PUBLIC JOINT STOCK COMPANY
AEROFLOT – RUSSIAN AIRLINES

Condensed Consolidated Interim Financial Statements
for the 3 months 2018

Contents

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

	Note	3m 2018	3m 2017
Loss for the period		**(11,543)**	**(5,339)**
Other comprehensive profit:			
Items that may be reclassified subsequently to profit or loss:			
Effect from hedging revenue with foreign currency liabilities	16	1,886	9,496
Deferred tax related to the profit on cash flow hedging instruments		(377)	(1,899)
Other comprehensive profit for the period		**1,509**	**7,597**
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD		**(10,034)**	**2,258**
Total comprehensive (loss)/profit attributable to:			
Shareholders of the Company		(9,689)	2,195
Non-controlling interest		(345)	63
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD		**(10,034)**	**2,258**

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

	Note	31 March 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	21	59,105	45,978
Short-term financial investments	21	4,143	8,931
Accounts receivable and prepayments	10	96,220	92,932
Current income tax prepayment		4,537	3,580
Aircraft lease security deposits		692	423
Expendable spare parts and inventories		12,806	12,811
Assets classified as held for sale	13	8,963	3,125
Other current assets		419	422
Total current assets		**186,885**	**168,202**
Non-current assets			
Property, plant and equipment	12	87,959	97,932
Prepayments for aircraft	11	9,679	13,089
Deferred tax assets		11,374	10,396
Goodwill		6,660	6,660
Long-term financial investments		6,133	3,338
Intangible assets		1,863	2,054
Aircraft lease security deposits		1,982	1,602
Investments in associates		327	329
Other non-current assets	10	22,503	19,728
Total non-current assets		**148,480**	**155,128**
TOTAL ASSETS		**335,365**	**323,330**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	71,323	67,953
Unearned traffic revenue		65,473	43,695
Deferred revenue related to the frequent flyer programme	14	3,430	1,720
Provisions for liabilities	15	7,024	9,433
Finance lease liabilities	16	14,334	16,015
Short-term borrowings and current portion of long-term loans and borrowings	17	175	-
Liabilities related to assets held for sale	13	8,525	2,210
Current income tax liabilities		2	-
Total current liabilities		**170,286**	**141,026**
Non-current liabilities			
Long-term loans and borrowings	17	3,355	3,181
Finance lease liabilities	16	73,923	84,674
Provisions for liabilities	15	19,503	16,949
Deferred tax liabilities		58	68
Deferred revenue related to frequent flyer programme	14	3,512	3,842
Other non-current liabilities		6,360	6,291
Total non-current liabilities		**106,711**	**115,005**
TOTAL LIABILITIES		**276,997**	**256,031**
Equity			
Share capital	19	1,359	1,359
Accumulated profit on disposal of treasury shares		7,864	7,864
Investment revaluation reserve		-	(5)
Hedge reserve	16	(23,650)	(25,159)
Retained earnings		71,393	81,476
Equity attributable to shareholders of the Company		**56,966**	**65,535**
Non-controlling interest		1,402	1,764
TOTAL EQUITY		**58,368**	**67,299**
TOTAL LIABILITIES AND EQUITY		**335,365**	**323,330**

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

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

	Note	3m 2018	3m 2017
Cash flows from operating activities:			
Loss before income tax		(13,727)	(6,462)
Adjustments for:			
Depreciation and amortisation		3,458	3,446
Change in impairment provision for accounts receivable and prepayments		323	(523)
Change in impairment provision for obsolete expendable spare parts and inventory		(1)	(25)
Change in provision for impairment of property, plant and equipment		-	(6)
Loss on disposal of property, plant and equipment and intangible assets		292	489
Loss on disposal of assets classified as held for sale	13	156	-
Change in cost of investments		(215)	57
Hedging result	8	1,293	1,391
Change in provisions for liabilities	15	3,128	2,526
Interest expense	8	1,717	1,961
Interest income	8	(882)	(959)
Foreign exchange gain, net	8	(836)	(1,012)
Dividend income		-	(15)
Other finance expenses/(income), net	8	1,052	77
Other operating (income)/expenses, net		-	(730)
Total cash flows (used in)/from operating activities before working capital changes		**(4,242)**	**215**
Increase in accounts receivable and prepayments		(6,556)	(5,359)
Decrease/(increase) in expendable spare parts and inventories		7	(321)
Increase in accounts payable and accrued liabilities		21,162	26,763
Total operating cash flows after working capital changes		**10,371**	**21,298**
Change in restricted cash		(16)	(3)
Income tax paid		(102)	(514)
Income tax refunded		38	17
Net cash flows from operating activities		**10,291**	**20,798**

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

	Note	3m 2018	3m 2017
Cash flows from investing activities:			
Deposits return		6,399	4,445
Deposits placement		(1,446)	(1,350)
Proceeds from sale of property, plant and equipment		8	3
Proceeds from sale of assets held for sale		778	648
Interest received		628	811
Purchase of property, plant and equipment and intangible assets		(1,824)	(961)
Dividends received		20	31
Prepayments for aircraft		(1,883)	(85)
Return of prepayments for aircraft		8,061	-
Repayment of operating lease security deposits		(1,661)	(36)
Return of operating lease security deposits		-	14
Net cash flows from investing activities		**9,080**	**3,520**
Cash flows from financing activities:			
Proceeds from of loans and borrowings		350	-
Repayment of loans and borrowings		-	(1,573)
Repayment of the principal element of finance lease liabilities		(5,356)	(1,995)
Interest paid		(1,129)	(1,039)
Dividends paid		(7)	-
Net cash used in financing activities		**(6,142)**	**(4,607)**
Effect of exchange rate fluctuations on cash and cash equivalents		(102)	(428)
Net increase in cash and cash equivalents		**13,127**	**19,283**
Cash and cash equivalents at the beginning of the period		45,978	31,476
Cash and cash equivalents at the end of the period		**59,105**	**50,759**
Non-cash transactions as part of the investing activities:			
Property, plant and equipment acquired under finance leases		-	401

(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 less treasury shares 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**
(Loss)/profit for the period		**-**	**-**	**-**	**-**	**(5,402)**	**(5,402)**	**63**	**(5,339)**
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	16	-	-	-	7,597	-	7,597	-	7,597
Total other comprehensive profit							**7,597**	**-**	**7,597**
Total comprehensive profit							**2,195**	**63**	**2,258**
31 March 2017		**1,359**	**(1,912)**	**(5)**	**(26,590)**	**71,796**	**44,648**	**(1,621)**	**43,027**
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)		**-**	**-**	**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**
Loss for the period		**-**	**-**	**-**	**-**	**(11,198)**	**(11,198)**	**(345)**	**(11,543)**
Profit from the change in fair value of derivative financial instruments and effect from hedging net of related deferred tax	16	-	-	-	1,509	-	1,509	-	1,509
Total other comprehensive profit							**1,509**	**-**	**1,509**
Total comprehensive loss							**(9,689)**	**(345)**	**(10,034)**
31 March 2018		**1,359**	**7,864**	**-**	**(23,650)**	**71,393**	**56,966**	**1,402**	**58,368**

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

1. NATURE OF THE BUSINESS

Aeroflot-Russian Airlines (the “Company” or “Aeroflot”) was established 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 March 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 at 10 Arbat Street, Moscow, RF, 119002.

(All amounts 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 March 2018 (number of items):

Type of aircraft	Ownership	PJSC AEROFLOT	AK ROSSIYA	AK AURORA	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	10	-	-	-	10
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
An-148	Finance lease	-	5	-	-	5
Total aircraft under finance leases		**28**	**14**	**-**	**-**	**42**
SSJ 100	Operating lease	42	-	-	-	42
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	76	5	-	-	81
Airbus A321	Operating lease	28	-	-	-	28
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	38	16	-	18	72
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	6	6	-	-	12
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
Total aircraft under operating leases		**204**	**53**	**18**	**18**	**293**
Total fleet		**232**	**67**	**25**	**18**	**342**

As at 31 March 2018, 5 An-148 aircraft and 1 An-24 aircraft were leased out.

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

2. BASIS OF PREPARATION

Basis of preparation

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

Foreign currency translation

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

	Official exchange rates	
	RUB / USD 1.00	**RUB / EUR 1.00**
As at 31 March 2018	57.26	70.56
Average rate for 3 months 2018	56.88	69.87
As at 31 December 2017	57.60	68.87
Average rate for 3 months 2017	58.84	62.65

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

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

Adoption of IFRS 9 "Financial Instruments"

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

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

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

Classification of financial assets

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

(i) those to be measured subsequently at fair value through profit or loss, and;

(ii) those to be measured at amortised cost.

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

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

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;

(ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Classification of financial assets (continued)

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

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

(i) equity investments;

(ii) financial assets mandatorily measured at fair value through profit or loss.

Measurement of financial assets

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

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

a) Debt instruments

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

(i) *Amortised* cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(ii) *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or fair value, which changes are recognised in other comprehensive income, are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the Condensed Consolidated Interim Statement of Profit or Loss in the period when incurred.

b) Equity instruments

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

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

Impairment of debt financial assets

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

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

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

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Impairment of debt financial assets (continued)

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

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

Hedge accounting

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

IFRS 9 eliminates the requirement to assess the effectiveness of a hedge in the range of 80-125%, and the effectiveness of the hedge is estimated based on the existence of an economic relationship between the instrument and the hedged item. However, in accordance with IFRS 9, discounting of hedged cash flows is required to assess the effectiveness of the hedge. Accordingly, the Group updated its approach to assessing the effectiveness of the hedge, and identified as a hedged item the future highly probable revenue equal to the amount of cash flows from financial leases on a non-discount basis. This change has a prospective effect 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 under IFRS 9.

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

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

(i) Classification and measurement of financial instruments

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

(ii) Reclassification from available-for-sale financial assets to financial assets at fair value, which changes are recognised in profit and 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 3 months 2018, the revaluation income at fair value on these investments in the amount of RUB 251 million was recognised in Condensed Consolidated Interim Statement of Profit or Loss.

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

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The main changes in accounting policy in respect of investments under the transition to IFRS 9 (continued)

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

In million of Russian Roubles	Measurement category (IAS) 39	Measurement category (IFRS) 9	Carrying value per IAS 39 (31 December 2017)	Remeasurement: Expected credit losses	Remeasurement: Other	Carrying value per IFRS 9 (1 January 2018)
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 cost through profit or loss	**3,252**	-	2,574	**5,826**
Financial accounts receivables	Loans And Accounts Receivable	Measured at amortized cost	**34,991**	(40)	-	**34,951**
Aircraft lease security deposits	Loans And Accounts Receivable	Measured at amortized cost	**2,025**	-	-	**2,025**
Debt financial investments	Loans And Accounts Receivable	Measured at amortized cost	**8,961**	(30)	-	**8,931**
Total loans and accounts receivable			**45,977**	**(70)**	**-**	**45,907**
Other financial assets	Loans And Accounts Receivable	Measured at amortized cost	**583**	-	-	**583**
Total financial assets			**95,846**	**(70)**	**2,574**	**98,350**

There were no significant changes in respect of financial obligations.

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

	Cash and cash equivalents	Financial accounts receivables	Debt financial investments	Equity financial investments	Aircraft lease security deposits	Other financial assets	Total
Gross book value per IAS 39 (opening balance at 1 January 2018)	**45,978**	**46,339**	**18,457**	**3,252**	**2,025**	**583**	**116,634**
Amounts adjusted through retained earnings at the beginning of the period	-	-	-	2,574	-	-	**2,574**
Gross book value per IFRS 9 (opening balance at 1 January 2018)	**45,978**	**46,339**	**18,457**	**5,826**	**2,025**	**583**	**119,208**
Change in gross book value for the period	13,127	9,275	(4,754)	251	652	16	**18,567**
Gross book value at 31 March 2018	**59,105**	**55,614**	**13,703**	**6,077**	**2,677**	**599**	**137,775**

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

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The main changes in accounting policy in respect of investments under the transition to IFRS 9 (continued)

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

	Financial accounts receivable	Other financial assets	Total impairment provision
1 January 2018 – IAS 39	**(11,348)**	**(9,440)**	**(20,788)**
Amounts adjusted through retained earnings at the beginning of the period	(40)	(30)	(70)
1 January 2018 –IFRS 9	**(11,388)**	**(9,470)**	**(20,858)**
Provision increase	(451)	(39)	(490)
Provision release	7	-	7
Provision recovery	270	-	270
31 March 2018	**(11,562)**	**(9,509)**	**(21,071)**

Adoption of IFRS 15 "Revenue from contracts with customers"

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

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

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

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

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

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

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

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

(ii) Accounting for change fees;

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

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

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

(iii) Accounting for commission fees payable to agents;

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

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

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

	2018
Retained earnings – 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 1 January 2018 - after IFRS 9/IFRS 15 Adoption	**82,579**

Critical accounting estimates and judgments

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

Income tax expense

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

4. TRAFFIC REVENUE

	3m 2018	3m 2017
Scheduled passenger flights	91,107	82,336
Charter passenger flights	5,789	4,869
Cargo flights	3,778	3,378
Total traffic revenue	**100,674**	**90,583**

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

5. OTHER REVENUE

	3m 2018	3m 2017
Airline agreements revenue	6,503	7,080
Revenue from partners under frequent flyer programme	2,690	2,473
Sales of duty free goods	377	380
In-flight catering services	267	261
Ground handling and maintenance	148	330
Hotel revenue	98	96
Refuelling services	5	190
Other revenue	1,180	1,732
Total other revenue	**11,268**	**12,542**

6. OPERATING COSTS

	3m 2018	3m 2017
Operating lease expenses	18,499	14,878
Aircraft servicing and ground handling	17,203	17,107
Aircraft maintenance	8,469	8,179
Passenger services	4,705	4,047
Administration and general expenses	4,121	3,763
Communication expenses	4,119	3,975
Food cost for in-flight catering	2,441	2,134
Sales and marketing	2,039	2,408
Insurance expenses	516	497
Custom duties	406	354
Cost of duty-free goods sold	202	219
Other expenses	1,996	1,725
Operating costs less aircraft fuel, staff costs, depreciation and amortisation	**64,716**	**59,286**
Aircraft fuel	34,042	27,427
Total operating costs less staff costs, depreciation and amortisation	**98,758**	**86,713**

7. STAFF COSTS

	3m 2018	3m 2017
Wages and salaries	16,523	14,427
Pension costs	3,725	3,102
Social security costs	1,156	1,059
Total staff costs	**21,404**	**18,588**

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 3 months 2018, 20% for 3 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.

	3m 2018	3m 2017
Payments to the RF Pension Fund	3,710	3,105
Change in liabilities for pension plans	15	(3)
Total pension costs	**3,725**	**3,102**

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

8. FINANCE INCOME AND COSTS

	3m 2018	**3m 2017**
Finance income:		
Interest income	882	959
Foreign exchange gain, net	836	1,012
Total finance income	**1,718**	**1,971**
Finance costs:		
Interest expense	(1,717)	(1,961)
Other finance costs	(1,052)	(77)
Total finance costs	**(2,769)**	**(2,038)**

	3m 2018	**3m 2017**
Hedging result:		
Effect of revenue hedging with liabilities in foreign currency (Note 16)	(1,293)	(1,391)
Total hedging result	**(1,293)**	**(1,391)**

9. INCOME TAX

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

The expected weighted average annual income tax rate applied to profitable Group companies for the 3 months 2018 equalled 19 – 33% (3 months 2017: 5 – 36%). The expected weighted average annual income tax rate applied to loss making Group companies for the 3 months 2018 equalled to 0 – 21% (3 months 2017: 19 – 36%). Changes in expected rates are in general associated with a change in the share of non-deductible expenses.

	3m 2018	**3m 2017**
Current income tax	891	380
Deferred income tax change	1,293	743
Total income tax change	**2,184**	**1,123**

In the reporting period, the Group has utilised deferred tax assets from previously recognised tax losses of its subsidiaries in the amount of RUB 6 million.

In the reporting period, the Group did not recognise deferred tax assets from incurred tax losses in the amount RUB 20 million.

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2018	**31 December 2017**
Trade accounts receivable	41,468	36,853
Other financial receivables	14,146	9,486
Less impairment provision	(11,562)	(11,348)
Total financial receivables	**44,052**	**34,991**
Prepayments for delivery of aircraft	20,875	25,285
VAT and other taxes recoverable	16,189	15,842
Prepayments to suppliers	12,541	13,803
Deferred customs duties related to imported aircraft under operating leases, current portion	335	397
Other receivables	2,907	3,152
Less impairment provision	(679)	(538)
Total accounts receivable and prepayments	**96,220**	**92,932**

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

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

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

	31 March 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	3	2018-2019	1	2018
Airbus A320	7	2018	10	2018
Airbus A321	2	2018	5	2018

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

Due to changes in the plan of aircraft purchases, prepayments for Boeing B787 were reclassified by the Group from the prepayments for delivery of aircraft to other financial receivables as at 31 March 2018.

The Group paid advances in amount of RUB 3,417 million for 6 aircraft delivered under operating lease during 3 months of 2018 (for 3 months of 2017: nil). The above mentioned advances were recognised as part of prepayments to suppliers and other non-current assets. These assets should be written off to operating lease expenses over the term of the operating lease agreements.

11. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 31 March 2018 and 31 December 2017, the non-current portions of prepayments for aircraft was RUB 9,679 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 to aircraft suppliers.

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

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

	31 March 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 March 2018, the expected type of lease for these aircraft is not defined yet.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost						
1 January 2017	**8,147**	**112,942**	**10,131**	**23,937**	**4,721**	**159,878**
Additions	262	-	-	664	100	**1,026**
Capitalised expenditures	-	34	-	-	233	**267**
Disposals	(308)	(931)	-	(84)	(10)	**(1,333)**
Transfers	2,800	206	10	67	(3,083)	**-**
31 March 2017	**10,901**	**112,251**	**10,141**	**24,584**	**1,961**	**159,838**
1 January 2018	**12,583**	**107,176**	**10,151**	**27,606**	**3,627**	**161,143**
Additions	565	-	-	540	594	**1,699**
Capitalised expenditures	-	79	-	-	103	**182**
Disposals	(34)	(740)	-	(123)	(33)	**(930)**
Transfers to assets held for sale (Note 13)	(194)	(16,352)	-	-	-	**(16,546)**
Transfers	-	224	-	13	(237)	**-**
31 March 2018	**12,920**	**90,387**	**10,151**	**28,036**	**4,054**	**145,548**
Accumulated depreciation						
1 January 2017	**(1,511)**	**(36,756)**	**(4,970)**	**(11,671)**	**(73)**	**(54,981)**
Charge for the period	(278)	(2,112)	(75)	(751)	-	**(3,216)**
Recovery of impairment provision	4	-	-	2	-	**6**
Disposals	12	722	-	104	-	**838**
31 March 2017	**(1,773)**	**(38,146)**	**(5,045)**	**(12,316)**	**(73)**	**(57,353)**
1 January 2018	**(2,892)**	**(40,691)**	**(5,169)**	**(14,384)**	**(75)**	**(63,211)**
Charge for the period	(400)	(1,898)	(67)	(886)	-	**(3,251)**
Disposals	26	506	-	102	-	**634**
Transfers to assets held for sale (Note 13)	40	8,199	-	-	-	**8,239**
31 March 2018	**(3,226)**	**(33,884)**	**(5,236)**	**(15,168)**	**(75)**	**(57,589)**
Carrying amount						
1 January 2018	**9,691**	**66,485**	**4,982**	**13,222**	**3,552**	**97,932**
31 March 2018	**9,694**	**56,503**	**4,915**	**12,868**	**3,979**	**87,959**

Capitalised borrowing costs for 3 months 2018 amounted to RUB 103 million (3 months 2017: RUB 233 million). Capitalisation rate of interest expenses and forex for the period was 3.9% p.a. (3 months 2017: 3.5%).

13. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 March 2018, 10 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 March 2018, the amount of net assets held for sale amounted to RUB 438 million (31 December 2017: RUB 915 million).

	Initial cost of fixed assets	Accumulated depreciation and impairment	Total assets	Total liabilities
1 January 2018	**6,759**	**(3,634)**	**3,125**	**(2,210)**
Additions (Note 12)	16,546	(8,239)	**8,307**	(8,544)
Disposals	(5,250)	2,781	**(2,469)**	2,189
Revaluation	-	-	**-**	40
31 March 2018	**18,055**	**(9,092)**	**8,963**	**(8,525)**

During 3 months 2018 the Group disposed of 3 Airbus A321 aircraft (during 3 months 2017: null). Loss from disposal of mentioned aircraft amounted to RUB 156 million.

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

14. DEFERRED REVENUE RELATED TO THE FREQUENT FLYER PROGRAMME

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

	31 March 2018	**31 December 2017**
Deferred revenue related to the frequent flyer programme, current	3,430	1,720
Deferred revenue related to the frequent flyer programme, non-current	3,512	3,842
Other current liabilities related to frequent flyer programme (Note 18)	3,510	2,566
Other non-current liabilities related to frequent flyer programme	2,618	2,563
Total deferred revenue and other liabilities related to the frequent flyer programme	**13,070**	**10,691**

15. PROVISIONS FOR LIABILITIES

	Regular repairs and maintenance works	**Other provisions**	**Total provisions**
1 January 2017	**13,510**	**2,585**	**16,095**
Additional provision for the year	2,325	372	2,697
Release of provision for the year	-	(19)	(19)
Recovery of provision for the year	(151)	(20)	(171)
Unwinding of the discount	526	-	526
Foreign exchange gain, net	(1,063)	(88)	(1,151)
31 March 2017	**15,147**	**2,830**	**17,977**
1 January 2018	**24,653**	**1,729**	**26,382**
Additional provision for the year	3,977	182	4,159
Release of provision for the year	(1,868)	(31)	(1,899)
Recovery of provision for the year	(1,025)	(6)	(1,031)
Unwinding of the discount	713	-	713
Foreign exchange gain, net	(131)	-	(131)
Other changes	-	(1,666)	(1,666)
31 March 2018	**26,319**	**208**	**26,527**

	31 March 2018	**31 December 2017**
Current liabilities	7,024	9,433
Non-current liabilities	19,503	16,949
Total provisions	**26,527**	**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 25).

As at 31 March 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 March 2018, the Group made a provision of RUB 26,319 million (31 December 2017: RUB 24,653 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

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

16. 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 March 2018 is disclosed in Note 1.

	31 March 2018	31 December 2017
Total outstanding payments on finance lease contracts	96,797	111,270
Future finance lease interest expense	(8,540)	(10,581)
Total finance lease liabilities	**88,257**	**100,689**
Including:		
Current finance lease liabilities	14,334	16,015
Non-current finance lease liabilities	73,923	84,674
Total finance lease liabilities	**88,257**	**100,689**

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

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

As at 31 March 2018, finance lease liabilities and liabilities related to assets held for sale in the amount of RUB 90,598 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 March 2018, accumulated foreign currency loss of RUB 29,563 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 3 months 2018 was RUB 1,293 million (for 3 months 2017: RUB 1,391 million).

17. LOANS AND BORROWINGS

	31 March 2018	31 December 2017
Short-term bank loans and borrowings:		
Short-term loans and borrowings in Russian roubles	175	-
Total short-term loans and borrowings	**175**	**-**

	31 March 2018	31 December 2017
Long-term bank loans and borrowings:		
Long-term loans and borrowings in Russian roubles	2,975	2,800
Long-term loans and borrowings in US dollars	380	381
Total long-term loans and borrowings	**3,355**	**3,181**

The main changes in loans and borrowings during reporting period

During the first quarter 2018, 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 is unsecured and issued for the period up to March 2020.

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

As at 31 March 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)

17. 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 Condensed Consolidated Interim Financial Statements are not determined.

Undrawn commitments

As at 31 March 2018, the Group was able to raise RUB 99,126 million in cash (31 December 2017: RUB 103,175 million).

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 March 2018	31 December 2017
Accounts payable	33,202	34,095
Other financial payables	6,889	6,880
Dividends payable	58	65
Total financial payables	**40,149**	**41,040**
Staff related liabilities	23,753	19,434
Other current liabilities related to frequent flyer programme (Note 14)	3,510	2,566
Other taxes payable	1,413	2,626
Advances received (other than unearned traffic revenue)	1,637	1,451
Other payables	861	836
Total accounts payable and accrued liabilities	**71,323**	**67,953**

19. SHARE CAPITAL

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

	Number of ordinary shares authorised and issued (shares)	Number of ordinary shares outstanding (shares)
31 December 2017	1,110,616,299	1,110,616,299
31 March 2018	1,110,616,299	1,110,616,299

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 March 2018 and 31 December 2017, weighted average price was RUB 155.20 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 March 2018 and 31 December 2017, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 11.34 per GDR and EUR 9.91 per GDR, respectively.

20. 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.

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

20. OPERATING SEGMENTS (CONTINUED)

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

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

Group assets are located mainly in Russian Federation.

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

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
3m 2018				
External sales	111,073	869	-	**111,942**
Inter-segment sales	161	4,720	(4,881)	-
Total revenue	**111,234**	**5,589**	**(4,881)**	**111,942**
Operating (loss)/profit	**(11,767)**	**171**	**-**	**(11,596)**
Gain on investments, net				215
Finance income				1,718
Finance costs				(2,769)
Hedging result				(1,293)
Share of financial results of associates				(2)
Loss before income tax				**(13,727)**
Income tax				2,184
Loss for the period				**(11,543)**

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
3m 2017				
External sales	102,274	851	-	**103,125**
Inter-segment sales	154	4,122	(4,276)	-
Total revenue	**102,428**	**4,973**	**(4,276)**	**103,125**
Operating (loss)/profit	**(5,171)**	**235**	-	**(4,936)**
Loss on investments, net				(57)
Finance income				1,971
Finance costs				(2,038)
Hedging result				(1,391)
Share of financial results of associates				(11)
Loss before income tax				**(6,462)**
Income tax				1,123
Loss for the period				**(5,339)**

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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 model; (ii) the forecast of passenger traffic and the number of take-off and landing operations based on the evaluation of historical data and public information; (iii) the growth rate of tariffs for ground handling and airport services; and (iv) the amount of capital investments estimated based on the forecast information published by JSC MASH.

Liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 March 2018 and 31 December 2017, the fair values of financial payables (Note 18), finance lease liabilities (Note 16), loans, borrowings (Note 17) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2.

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

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

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The classification of financial assets and liabilities as at 31 March 2018 is stated below:

	Measured at amortised cost	Measured at fair value cost through profit or loss	Total
Cash and cash equivalents	59,105	-	**59,105**
Short-term financial investments	4,143	-	**4,143**
Financial receivables	44,052	-	**44,052**
Aircraft lease security deposits	2,674	-	**2,674**
Long-term financial instruments	56	6,077	**6,133**
Other current assets	419	-	**419**
Other non-current assets	180	-	**180**
Total financial assets	**110,629**	**6,077**	**116,706**

	Financial liabilities	Total
Financial payables	40,149	**40,149**
Finance lease liabilities	88,257	**88,257**
Loans and borrowings	3,530	**3,530**
Other long-term liabilities	311	**311**
Total financial liabilities	**132,247**	**132,247**

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

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

	Other financial liabilities	Total
Financial payables	41,040	**41,040**
Finance lease liabilities	100,689	**100,689**
Loans and borrowings	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)

22. 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 March 2018 and 31 December 2017, the outstanding balances with related parties and income and expense items with related parties for 3 months 2018 and 3 months 2017 were disclosed below:

Associates

As at 31 March 2018 and 31 December 2017, the outstanding balances with associates and income and expense items with associates for 3 months 2018 and 3 months 2017 were as follows:

	31 March 2018	31 December 2017
Liabilities		
Accounts payable and accrued liabilities	105	84

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

	3m 2018	3m 2017
Transactions		
Sales to associates	2	2
Purchase from associates	582	435

Purchases from associates consist primarily of aviation security services.

Government-related entities

As at 31 March 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 are directly or indirectly controlled by the Government of the RF through the relevant government authorities, agencies, affiliations and other organizations (government-related entities).

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

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

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

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

	31 March 2018	31 December 2017
Assets		
Cash and cash equivalents	31,182	22,539

The amounts of the Group's finance and operating lease liabilities (including liabilities related to assets held for sale) are disclosed in Notes 13, 16 and 24. The share of liabilities to the government-related entities is approximately 73% for finance lease (including liabilities related to assets held for sale) and 67% for operating lease (31 December 2017: 71% and 49%, respectively).

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

22. RELATED PARTY TRANSACTIONS (CONTINUED)

Government-related entities (continued)

For 3 months 2018 the share of Group's transactions with government-related entities is about 23% of operating costs, and more than 1% of revenue (3 months 2017: more than 22% and about 2%, respectively). These expenses primarily include costs of air navigation and aircraft maintenance services in the airports as well as supplies of motor fuels from government-related entities.

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

Transactions with the Russian Government also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 6, 7, 9,10 and 18.

Compensation of key management personnel

The remuneration of directors and other members 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 609 million (3 months 2017: RUB 560 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 March 2018, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2018 till 31 March 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 252 million for 3 months 2018 and was reflected in labour costs and other financial expenses respectively (3 months 2017: RUB 278 million). As at 31 March 2018, the outstanding amount of the liability under these programmes was RUB 2,306 million (31 December 2017: RUB 2,558 million).

23. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 22) are as follows:

	31 March 2018	31 December 2017
On demand or within 1 year	76,294	73,565
Later than 1 year and not later than 5 years	290,662	272,048
Later than 5 years	500,193	314,968
Total operating lease commitments	**867,149**	**660,581**

As at 31 March 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.

24. CAPITAL COMMITMENTS

As at 31 March 2018, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 224,903 million (31 December 2017: RUB 394,937 million). These commitments mainly relate to purchase 22 Airbus A-350 (31 December 2017: 22 aircraft), 9 Airbus A-320/321 (31 December 2017: 15 aircraft), 6 Boeing B777 (31 December 2017: 6) and 22 Boeing B-787 aircraft as at 31 December 2017. Group expects to use supplied aircraft under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

25. CONTINGENCIES

Operating Environment of the Group

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

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

Seasonality

Business activities of the Group with respect to international and domestic passenger and cargo flights are subject to season fluctuations, peak of demand occurs in the second and third quarters of a year.

Tax contingencies

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

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

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

In accordance with amendments to the Russian Tax Code made in 2015, excise duties charged on the aviation fuel obtained by the Group's airlines are subject to deduction using the following special coefficients: 2.08 for 2017, 2.08 for 2018.

25. CONTINGENCIES (CONTINUED)

Tax contingencies (continued)

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). 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 March 2018 and 31 December 2017 management estimates that the Group has no possible obligations from exposure to other than remote tax risks. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these Condensed Consolidated Interim Statements, if these are challenged by the tax authorities.

Insurance

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

Litigations

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

As at 31 March 2018 the Group's subsidiaries JSC Orenair and JSC Donavia were within bankruptcy process, thus their assets of RUB 1,504 million (31 December 2017: RUB 1,779 million), including cash and cash equivalents in the amount of RUB 419 million (31 December 2017: RUB 422 million), have had limited availability to the Group as it is defined by Russian legislation.