

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

**Condensed Consolidated Interim Financial Statements
for the 3 months 2019**

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

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

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

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

Management is also responsible for:

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

The Condensed Consolidated Interim Financial Statements for 3 months ended 31 March 2019 were approved on 30 May 2019 by:



V. G. Saveliev
General Director



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



Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of PJSC Aeroflot:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC Aeroflot and its subsidiaries (together - the "Group") as at 31 March 2019 and the related condensed consolidated interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the three-month period then ended, and the related notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review


We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

30 May 2019
Moscow, Russian Federation


A.Ya. Fegetsyn, certified auditor (licence No. 03-001436), AO PricewaterhouseCoopers Audit



Audited entity: PJSC Aeroflot

Registered by the Government Agency Moscow Registration Chamber on 21 June 1994 under No. 032.175

Record made in the Unified State Register of Legal Entities on 02 August 2002 under State Registration Number 1027700092661

119002, Russian Federation, Moscow, 10 Arbat

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

PJSC AEROFLOT

Condensed Consolidated Interim Statement of Profit or Loss

for the 3 months 2019

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

	Note	3m 2019	3m 2018*
Traffic revenue	4	123,428	100,674
Other revenue	5	14,613	11,268
Revenue		138,041	111,942
Operating costs, excluding staff costs, depreciation and amortisation	6	(97,533)	(76,462)
Staff costs	7	(22,579)	(21,218)
Depreciation and amortisation		(27,074)	(20,485)
Other operating income and expenses, net		3,246	3,027
Operating costs		(143,940)	(115,138)
Operating loss		(5,899)	(3,196)
Gain and loss from impairment and fair value changes of investments, net		227	215
Finance income	8	1,506	1,943
Finance costs	8	(14,547)	(9,938)
Hedging result	17	(1,017)	(1,293)
Share of results of associates		40	(2)
Loss before income tax		(19,690)	(12,271)
Income tax	9	3,944	1,856
LOSS FOR THE PERIOD		(15,746)	(10,415)
<i>Attributable to:</i>			
Shareholders of the Company		(16,870)	(10,333)
Non-controlling interest		1,124	(82)
LOSS FOR THE PERIOD		(15,746)	(10,415)
Basic and diluted loss per share (in Roubles per share)		(15.9)	(9.3)
Weighted average number of shares outstanding (millions)	19	1,062.8	1,110.6

* Revised Condensed Consolidated Interim Financial Statements for 3 months 2018 in accordance with applying a new IFRS 16 "Leases" (see Note 3)

Approved on 30 May 2019 and signed on behalf of management

V. G. Saveliev
General Director

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

The Condensed Consolidated Interim Statement of Profit or Loss 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 31

PJSC AEROFLOT
 Condensed Consolidated Interim Statement
 of Comprehensive Income for the 3 months 2019



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

	<u>Note</u>	<u>3m 2019</u>	<u>3m 2018*</u>
Loss for the period		(15,746)	(10,415)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Effect from hedging revenue with foreign currency liabilities	17	43,165	1,886
Deferred tax related to a result from cash-flow hedging	9	<u>(8,633)</u>	<u>(377)</u>
Other comprehensive income		<u>34,532</u>	<u>1,509</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>18,786</u>	<u>(8,906)</u>
<i>Total comprehensive income/(loss) attributable to:</i>			
Shareholders of the Company		17,662	(8,824)
Non-controlling interest		<u>1,124</u>	<u>(82)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>18,786</u>	<u>(8,906)</u>

* Revised Condensed Consolidated Interim Financial Statements for the 3 months 2018 in accordance with applying a new IFRS 16 "Leases" (see Note 3)

The Condensed Consolidated Interim Statement of Comprehensive Income is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 31

PJSC AEROFLOT

 Condensed Consolidated Interim Statement of Financial Position
 as at 31 March 2019

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



	Note	31 March 2019	31 December 2018*	1 January 2018*
ASSETS				
Current assets				
Cash and cash equivalents	21	41,142	23,711	45,978
Short-term financial investments	21	6,123	6,437	8,931
Accounts receivable and prepayments	10	83,612	78,609	85,122
Current income tax prepayment		4,688	5,488	3,580
Aircraft lease security deposits		536	532	837
Expendable spare parts and inventories		15,293	14,300	12,468
Assets classified as held for sale	14	6,255	6,255	3,149
Current financial assets under lease agreements	3	1,565	1,804	576
Other current assets		226	226	422
Total current assets		159,440	137,362	161,063
Non-current assets				
Right-of-use assets	13	673,332	671,063	536,023
Property, plant and equipment	12	26,601	26,461	26,481
Prepayments for aircraft	11	21,407	21,148	13,089
Deferred tax assets		34,765	39,830	22,576
Goodwill		6,660	6,660	6,660
Long-term financial investments		5,640	5,393	5,883
Intangible assets		2,161	2,250	2,054
Non-current financial assets under lease agreements	3	19,320	19,261	13,509
Aircraft lease security deposits		4,537	4,283	2,939
Investments in associates		586	545	329
Other non-current assets		40,794	41,450	29,342
Total non-current assets		835,803	838,344	658,885
TOTAL ASSETS		995,243	975,706	819,948
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	15	79,854	74,397	71,635
Unearned traffic revenue		75,567	49,871	44,006
Deferred revenue related to the frequent flyer programme		4,206	4,086	2,295
Provisions for liabilities	16	23,797	27,425	10,125
Lease liabilities	17	79,695	76,695	57,679
Short-term loans and borrowings and current portion of long-term loans and borrowings	18	11,834	175	-
Liabilities related to assets classified as held for sale	14	4,426	6,254	2,210
Current income tax liabilities		16	19	-
Total current liabilities		279,395	238,922	187,950
Non-current liabilities				
Long-term loans and borrowings	18	3,237	3,311	3,181
Lease liabilities	17	550,693	584,487	438,821
Provisions for liabilities	16	197,298	202,726	156,565
Deferred tax liabilities		310	629	720
Deferred revenue related to the frequent flyer programme		3,378	3,282	3,842
Other non-current liabilities		5,865	6,068	6,291
Total non-current liabilities		760,781	800,503	609,420
TOTAL LIABILITIES		1,040,176	1,039,425	797,370
Equity				
Share capital	19	1,359	1,359	1,359
Treasury shares buyback reserve		(7,040)	(7,040)	-
Accumulated profit on disposal of treasury shares		7,864	7,864	7,864
Hedge reserve	17	675	(33,857)	(25,159)
Retained earnings		(50,580)	(33,710)	36,768
Equity attributable to shareholders of the Company		(47,722)	(65,384)	20,832
Non-controlling interest		2,789	1,665	1,746
TOTAL EQUITY		(44,933)	(63,719)	22,578
TOTAL LIABILITIES AND EQUITY		995,243	975,706	819,948

* Revised Consolidated Financial Statements for 2018 in accordance with applying a new IFRS 16 "Leases" (see Note 3)

The Condensed Consolidated Interim Statement of Financial Position is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 31

PJSC AEROFLOT
Condensed Consolidated Interim Statement
of Cash Flows for the 3 months 2019



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

	<u>Note</u>	<u>3m 2019</u>	<u>3m 2018*</u>
Cash flows from operating activities:			
Loss before income tax		(19,690)	(12,271)
<i>Adjustments for:</i>			
Depreciation and amortisation		27,074	20,485
Change in impairment provision for accounts receivable and prepayments		(21)	323
Change in impairment provision for obsolete expendable spare parts and inventory		(110)	(1)
Change in impairment provision for property, plant and equipment	12	8	-
Loss on disposal of property, plant and equipment and intangible assets		236	292
Profit from disposal of assets classified as held for sale	14	-	156
Change in cost of investments		(227)	(215)
Hedging result	17	1,017	1,293
Change in provisions for liabilities	16	(1,449)	176
Interest expense	8	13,617	9,930
Interest income	8	(998)	(1,125)
Foreign exchange loss/(gain), net	8	930	(818)
Other finance expenses/(income), net	8	508	8
Other operating (income)/expenses, net		(566)	(1,026)
Total operating cash flows before working capital changes		20,329	19,259
Increase in accounts receivable and prepayments		(6,901)	(11,040)
(Increase)/decrease in expendable spare parts and inventories		(525)	7
Increase in accounts payable and accrued liabilities		29,388	21,162
Total operating cash flows after working capital changes		42,291	29,388
Change in restricted cash	24	-	(16)
Income tax paid		(140)	(102)
Income tax refunded		993	38
Net cash flows from operating activities		43,144	29,308

* Revised Condensed Consolidated Interim Financial Statements for the 3 months 2018 in accordance with applying a new IFRS 16 "Leases" (see Note 3)

PJSC AEROFLOT
Condensed Consolidated Interim Statement
of Cash Flows for the 3 months 2019



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

	<u>Note</u>	<u>3m 2019</u>	<u>3m 2018*</u>
<i>Cash flows from investing activities:</i>			
Deposits return		2,933	6,399
Deposits placement		(2,574)	(1,446)
Proceeds from sale of property, plant and equipment		12	8
Proceeds from sale of assets held for sale		1,112	778
Interest received		237	628
Purchases of property, plant and equipment and intangible assets		(4,251)	(1,824)
Dividends received		16	20
Prepayments for aircraft	11	(5,048)	(1,883)
Return of prepayments for aircraft	11	-	8,061
Payments for financial assets under aircraft lease contracts		(2,625)	(1,688)
Repayment of financial assets under aircraft lease contracts		655	79
Repayment of operating lease security deposits		(453)	(1,661)
Net cash flows from investing activities		<u>(9,986)</u>	<u>7,471</u>
<i>Cash flows from financing activities:</i>			
Placement of loans and borrowings	18	11,861	350
Repayment of loans and borrowings		(44)	-
Repayment of the principal element of lease liabilities	17	(15,755)	(15,379)
Interest paid except for interest under lease contracts		(109)	(59)
Interest paid under lease contracts		(11,176)	(8,454)
Dividends returned/(paid)		19	(7)
Net cash used in financing activities		<u>(15,204)</u>	<u>(23,550)</u>
Effect of exchange rate fluctuations on cash and cash equivalents		(523)	(102)
Net increase in cash and cash equivalents		<u>17,431</u>	<u>13,127</u>
Cash and cash equivalents at the beginning of the period		23,712	45,978
Cash and cash equivalents at the end of the period		<u>41,142</u>	<u>59,105</u>
<i>Non-cash transactions as part of the investing activities:</i>			
Right-of-use assets		26,051	30,516

* Revised Condensed Consolidated Interim Financial Statements for the 3 months 2018 in accordance with applying a new IFRS 16 "Leases" (see Note 3)

PJSC AEROFLOT

 Condensed Consolidated Interim Statement
 of Changes in Equity for the 3 months 2019

(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	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2018		1,359	7,864	(25,159)	82,591	66,655	1,747	68,402
The impact of the new standard (IFRS) 16	3	-	-	-	(45,824)	(45,824)	-	(45,824)
Total restated								
1 January 2018*		1,359	7,864	(25,159)	36,767	20,831	1,747	22,578
Loss for the period		-	-	-	(10,333)	(10,333)	(82)	(10,415)
Profit from hedging net of related deferred tax	17	-	-	1,509	-	1,509	-	1,509
Total other comprehensive income		-	-	1,509	-	1,509	-	1,509
Total comprehensive income		-	-	1,509	-	(8,824)	(82)	(8,906)
31 March 2018*		1,359	7,864	(23,650)	26,434	12,007	1,665	13,672
1 January 2019		1,359	824	(33,857)	74,958	43,284	2,051	45,335
The impact of the new standard (IFRS) 16*	3	-	-	-	(108,668)	(108,668)	(387)	(109,055)
Total restated								
1 January 2019*		1,359	824	(33,857)	(33,710)	(65,384)	1,665	(63,719)
Loss/profit for the period		-	-	-	(16,870)	(16,870)	1,124	(15,746)
Profit from hedging net of related deferred tax	17	-	-	34,532	-	34,532	-	34,532
Total other comprehensive profit		-	-	34,532	-	34,532	-	34,532
Total comprehensive profit		-	-	34,532	(16,870)	17,662	1,124	18,786
31 March 2019		1,359	824	675	(50,580)	(47,722)	2,789	(44,933)

* Revised Condensed Consolidated Interim Financial Statements for the 3 months 2018 in accordance with applying a new IFRS 16 "Leases" (see Note 3)

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 31

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 March 2019 and 31 December 2018, the Government of the Russian Federation (the “RF”) represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company's headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019

(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 March 2019 (number of aircraft):

<u>TYPE OF AIRCRAFT</u>	<u>OWNERSHIP</u>	<u>PSJC AEROFLOT</u>	<u>JSC AK ROSSIYA</u>	<u>JSC AK AURORA</u>	<u>LLC AK POBEDA</u>	<u>GROUP TOTAL</u>
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		-	-	7	-	7
SSJ 100	Lease	50	-	-	-	50
Airbus A319	Lease	-	24	10	-	34
Airbus A320	Lease	80	6	-	-	86
Airbus A321	Lease	37	-	-	-	37
Boeing B737	Lease	47	16	-	28	91
Boeing B747	Lease	-	9	-	-	9
Boeing B777	Lease	19	10	-	-	29
Airbus A330	Lease	22	-	-	-	22
DHC 8-Q200	Lease	-	-	2	-	2
DHC 8-Q300	Lease	-	-	2	-	2
DHC 6-400	Lease	-	-	3	-	3
Total aircraft under operating leases		255	65	17	28	365
Total fleet		255	65	24	28	372

As at 31 March 2019, 1 An-24 aircraft was leased out.

2. BASIS OF PREPARATION

Basis of preparation

The Group's Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's Consolidated Financial Statements for the year ended 31 December 2018, 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 2019	64.73	72.72
Average rate for 3 months 2019	66.13	75.17
As at 31 December 2018	69.47	79.46
Average rate for 3 months 2018	56.88	69.87

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 2018 and as at this date, with the exception of changes required in accordance with new IFRS 16 "Leases", effective since 1 January 2019.

Adoption of IFRS 16 "Leases"

The Group's accounting policies for leases were modified to comply with IFRS 16 "Leases", which replaces IAS 17 "Leases" and interpretations relating to leases.

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. According to this model, the Group recognizes in the financial statements: (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 Condensed Consolidated Interim Statement of Profit or Loss.

The Group adopted the standard effective January 1, 2019 using the full retrospective approach which requires each prior reporting period presented to be restated. Right-of-use assets are measured at transition as if the new rules had always been applied.

At transition to IFRS 16, the Group applied the following practical expedients:

- applied the requirements of clauses 22 to 49 of the standard for a short term leases or contracts for which the underlying asset has a low value (up to RUB 300 thousand or \$ 5,000) and recognized lease payments for such a lease as an expense of the reporting period using the line method every month during the lease term;
- applied single discount rate for a portfolio of leases with reasonably similar characteristics (for leases with a similar remaining lease term for a similar type of underlying assets in similar economic conditions and currency of contract).

**3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS
(CONTINUED)*****Adoption of IFRS 16 “Leases” (continued)*****The main changes in accounting policies since 1 January 2019 at transition to IFRS 16 “Leases”:*****Accounting for right-of-use assets and liabilities***

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group.

At the commencement date of the lease, the Group includes in the measurement of the lease liability the following lease payments: fixed payments (including in-substance fixed payments) less any lease incentive receivable; variable lease payments that are based on an index or a rate; amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

At the commencement date, assets and liabilities arising from a lease are initially measured on a present value basis using the interest rate implicit in the lease, or if that rate cannot be readily determined, incremental borrowing rate.

Upon initial recognition, in addition to the amount of the initial measurement of the liability, the Group also includes in the cost of right-of-use asset lease payments paid at the commencement date or before such a date less any lease incentives received, initial direct costs, and measurement of the costs that the Group will incur in restoring the underlying asset to a condition that is required before returning it to the lessor in accordance with lease terms.

After the commencement date of the lease, the Group measures the right-of-use asset using the accounting model at cost less accumulated depreciation and accumulated impairment losses adjusted for the revaluation of the lease liability. The Group measures lease liability at cost by increasing the carrying amount by interest accrued and reducing the carrying amount by the lease payments made taking into account revaluation or modification of lease agreements. The interest on the lease liability is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Accounting for costs of regular capital repairs and maintenance of aircraft

Under aircraft lease agreements the cost of regular capital repairs and maintenance works during the period of operation of the aircraft is capitalized into right-of-use assets 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) the remaining lease term. In case at the time of the major inspection the component of the previously capitalized expenses were not fully amortised then the carrying amount of such a component is written and included into expenses of the reporting period at the time of the next repair. Before transition to IFRS 16, such accounting treatment applied only to financial leases of aircraft.

The provision for repairs and maintenance works required to be performed before return of aircraft to lessor is regularly remeasured and any changes in the carrying amount of the provision including changes from exchange rate fluctuations are recognized in correspondence with relevant right-of-use asset. This provision is recorded at present value. Right-of-use assets are amortized using the line method over the lease term.

Accounting for payments to aircraft maintenance reserve

According to certain aircraft lease agreements in addition to the lease rent the Group makes monthly payments to aircraft maintenance reserve for “heavy forms of maintenance” specified in the lease agreement during the lease period. After carrying out repairs that fall within the definition of an event that is reimbursed from a previously accumulated maintenance reserve in accordance with the terms of the lease agreement, the Group receives compensation from the lessor in the amount of the actual repair costs, but not more than the formed maintenance reserve. At the end of the lease period, any remaining balance in the reserve fund is not reimbursed.

**3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS
(CONTINUED)*****Adoption of IFRS 16 “Leases” (continued)***

To account for such payments the Group identifies the following types of payments to the lessor:

- 1) Payments to the maintenance reserve which will be refunded for repair and maintenance performed during the lease period; and
- 2) Payments to the maintenance reserve the return of which is not expected in cash since the repair and maintenance will be performed by the lessor or other lessee after the lease term.

Upon initial recognition of payments to the maintenance reserve, which will be used for repairs and maintenance performed during the lease term, the Group estimates (i) the amount of payments that are expected to be returned by lessor; (ii) the amount of payments that will not be returned by the lessor. Refundable payments are recognized by the Group as financial assets. The difference between the initial fair value of the financial asset and the amount actually payable to form the recoverable contribution (“loss from occurrence”) is the cost of the lease and is included in the lease liability. A financial asset is recognized when a respective payment to maintenance reserve is made it makes an appropriate maintenance charge and is initially measured at present value of future refund with application of the discount rate used to measure the lease liability (i.e. the interest rate determined in the lease agreement). The financial asset is increased by interest over the life period of the asset using the effective interest method to the nominal amount returned by the lessor to the lessee.

At the commencement date of the lease the Group determines the portion of the loss from occurrence which is the minimum fixed amount during the whole period of payments to the maintenance reserve (lease term). Discounted value of future payments defined as “loss from occurrence” is included in lease liability and the right-of-use asset as of the date the lease is recognized. Any further losses from the occurrence under the contract related to payments to the lessor’s maintenance reserve are expensed as variable lease payments that are independent of the index or rate.

Payments to maintenance reserve that are not expected to be repaid in cash are accounted for similar to other rent payments under IFRS 16. The Group determines whether these non-refundable payments are fixed or in-substance fixed, and then recognizes liability and right-of-use asset at the commencement date of the lease. If payments are recognized as variable (e.g. depending on flying hours) then such payments (less changes related to the estimates of refundable amount) are recognized within expenses of the reporting period as they arise as lease payments that do not depend on the index or rate.

Payments to the maintenance reserve which are not to be refunded to lessee should be treated as any other lease payments under IFRS 16. The Group determines whether these non-refundable payments are fixed or in substance fixed and then recognizes asset and right-of-use liability at the commencement date of the lease. If payments are classified as variable then payments (less changes related to the estimates of refundable amount) are expensed as incurred as lease payments that do not depend on the index or rate.

Accounting for payments made to aircraft repair service providers under payment for flight hours scheme (PBH - Power-by-the-Hour)

Under certain lease agreements for aircraft payments for certain types of repairs of aircraft engines or aircraft are made in proportion to their use directly to the organization (contractor), which subsequently performs these repairs. Such payments are in essence advance payments for the corresponding types of repairs. In such case, upon the completion of the repair, the advance payment is set off by the Group taking into account the analysis of whether the repair performed is for the period of the aircraft operation and is subject to capitalization as part of the right-of-use asset; or is related to repairs and maintenance works which are performed before return of the aircraft to the lessor in respect of which a provision for repairs and maintenance works was created; or represents the current repair of the reporting period in which it was made.

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Adoption of IFRS 16 “Leases” (continued)

Estimates of the cost of actual repairs are made by the Group’s specialists and if the amount of repairs exceeds the accumulated amount of the advance payment at the reporting date, the Group recognizes accounts payable to the supplier in the Condensed Consolidated Interim Financial Statements and records the subsequent payments to pay off these payables.

Hedge accounting

A significant part of the Group’s aircraft lease agreements are in US dollars. In connection with the recognition of lease obligations in relation to operating lease agreements for aircraft at transition to IFRS 16, the Group updated the approach to assessing the effectiveness of hedge and defined as a hedge object the future highly probable revenue equal to the amount of cash flows under lease agreements on a discounted basis. This change has a perspective effect from 1 January 2019.

The impact of adoption the IFRS 16 “Leases” on Statement of Financial Position is presented in the table below:

	31 December 2018			1 January 2018		
	Published reporting	IFRS 16 impact	Restated reporting	Published reporting	IFRS 16 impact	Restated reporting
ASSETS						
Current assets						
Accounts receivable and prepayments	87,868	(9,259)	78,609	92,749	(7,627)	85,122
Aircraft lease security deposits	525	7	532	423	414	837
Expendable spare parts and inventories	14,659	(359)	14,300	12,779	(311)	12,468
Assets classified as held for sale	6,404	(149)	6,255	3,125	24	3,149
Current financial assets under lease agreements	-	1,804	1,804	-	576	576
Non-current assets						
Property, plant and equipment	90,964	(64,503)	26,461	97,932	(71,451)	26,481
Deferred tax assets	12,002	27,828	39,830	10,468	12,108	22,576
Right-of-use assets	-	671,063	671,063	-	536,023	536,023
Non-current financial assets under lease agreements	-	19,261	19,261	-	13,509	13,509
Aircraft lease security deposits	4,356	(73)	4,283	1,602	1,337	2,939
Other non-current assets	27,990	13,460	41,450	19,728	9,614	29,342

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS
(CONTINUED)***Adoption of IFRS 16 “Leases” (continued)*

	31 December 2018			1 January 2018		
	Published reporting	IFRS 16 impact	Restated reporting	Published reporting	IFRS 16 impact	Restated reporting
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	69,346	5,051	74,397	68,367	3,268	71,635
Provisions for liabilities	11,393	16,032	27,425	9,433	692	10,125
Lease liabilities	15,219	61,476	76,695	16,015	41,664	57,679
Liabilities related to assets classified as held for sale	6,623	(369)	6,254	2,210	-	2,210
Non-current liabilities						
Lease liabilities	78,005	506,482	584,487	84,674	354,147	438,821
Provisions for liabilities	23,753	178,973	202,726	16,949	139,616	156,565
Deferred tax liabilities	137	492	629	68	652	720
Equity						
Retained earnings	74,958	(108,668)	(33,710)	82,591	(45,823)	36,768
Equity attributable to shareholders of the Company	43,284	(108,668)	(65,384)	66,655	(45,823)	20,832
Non-controlling interest	2,051	(386)	1,665	1,746	-	1,746

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS
(CONTINUED)*****Adoption of IFRS 16 “Leases” (continued)***

The impact of adoption the IFRS 16 Leases on Statement of Profit or Loss is presented in the table below:

	3m 2018*		
	Published reporting	IFRS 16 impact	Restated reporting
Traffic revenue	100,674	-	100,674
Other revenue	11,268	-	11,268
Revenue	111,942	-	111,942
Operating costs, excluding staff costs, depreciation and amortisation	(98,758)	22,296	(76,462)
Staff costs	(21,404)	186	(21,218)
Depreciation and amortisation	(3,458)	(17,027)	(20,485)
Other operating income and expenses, net	82	2,945	3,027
Operating costs	(123,538)	8,400	(115,138)
Operating loss	(11,596)	8,400	(3,196)
Gain and loss from impairment and fair value changes of investments, net	215	-	215
Finance income	1,718	225	1,943
Finance costs	(2,769)	(7,169)	(9,938)
Hedging result	(1,293)	-	(1,293)
Share of results of associates	(2)	-	(2)
Loss before income tax	(13,727)	1,456	(12,271)
Income tax	2,184	(328)	1,856
LOSS FOR THE PERIOD	(11,543)	1,128	(10,415)
Attributable to:			
Shareholders of the Company	(11,198)	865	(10,333)
Non-controlling interest	(345)	263	(82)
LOSS FOR THE PERIOD	(11,543)	1,128	(10,415)
Basic and diluted loss per share (in Roubles per share)	(10.1)	0.8	(9.3)
Weighted average number of shares outstanding (millions)	1,110.6		1,110.6

3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Adoption of IFRS 16 “Leases” (continued)

The impact of adoption the IFRS 16 Leases on Statement of Cash Flows is presented in the table below:

	3m 2018*		
	Published reporting	IFRS 16 impact	Restated reporting
Cash flows from operating activities:			
Loss before income tax	(13,727)	1,456	(12,271)
<i>Adjustments</i>	9,485	22,045	31,530
Total operating cash flows before working capital changes	(4,242)	23,501	19,259
Change in working capital	14,613	(4,484)	10,129
Total operating cash flows after working capital changes	10,371	19,017	29,388
Other changes from operating activities	(80)	-	(80)
Net cash flows from operating activities	10,291	19,017	29,308
Net cash flows from investing activities	9,080	(1,609)	7,471
Net cash used in financing activities	(6,142)	(17,408)	(23,550)
Effect of exchange rate fluctuations on cash and cash equivalents	(102)	-	(102)
Net increase in cash and cash equivalents	13,127	-	13,127
Cash and cash equivalents at the beginning of the period	45,978	-	45,978
Cash and cash equivalents at the end of the period	59,105	-	59,105

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 2018, and as at this date, except for changes in accounting estimates with respect to the amount of income tax expenses and approach for provisions for regular repairs of aircraft.

The costs of regular capital repairs and maintenance of aircraft

The costs of repair works and maintenance required to be performed before return of aircraft to the lessor in accordance with the lease agreement include:

- a) the costs before return of aircraft to the lessor independent of intensity of use;
- b) the costs before return of aircraft to the lessor in accordance with the lease agreement, depending on intensity of use.

The group chose a unified approach to accounting for all costs of repairs and maintenance before returning to the lessor, including repairs that depend on the intensity of use of the aircraft, since such repairs are an identifiable event and are planned by the Group in advance. As a rule, the Group has a pre-planned schedule for using the asset and its repairs, which are inevitable. Therefore, at the commencement date of the lease, the Group can reliably estimate the cost of future repairs before returning for such repairs.

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for the 3 months 2019*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS
(CONTINUED)*****Critical accounting estimates and judgments (continued)***

Estimates of expected costs are based on the most reliable data at the time of such an assessment. This takes into account the terms of the lease agreements, the age and condition of the aircraft and aircraft engines, the market value of the fixtures, components and assemblies to be replaced, as well as the cost of the work required.

Income tax expense

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

4. TRAFFIC REVENUE

	<u>3m 2019</u>	<u>3m 2018</u>
Scheduled passenger flights	113,391	91,107
Charter passenger flights	5,864	5,789
Cargo flights	4,173	3,778
Total traffic revenue	<u>123,428</u>	<u>100,674</u>

5. OTHER REVENUE

	<u>3m 2019</u>	<u>3m 2018</u>
Airline agreements revenue	9,116	6,503
Revenue from partners under the frequent flyer programme	3,552	2,690
Sales of goods on board	385	377
In-flight catering services	283	267
Ground handling and maintenance	115	148
Hotel revenue	88	98
Refuelling services	6	5
Other revenue	1,068	1,180
Total other revenue	<u>14,613</u>	<u>11,268</u>

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***6. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION**

	<u>3m 2019</u>	<u>3m 2018</u>
Aircraft servicing and ground handling	23,023	17,203
Aircraft maintenance	6,174	4,109
Passenger services expenses	5,848	4,705
Communication expenses	5,065	4,119
Short term rental expenses	368	321
Administration and general expenses	3,965	4,121
Food cost for in-flight catering	2,891	2,441
Sales and marketing expenses	2,704	2,039
Expenditure on variable rental payments not included in lease	806	450
Insurance expenses	610	516
Cost of goods sold on board	210	202
Customs duties	158	294
Cost of low value lease assets	5	-
Other expenses	2,006	1,900
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	<u>53,833</u>	<u>42,420</u>
Aircraft fuel	43,700	34,042
Total operating costs less staff costs and depreciation and amortisation	<u>97,533</u>	<u>76,462</u>

7. STAFF COSTS

	<u>3m 2019</u>	<u>3m 2018</u>
Wages and salaries	17,417	16,349
Pension costs	3,950	3,715
Social security costs	1,212	1,154
Total staff costs	<u>22,579</u>	<u>21,218</u>

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 2019, 20% for 3 months 2018) 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.

	<u>3m 2019</u>	<u>3m 2018</u>
Payments to the RF Pension Fund	3,906	3,700
Change in pension plans	44	15
Total pension costs	<u>3,950</u>	<u>3,715</u>

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***8 FINANCE INCOME AND COSTS**

	<u>3m 2019</u>	<u>3m 2018</u>
<i>Finance income:</i>		
Interest income	998	1,125
Gain on foreign exchange, net	-	818
Other finance income	508	-
Total finance income	<u>1,506</u>	<u>1,943</u>

	<u>3m 2019</u>	<u>3m 2018</u>
<i>Finance costs:</i>		
Loss on foreign exchange, net	(930)	-
Interest expense	(1,498)	(989)
Interest expense on lease	(12,119)	(8,941)
Other finance costs	-	(8)
Total finance costs	<u>(14,547)</u>	<u>(9,938)</u>

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 2019 equaled to 6 – 29% (3 months 2018: 19 – 33%). The expected weighted average annual income tax rate applied to loss making Group companies for the 3 months 2019 equaled to 21% (3 months 2018: 0 – 19%). Changes in expected rates are in general associated with a change in the share of non-deductible expenses.

	<u>3m 2019</u>	<u>3m 2018</u>
Current income tax charge	57	891
Change in deferred income tax	3,887	965
Income tax	<u>3,944</u>	<u>1,856</u>

10. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>31 March 2019</u>	<u>31 December 2018</u>
Trade accounts receivable	44,524	39,911
Other financial receivables	16,074	12,401
Less provision for ECL	(11,380)	(11,470)
Total financial receivables	<u>49,218</u>	<u>40,842</u>
Prepayments to suppliers	10,321	12,196
VAT and other taxes recoverable	16,252	16,759
Prepayments for delivery of aircraft	4,789	5,770
Other receivables	3,588	3,597
Less impairment provision	(556)	(555)
Total accounts receivable and prepayments	<u>83,612</u>	<u>78,609</u>

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(All amounts are presented in millions of Russian Roubles, unless otherwise stated)***10. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)**

As at 31 March 2019 and 31 December 2018, the current part of prepayments for aircraft includes prepayments for the acquisition of the following aircraft:

Type of aircraft	31 March 2019		31 December 2018	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Boeing B777	1	2020	2	2019
Airbus A350	1	2020	-	-

11. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 31 March 2019 and 31 December 2018, the non-current portions of prepayments for aircraft was RUB 21,407 million and RUB 21,148 million, respectively. Changes in the non-current portion of prepayments are due to the approaching aircraft delivery dates as well as new non-current prepayments.

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

As at 31 March 2019 and 31 December 2018, the non-current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

Type of aircraft	31 March 2019		31 December 2018	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Airbus A350	21	2020-2023	22	2020-2023
Boeing B777	2	2020-2021	3	2020-2021

12. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<i>Cost</i>					
1 January 2018	8,140	10,151	19,470	2,760	40,521
Additions	-	-	388	594	982
Disposals	-	-	(123)	(33)	(156)
Transfers	-	-	13	(13)	-
31 March 2018	8,140	10,151	19,748	3,308	41,347
1 January 2019	9,192	10,051	22,546	4,554	46,343
Additions	20	-	147	982	1,149
Disposals	(15)	(17)	(197)	(30)	(259)
Transfers	168	-	476	(644)	-
31 March 2019	9,365	10,034	22,972	4,862	47,233

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	Owned aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<i>Accumulated depreciation</i>					
1 January 2018	(1,756)	(5,169)	(10,165)	(75)	(17,165)
Charge for the year	(240)	(68)	(885)	-	(1,193)
Disposals	-	-	102	-	102
31 March 2018	<u>(1,996)</u>	<u>(5,237)</u>	<u>(10,948)</u>	<u>(75)</u>	<u>(18,256)</u>
1 January 2019	(2,672)	(5,354)	(11,761)	(95)	(19,882)
Charge for the year	(219)	(56)	(649)	-	(924)
Recovery/(accrual) of impairment provision	(8)	-	-	-	(8)
Disposals	15	5	162	-	182
31 March 2019	<u>(2,884)</u>	<u>(5,405)</u>	<u>(12,248)</u>	<u>(95)</u>	<u>(20,632)</u>
<i>Carrying amount</i>					
1 January 2018	<u>6,384</u>	<u>4,982</u>	<u>9,305</u>	<u>2,685</u>	<u>23,356</u>
31 December 2018	<u>6,520</u>	<u>4,697</u>	<u>10,785</u>	<u>4,459</u>	<u>26,461</u>
31 March 2019	<u>6,481</u>	<u>4,629</u>	<u>10,724</u>	<u>4,767</u>	<u>26,601</u>

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019

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



13. RIGHT-OF-USE ASSETS

	<u>Aircraft and engines</u>	<u>Land and buildings</u>	<u>Transport, equipment and other</u>	<u>Prepayments</u>	<u>Total</u>
<i>Cost</i>					
1 January 2018	738,971	12,276	6,710	1,025	758,982
Additions	44,737	364	125	-	45,226
Capitalised expenditures	-	-	-	356	356
Disposals	(1,266)	-	-	-	(1,266)
Transfers from assets classified as held for sale	(14,888)	-	-	-	(14,888)
Transfers	337	-	-	(337)	-
Remeasurement/modification	(382)	(351)	-	-	(733)
31 March 2018	767,509	12,289	6,835	1,044	787,677
1 January 2019	939,051	16,615	8,347	712	964,725
Additions	34,667	-	-	-	34,667
Capitalised expenditures	37	-	-	147	184
Disposals	(2,139)	-	-	(2)	(2,141)
Transfers	338	-	-	(338)	-
Remeasurement/modification	(6,297)	(4)	-	-	(6,301)
31 March 2019	965,657	16,611	8,347	519	991,134
<i>Accumulated depreciation</i>					
1 January 2018	(214,244)	(6,894)	(1,822)	-	(222,960)
Charge for the year	(18,478)	(6)	-	-	(18,484)
Disposals	886	-	-	-	886
Transfers to assets classified as held for sale	7,103	-	-	-	7,103
31 March 2018	(224,733)	(6,900)	(1,822)	-	(233,455)
1 January 2019	(281,051)	(8,645)	(3,966)	-	(293,663)
Charge for the year	(25,179)	(558)	(269)	-	(26,006)
Disposals	1,867	-	-	-	1,867
31 March 2019	(304,363)	(9,203)	(4,235)	-	(317,802)
<i>Carrying amount</i>					
1 January 2018	524,727	5,382	4,888	1,025	536,022
31 December 2018	658,000	7,970	4,381	712	671,062
31 March 2019	661,294	7,408	4,112	519	673,332

Capitalised borrowing costs for 3 months 2019 amounted to RUB 147 million (3 months 2018: 356 RUB million). The capitalisation rate of interest expenses and translation differences for the period was 4% p.a. (3 months 2018: 6.1% p.a.).

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019

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

**14. ASSETS CLASSIFIED AS HELD FOR SALE**

As at 31 March 2019, 7 Airbus A321 aircraft (31 December 2018: 7 aircraft) operated under 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 2019, the amount of net assets held for sale amounted to RUB 1,829 million (31 December 2018: net assets held for sale amounted to RUB 1 million).

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 March 2019	31 December 2018
Accounts payable	44,927	40,585
Other financial payables	8,472	7,965
Dividends payable	83	64
Total financial payables	53,482	48,614
Staff and social funds related liabilities	16,957	16,387
Advances received (other than unearned traffic revenue)	3,044	3,343
Other current liabilities related to the frequent flyer programme (Note)	4,295	4,196
Other taxes payable	1,466	1,323
Other payables	610	534
Total accounts payable and accrued liabilities	79,854	74,397

16. PROVISIONS FOR LIABILITIES

	Regular repairs and maintenance works	Other provisions	Total provisions
1 January 2018	164,962	1,729	166,691
Charge of provision for the period	7,669	182	7,851
Use of provision for the period	(1,513)	(31)	(1,544)
Remeasurement of provision for period	(1,561)	-	(1,561)
Release of provision for the period	-	(6)	(6)
Unwinding of the discount	997	-	997
Other changes	-	(1,666)	(1,666)
31 March 2018	170,554	208	170,762
1 January 2019	228,494	1,654	230,151
Charge of provision for the period	5,888	48	5,936
Use of provision for the period	(6,632)	(4)	(6,636)
Remeasurement of provision for period	(8,290)	-	(8,290)
Release of provision for the period	(43)	(1,454)	(1,497)
Unwinding of the discount	1,431	-	1,431
31 March 2019	220,851	244	221,095
	31 March 2019	31 December 2018	
Current liabilities	23,797	27,425	
Non-current liabilities	197,298	202,726	
Total provisions	221,095	230,151	

16. PROVISIONS FOR LIABILITIES (CONTINUED)*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 24).

As at 31 March 2019, 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 (31 December 2018: RUB 1,666 million).

Regular repairs and maintenance works

As at 31 March 2019, the Group made a provision of RUB 220,851 million (31 December 2018: RUB 228,497 million) for regular repairs and maintenance works of aircraft used under operating lease terms. Change in provision for regular repairs and maintenance works for 3 months 2019 amounted to RUB 7,646 million (3 months 2018: RUB 5,592 million).

17. LEASE LIABILITIES

The Group leases aircraft and engines as well as other properties (real estate, vehicles, etc.) from third and related parties under finance lease agreements. The list of aircraft that the Group has operated under lease agreements as at 31 March 2018 is disclosed in Note 1. According to the terms of the contracts the aircraft are leased for a period of 3 to 16 years with the possibility of extending this period.

Leased aircraft and engines with the carrying amount disclosed in Note 13 are effectively pledged for lease liabilities as leased aircraft should be returned to lessor in event of default.

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the 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 2019, lease liabilities and liabilities related to assets held for sale in the amount of RUB 610,897 million denominated in US dollars (31 December 2018: RUB 93,816 million) were designated as a hedging instrument for highly probable revenue forecasted for the period 2019 – 2030 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 2019, accumulated foreign currency gain of RUB 844 million (before deferred income tax) on the lease liabilities (31 December 2018: accumulated foreign currency loss of RUB 42,321 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 2019 was RUB 1,017 million (for 3 months 2018: RUB 1,293 million).

18. LOANS AND BORROWINGS

	31 March 2019	31 December 2018
<i>Short-term loans and other borrowings:</i>		
Current portion of long-term loans and borrowings in Russian Roubles	11,659	-
Short-term loans in Russian Roubles	175	175
Total short-term loans and borrowings	11,834	175
<i>Long-term loans and other borrowings:</i>		
Long-term loans in Russian Roubles	2,800	2,844
Long-term loans and borrowings in US dollars	437	467
Total long-term loans and borrowings	3,237	3,311

PJSC AEROFLOT

Notes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019

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



18. LOANS AND BORROWINGS (CONTINUED)

The main changes in loans and borrowings during reporting period

The Group has withdrawn a credit line with PJSC Sovcombank (fixed interest rate) in the amount of USD 80 million. The credit line is unsecured and issued for the period up to April-May 2019.

The Group has withdrawn a credit line with PJSC Sviaz-bank (fixed interest rate) in the amount of USD 70 million. The credit line is unsecured and issued for the period up to April 2019.

The Group has withdrawn a credit line with PJSC Uralsib (fixed interest rate) in the amount of USD 30 million. The credit line is unsecured and issued for the period up to April 2019.

As at 31 March 2019, the Group does not have assets transferred to secure loans and borrowings.

As at 31 March 2019 and 31 December 2018, the fair values of loans and borrowings were not materially different from their carrying amounts.

Undrawn commitments

As at 31 March 2019, the Group was able to raise RUB 69,573 million in cash (31 December 2018: RUB 84,183 million).

19. SHARE CAPITAL

As at 31 March 2019 and 31 December 2018, 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 2018	1,110,616,299	(47,817,796)	1,062,798,503
31 March 2019	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 material interested party transaction - 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 March 2019 and 31 December 2018, the total number of treasury shares purchased by the Company from shareholders was 47,817,796.

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 2018: 250,000,000 shares) with par value of RUB 1 per share (31 December 2018: 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 2019 and 31 December 2018, weighted average price was RUB 96.52 and RUB 101.08 per share, respectively.

The Company launched a Global Depository Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 31 March 2019 and 31 December 2018, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 6.87 per GDR and EUR 6.56 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.

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(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
Three months 2019				
External sales	137,138	903	-	138,041
Inter-segment sales	181	5,634	(5,815)	-
Total revenue	137,319	6,537	(5,815)	138,041
Operating (loss)/profit	(6,076)	177	-	(5,899)
Gain or loss from impairment and fair value changes of investments, net				227
Finance income				1,506
Finance costs				(14,547)
Hedging result				(1,017)
Share of financial results of associates				40
Loss before income tax				(19,690)
Income tax				3,944
Loss for the period				(15,746)
Three months 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	(3,367)	171	-	(3,196)
Loss from impairment and fair value changes of investments, net				215
Finance income				1,943
Finance costs				(9,938)
Hedging result				(1,293)
Share of financial results of associates				(2)
Loss before income tax				(12,271)
Income tax				1,856
Loss for the period				(10,415)

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 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, financial assets under aircraft lease agreements 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; (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 2019 and 31 December 2018, the fair values of financial payables (Note 15), lease liabilities (Note 17), loans and borrowings (Note 18) were not materially different from their carrying amounts. The fair values of financial payables, lease liabilities and loans and borrowings are categorised as Levels 2.

During 3 months of 2019 and 3 months 2018 there was no transfer between levels 1, 2 or 3 of the fair value hierarchy.

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(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 2019 is stated below:

	Note	Financial assets measured at amortised cost	Financial assets measured at fair value through profit or loss	Total
Cash and cash equivalents		41,142	-	41,142
Short-term financial investments		6,123	-	6,123
Financial receivables	10	49,218	-	49,218
Aircraft lease security deposits		5,073	-	5,073
Long-term financial instruments		124	5,516	5,640
Financial assets under lease agreements	3	20,885	-	20,885
Other current assets		226	-	226
Other non-current assets		664	-	664
Total financial assets		123,454	5,516	128,970
			Financial liabilities measured at amortised cost	Total
		Note		
Financial payables		15	53,482	53,482
Lease liabilities		17	630,388	630,388
Loans and borrowings		18	15,071	15,071
Other non-current liabilities			201	201
Total financial liabilities			699,142	699,142

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

	Note	Financial assets measured at amortised cost	Financial assets measured at fair value through profit or loss	Total
Cash and cash equivalents		23,711	-	23,711
Short-term financial investments		6,437	-	6,437
Financial receivables	10	40,842	-	40,842
Aircraft lease security deposits		4,815	-	4,815
Long-term financial instruments		83	5,310	5,393
Financial assets under lease agreements	3	21,065	-	21,065
Other current assets		226	-	226
Other non-current assets		438	-	438
Total financial assets		97,618	5,310	102,928
			Financial liabilities measured at amortised cost	Total
		Note		
Financial payables		15	48,614	48,614
Lease liabilities		17	661,182	661,182
Loans and borrowings		18	3,486	3,486
Other non-current liabilities			201	201
Total financial liabilities			713,483	713,483

PJSC AEROFLOTNotes to the Condensed Consolidated Interim Financial Statements
for the 3 months 2019*(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 2019 and 31 December 2018, the outstanding balances with related parties and income and expense items with related parties for 3 months 2019 and 3 months 2018 were disclosed below.

Associates

As at 31 March 2019 and 31 December 2018, the outstanding balances with associates and income and expense items with associates for 3 months 2019 and 3 months 2018 were as follows:

	31 March 2019	31 December 2018
Liabilities		
Accounts payable and accrued liabilities	217	136

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

	3m 2019	3m 2018
Transactions		
Sales to associates	1	2
Purchase of goods and services from associates	750	582

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

Government-related entities

As at 31 March 2019 and 31 December 2018, 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;
- 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 March 2019	31 December 2018
Assets		
Cash	23,198	15,649

22. RELATED-PARTY TRANSACTIONS (CONTINUED)***Government-related entities (continued)***

The amounts of the Group's lease liabilities (including liabilities related to assets held for sale) are disclosed in Notes 14, 17. The share of liabilities to the government-related entities is approximately 55% for lease (including liabilities related to assets held for sale) (31 December 2018: 54% respectively).

For 3 months 2019 the share of Group's transactions with government-related entities is about 18% of operating costs, and about 2% of revenue (3 months 2018: about 22% and about 1%, 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.

Transactions with the Russian Government also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 9, 10 and 15.

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 429 million for 3 months 2019 (3 months 2018: RUB 609 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 programme based on the Group's capitalisation

As at the reporting date, bonus programme for members of the Company's Board of Directors exists in the Group. 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 programme. The fair value of the liabilities under the bonus programme as of 31 March 2019, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2019 till 31 March 2019 and amount of payment deferred till the end of the programme.

As at 31 March 2019, the outstanding amount of the liability under the programme was RUB 220 million (31 December 2018: RUB 220 million).

23. CAPITAL COMMITMENTS

As at 31 March 2019, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 214,204 million (31 December 2018: RUB 255,116 million). These commitments mainly relate to purchase 22 Airbus A-350 (31 December 2018: 22 aircraft), 3 Boeing B777 (31 December 2018: 5 aircraft). Group expects to use supplied aircraft under lease agreements, therefore no cash outflow on entered agreements is expected.

24. 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. In early 2019, the Russian economy continued to show signs of recovery after overcoming the economic decline in previous years. Though, ongoing political tension in the region and international sanctions against certain Russian companies and individuals have a negative impact on the Russian economy. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The Group continues to monitor the situation and implement a set of measures to minimize the impact of possible risks on the Group's operations and financial position.

Tax contingencies

The taxation system in the RF continues to evolve and is characterized 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 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.

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 2018, 2.08 for 2019.

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 characterized 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.

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

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 2019 and 31 December 2018 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 recognized 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 or damage of aircraft.

Liquidity management

The Group Treasury provides flexibility of financing through available credit lines. 31 March 2019, within the credit lines provided by various credit organizations, the Group had the opportunity to raise additional funds in the amount of RUB 69,573 million for repayment of financial liabilities (31 December 2018: RUB 84,183). In addition to improving liquidity, the Group plans to increase the Group's operating efficiency and further increase cash flow from operating activities.

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 2019 the Group's subsidiary JSC Donavia were within bankruptcy process, thus their assets of RUB 232 million (31 December 2018: RUB 385 million), including cash and cash equivalents in the amount of RUB 226 million (31 December 2018: RUB 226 million), have had limited availability to the Group as it is defined by Russian legislation.

25. SUBSEQUENT EVENTS

In May 2019 as a result of an air incident at Sheremetyevo Airport the SSJ-100 aircraft previously used by the Group under a lease agreement was disposed of. The book value of right-of-use asset related to this aircraft amounted to RUB 677 million and the corresponding lease liabilities, including provision for repairs before return, amounted to RUB 832 million at the date of disposal. The management of the Group is currently assessing the total effect of this air incident on the Consolidated Financial Statements.