15,649	22,539

The amounts of the Group's finance and operating lease liabilities (including liabilities related to assets held for sale) are disclosed in Note 27. The share of liabilities to the government-related entities is approximately 74% for finance lease (including liabilities related to assets held for sale) (31 December 2017: 71%).

38. RELATED-PARTY TRANSACTIONS (CONTINUED)

Government-related entities (continued)

The share of the government-related entities in the amount of the future minimum lease payments under non-cancellable operating leases agreements are disclosed in Note 39 is approximately 68% (31 December 2017: 49%). The share of interest expenses on finance lease is approximately 80% and 42% for operating lease expenses (2017: 90% and 38%, respectively).

For the year ended 31 December 2018 the share of Group's transactions with government-related entities is about 24% of operating costs, and about 2% of revenue (12 months 2017: about 24% 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.

As at 31 December 2018 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group amounted to RUB 607 million (31 December 2017: RUB 499 million).

Transactions with the Russian Government also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 8, 11,14 and 21.

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 1,548 million for 12 months 2018 (12 months 2017: RUB 2,317 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 31 December 2018, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2018 till 31 December 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 12 months 2018 and was reflected in labour costs and other financial expenses respectively (12 months 2017: RUB 3,722 million). As at 31 December 2018, the outstanding amount of the liability under these programmes was RUB 220 million (31 December 2017: RUB 2,558 million).

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

39. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 38) are as follows:

	31 December 2018	**31 December 2017**
On demand or within 1 year	98,911	73,565
Later than 1 year and not later than 5 years	369,090	272,048
Later than 5 years	566,932	314,968
Total operating lease commitments	**1,034,933**	**660,581**

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the amounts.

The aircraft that the Group has operated under operating lease agreements as at 31 December 2018 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 3 to 16 years. The agreements are extendable.

As at 31 December 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.

40. CAPITAL COMMITMENTS

As at 31 December 2018, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 255 116 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 lease agreements, therefore no cash outflow on entered agreements is expected.

41. 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. Though, ongoing political tension in the region and international sanctions against certain Russian companies and individuals have a negative impact on the Russian economy. Low unemployment and wage growth contributed to moderate economic growth in 2018. 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.

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.

41. CONTINGENCIES (CONTINUED)

Tax contingencies (continued)

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 Consolidated 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 Consolidated 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.

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 31 December 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.

41. CONTINGENCIES (CONTINUED)

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 31 December 2018 the Group's subsidiary JSC Donavia were within bankruptcy process, thus their assets of RUB 385 million, including cash and cash equivalents in the amount of RUB 226 million, have had limited availability to the Group as it is defined by Russian legislation.

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

42. ACCOUNTING POLICIES APPLIED BEFORE 1 JANUARY 2018

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes.

Passenger revenue: Ticket sales are reported as traffic revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported in the Group's Consolidated Statement of Financial Position in a separate line item (unearned traffic revenue) within current liabilities. This item is reduced either when the Group completes the transportation service or when the passenger requests a refund. Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the reporting date based on an analysis of historical patterns of actual income from unused tickets. Commissions, which are payable to the sales agents are recognised as sales and marketing expenses within operating costs in the Consolidated Statement of Profit or Loss in the period of ticket sale by agents.

Passenger revenue includes revenue from code-share agreements with certain other airlines as per which the Group and other airlines sell seats for each other's flights ("code-share agreements"). Revenue from the sale of code-share seats on other airlines is recorded at the moment of the transportation service provision and is accounted for net in Group's traffic revenue in the Consolidated Statement of Profit or Loss. Revenue from the sale of code-share seats on Group's flights by other airlines are recorded at the moment of the transportation service provision and is fully accounted for in the Group's traffic revenue in the Consolidated Statement of Profit or Loss.

Cargo revenue: The Group's cargo transport services are recognised as traffic revenue when the air transportation is provided. The value of cargo transport services sold but not yet provided is reported in the Group's Consolidated Statement of Financial Position in a separate line item (unearned traffic revenue) within current liabilities.

Catering: Revenue is recognised when meal packages are delivered to the aircraft, as this is the date when the risks and rewards of ownership are transferred to customers.

Other revenue: Revenue from bilateral airline agreements is recognised when earned with reference to the terms of each agreement. Hotel accommodation revenue is recognised when the services are provided. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped to the customer. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues from sale of services are recognised in the period in which the services were rendered.

42. ACCOUNTING POLICIES APPLIED BEFORE 1 JANUARY 2018 (CONTINUED)

Frequent flyer programme

Since 1999 the Company operates a frequent flyer programme referred to as Aeroflot-Bonus. Subject to the programme's terms, to stimulate interest in using the Company's services, Aeroflot-Bonus miles are awarded for the use of the Group's services and its partners, as well as free promo miles to encourage participation in the programme .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 accordance with IFRIC 13 Customer Loyalty Programmes, he fair value of miles accumulated on the Group's own flights but not used by Aeroflot-Bonus participants is recognised under current and non-current deferred revenue related to frequent flyer programme within current and non-current liabilities, respectively, in the Group's Consolidated Statement of Financial Position.

The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme is recognised as other current and non-current liabilities related to frequent flyer programme in accounts payable and accrued liabilities in the Group's Consolidated Statement of Financial Position.

The fair value of the accumulated bonus miles is the same for the miles earned by the participants on the Group's own flights and the accumulated by the participants for using the services of the programme partners.

Other accrued liabilities related to promo miles accumulated but not used, the cost of which reflects the best estimate of the cost required to settle an existing liability in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" are recognised within accounts payable and accrued liabilities, respectively, in the Group's Consolidated Statement of Financial Position.

With the use of bonus miles, revenue from the loyalty programme is recognized when services are provided to program participants by reducing current deferred revenue and other current liabilities.

Financial instruments – key measurement terms

Depending on their classification, financial instruments are carried at fair value, cost or amortised cost, as described below.

Fair value – is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if: (a) the Group manages the group of financial assets and financial liabilities on the basis of the Company's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy; (b) the Group provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the Group's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

42. ACCOUNTING POLICIES APPLIED BEFORE 1 JANUARY 2018 (CONTINUED)

Financial instruments – key measurement terms (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Financial instrument measured at fair value are analysed by levels of the fair value hierarchy as follows:

(i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level 3 measurements, which are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, minus or plus accrued interest, and for financial assets - less any write-down (direct or through the valuation provision account) for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the Consolidated Statement of Financial Position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. *The effective interest* rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents and advisors, levies by regulatory agencies and securities exchanges, and transfer taxes and duties imposed on property transfer. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

42. ACCOUNTING POLICIES APPLIED BEFORE 1 JANUARY 2018 (CONTINUED)

Initial recognition of financial instruments

Derivative financial instruments, including financial instruments subject to special hedge accounting rules, are initially recognised at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Company/Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and liaiesbilit

The Group derecognises financial assets when:

(a) the assets are redeemed or the rights to cash flows from the assets expired, or

(b) the Group has transferred the rights to the cash flows from financial assets or entered into a transfer agreement, while:

(i) also transferring all substantial risks and rewards of ownership of the assets, or

(ii) neither transferring nor retaining all substantial risks and rewards of ownership but losing control over such assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group removes a financial liability (or a part of a financial liability) from its Consolidated Statement of Financial Position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is be recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges for a highly probable forecast transaction (cash flow hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 24. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

42. ACCOUNTING POLICIES APPLIED BEFORE 1 JANUARY 2018 (CONTINUED)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Profit or Loss as a separate line below operating result of the Group.

Amounts accumulated in equity are reclassified to profit or loss (as profit or loss from financing activities) in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Profit or Loss within gains and losses from financing activities as a separate line.

The hedging result in the Consolidated Statement of Profit or Loss is the change in the fair value of the hedging derivative financial instruments (realized hedging) and the reverse effect of the hedging risk impact on the related hedge transactions recorded in operating activities.

Available-for-sale investments

Available for sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and short-term highly liquid investments (including bank deposits) with contractual maturities of ninety days or less, earning interest income. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets in the Group’s Consolidated Statement of Financial Position.

Cash flows arising from the receipt of interests are classified as cash flows from investing activities in the Consolidated Statement of Cash Flows.

42. ACCOUNTING POLICIES APPLIED BEFORE 1 JANUARY 2018 (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are individually recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Doubtful accounts receivable balances are assessed individually and any impairment losses are included in other operating costs in the Group's Consolidated Statement of Profit or Loss.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Aircraft lease security deposits

Aircraft lease security deposits represent amounts paid to the lessors of aircraft in accordance with the provisions of operating lease agreements. These security deposits are returned to the Group at the end of the lease period. Security deposits related to lease agreements are presented separately in the Consolidated Statement of Financial Position (aircraft lease security deposits) and recorded at amortised cost.