

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

**Condensed Consolidated Interim Financial Statements  
for the 6 months ended 30 June 2018**

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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 review of the Condensed Consolidated Interim Financial Statements, is intended to distinguish between the respective responsibilities of management and the independent auditors in relation to the Condensed Consolidated Interim Financial Statements of Public Joint Stock Company Aeroflot-Russian Airlines and its subsidiaries (the "Group").

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

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

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

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the Groups's Condensed Consolidated Interim Financial Statements are prepared in accordance with IAS 34 "Interim Financial Reporting";
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- 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 6 months ended 30 June 2018 were approved on 29 August 2018 by:

  
\_\_\_\_\_  
**V. G. Savelyev**  
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 (the "Group") as of 30 June 2018 and the related condensed consolidated statements of profit or loss and comprehensive income for three-months and six-months periods then ended, changes in equity and cash flows for the six-month period then ended. 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 this 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 interim financial information 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 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

*AO PricewaterhouseCoopers Audit*

29 August 2018

Moscow, Russian Federation

A.Ya. Fegetsyn, certified auditor (licence No. Ko28209), AO PricewaterhouseCoopers Audit



Audited entity: PJSC Aeroflot

State registration certificate No. 032.175, issued by the Moscow Registration Chamber on 21 June 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 02 August 2002 under registration No. 1027700092661

119002, Russian Federation, Moscow, 10 Arbat

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration No. 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations



**PJSC AEROFLOT**


Condensed Consolidated Interim Statement of  
Profit or Loss for the 3 and 6 months ended 30 June 2018

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



	Note	Three months ended		Six months ended	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
Traffic revenue	4	139,856	117,399	240,530	207,982
Other revenue	5	14,024	14,336	25,292	26,878
<b>Revenue</b>		<b>153,880</b>	<b>131,735</b>	<b>265,822</b>	<b>234,860</b>
Operating costs, excluding staff costs, depreciation and amortisation	6	(120,587)	(93,986)	(219,345)	(180,699)
Staff costs	7	(20,255)	(19,736)	(41,659)	(38,324)
Depreciation and amortisation		(2,936)	(3,558)	(6,394)	(7,004)
Other operating income and expenses, net		1,215	(1,822)	1,297	(1,136)
<b>Operating costs</b>		<b>(142,563)</b>	<b>(119,102)</b>	<b>(266,101)</b>	<b>(227,163)</b>
<b>Operating (loss)/profit</b>		<b>11,317</b>	<b>12,633</b>	<b>(279)</b>	<b>7,697</b>
Gain/(loss) on investments, net		(108)	(13)	107	(70)
Finance income	8	1,242	2,812	2,124	4,783
Finance costs	8	(2,436)	(2,121)	(4,369)	(4,159)
Hedging result	8, 16	(1,691)	(1,357)	(2,984)	(2,748)
Share of results of associates		45	45	43	34
<b>(Loss)/Profit before income tax</b>		<b>8,369</b>	<b>11,999</b>	<b>(5,358)</b>	<b>5,537</b>
Income tax	9	(2,054)	(3,770)	130	(2,647)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>6,315</b>	<b>8,229</b>	<b>(5,228)</b>	<b>2,890</b>
Attributable to:					
Shareholders of the Company		6,187	8,273	(5,011)	2,871
Non-controlling interest		128	(44)	(217)	19
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>6,315</b>	<b>8,229</b>	<b>(5,228)</b>	<b>2,890</b>
<b>Basic and diluted (loss)/profit per share (in roubles per share)</b>		<b>5.6</b>	<b>7.8</b>	<b>(4.5)</b>	<b>2.7</b>
<b>Weighted average number of shares outstanding (millions)</b>		<b>1,110.6</b>	<b>1,056.9</b>	<b>1,110.6</b>	<b>1,056.9</b>

Approved on 29 August 2018 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 33.

**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of  
Comprehensive Income for the 3 and 6 months ended 30 June 2018

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



	Note	Three months ended		Six months ended	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
<b>(Loss)/Profit for the period</b>		<b>6,315</b>	<b>8,229</b>	<b>(5,228)</b>	<b>2,890</b>
<b>Other comprehensive (loss)/profit:</b>					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Effect from hedging revenue with foreign currency liabilities	16	(6,990)	(3,630)	(5,104)	5,866
Deferred tax related to a profit/(loss) from cash-flow hedging instruments		1,398	726	1,021	(1,173)
<b>Other comprehensive (loss)/profit for the period</b>		<b>(5,592)</b>	<b>(2,904)</b>	<b>(4,083)</b>	<b>4,693</b>
<b>TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD</b>		<b>723</b>	<b>5,325</b>	<b>(9,311)</b>	<b>7,583</b>
<i>Total comprehensive (loss)/profit attributable to:</i>					
Shareholders of the Company		595	5,369	(9,094)	7,564
Non-controlling interest		128	(44)	(217)	19
<b>TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD</b>		<b>723</b>	<b>5,325</b>	<b>(9,311)</b>	<b>7,583</b>

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 33.

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

	Note	30 June 2018	31 December 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	22	87,785	45,978
Short-term financial investments	22	9,970	8,931
Accounts receivable and prepayments	10	83,106	92,932
Current income tax prepayment		3,825	3,580
Aircraft lease security deposits		802	423
Expendable spare parts and inventories		14,407	12,811
Assets classified as held for sale	13	8,445	3,125
Other current assets		461	422
<b>Total current assets</b>		<b>208,801</b>	<b>168,202</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	89,347	97,932
Prepayments for aircraft	11	10,545	13,089
Deferred tax assets		10,716	10,396
Goodwill		6,660	6,660
Long-term financial investments		6,100	3,338
Intangible assets		1,818	2,054
Aircraft lease security deposits		2,620	1,602
Investments in associates		359	329
Other non-current assets		25,640	19,728
<b>Total non-current assets</b>		<b>153,805</b>	<b>155,128</b>
<b>TOTAL ASSETS</b>		<b>362,606</b>	<b>323,330</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	18	98,847	67,953
Unearned traffic revenue		80,057	43,695
Deferred revenue related to the frequent flyer programme	14	3,457	1,720
Provisions for liabilities	15	6,323	9,433
Finance lease liabilities	16	15,333	16,015
Short-term borrowings and current portion of long-term loans and borrowings	17	175	-
Liabilities related to assets classified as held for sale	13	8,754	2,210
Current income tax liabilities		22	-
<b>Total current liabilities</b>		<b>212,968</b>	<b>141,026</b>
<b>Non-current liabilities</b>			
Long-term loans and borrowings	17	3,349	3,181
Finance lease liabilities	16	77,299	84,674
Provisions for liabilities	15	21,272	16,949
Deferred tax liabilities		75	68
Deferred revenue related to frequent flyer programme	14	3,540	3,842
Other non-current liabilities		6,558	6,291
<b>Total non-current liabilities</b>		<b>112,093</b>	<b>115,005</b>
<b>TOTAL LIABILITIES</b>		<b>325,061</b>	<b>256,031</b>
<b>Equity</b>			
Share capital	19	1,359	1,359
Treasury shares buyback reserve	19	(7,040)	-
Accumulated profit on disposal of treasury shares		7,864	7,864
Investment revaluation reserve		-	(5)
Hedge reserve	16	(29,242)	(25,159)
Retained earnings		63,358	81,476
<b>Equity attributable to shareholders of the Company</b>		<b>36,299</b>	<b>65,535</b>
Non-controlling interest		1,246	1,764
<b>TOTAL EQUITY</b>		<b>37,545</b>	<b>67,299</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>362,606</b>	<b>323,330</b>

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 33.

**PJSC AEROFLOT****Condensed Consolidated Interim Statement of  
Cash Flows for the 6 months ended 30 June 2018***(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	<b>Note</b>	<b>6m 2018</b>	<b>6m 2017</b>
<b><i>Cash flows from operating activities:</i></b>			
(Loss)/profit before income tax		(5,358)	5,537
<b><i>Adjustments for:</i></b>			
Depreciation and amortisation		6,394	7,004
Change in impairment provision for accounts receivable and prepayments		342	(302)
Change in impairment provision for obsolete expendable spare parts and inventory		(3)	(41)
Change in impairment provision for property, plant and equipment	12	24	(4)
Loss on disposal of property, plant and equipment and intangible assets		333	489
Profit from disposal of assets classified as held for sale	13	(65)	-
Change in cost of investments		(107)	70
Hedging result	8, 16	2,984	2,748
Change in provisions for liabilities	15	3,884	5,085
Interest expense	8	2,874	3,906
Interest income	8	(2,119)	(2,390)
Foreign exchange loss/(gain), net	8	363	(2,393)
Dividend income		-	(24)
Other finance expenses/(income), net	8	1,127	253
Other operating (income)/expenses, net		(42)	(612)
<b>Total operating cash flows before working capital changes</b>		<b>10,631</b>	<b>19,326</b>
Increase in accounts receivable and prepayments		(6,883)	(16,516)
Increase in expendable spare parts and inventories		(1,596)	(870)
Increase in accounts payable and accrued liabilities		39,123	49,106
<b>Total operating cash flows after working capital changes</b>		<b>41,275</b>	<b>51,046</b>
Change in restricted cash		(56)	(14)
Income tax paid		(644)	(761)
Income tax refunded		1,326	17
<b>Net cash flows from operating activities</b>		<b>41,901</b>	<b>50,288</b>

The Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated Interim Financial Statements presented on pages 7 to 33.



**PJSC AEROFLOT****Condensed Consolidated Interim Statement of  
Cash Flows for the 6 months ended 30 June 2018***(All amounts are presented in millions of Russian Roubles, unless otherwise stated)*

	<b>6m 2018</b>	<b>6m 2017</b>
<b><i>Cash flows from investing activities:</i></b>		
Deposits return	9,168	6,321
Deposits placement	(9,737)	(6,658)
Proceeds from sale of property, plant and equipment	25	5
Proceeds from sale of assets held for sale	3,095	639
Interest received	1,452	2,016
Purchases of property, plant and equipment and intangible assets	(5,750)	(2,445)
Dividends received	34	39
Prepayments for aircraft	(2,750)	(166)
Return of prepayments for aircraft	17,910	11,909
Repayment of operating lease security deposits	(2,059)	(229)
Return of operating lease security deposits	-	69
<b>Net cash flows from investing activities</b>	<b>11,388</b>	<b>11,500</b>
<b><i>Cash flows from financing activities:</i></b>		
Placement of loans and borrowings	350	-
Repayment of loans and borrowings	(44)	(3,145)
Repayment of the principal element of finance lease liabilities	(9,893)	(5,591)
Interest paid	(2,411)	(3,390)
Dividends paid	(12)	(55)
<b>Net cash used in financing activities</b>	<b>(12,010)</b>	<b>(12,181)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	528	(28)
<b>Net increase in cash and cash equivalents</b>	<b>41,807</b>	<b>49,579</b>
Cash and cash equivalents at the beginning of the year	45,978	31,476
<b>Cash and cash equivalents at the end of the period</b>	<b>87,785</b>	<b>81,055</b>
<b><i>Non-cash transactions as part of the investing activities:</i></b>		
Property, plant and equipment acquired under finance leases	-	1,668

The Condensed Consolidated Interim Statement of  
Cash Flows is to be read in conjunction with the notes to, and forms a part of, the Condensed Consolidated  
Interim Financial Statements presented on pages 7 to 33.

**PJSC AEROFLOT**

Condensed Consolidated Interim Statement of Changes in Equity  
for the 6 months ended 30 June 2018

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



Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated profit on disposal of treasury shares and treasury shares buyback reserve	Investment revaluation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2017		1,359	(1,912)	(5)	(34,187)	77,198	42,453	(1,684)	40,769
Profit for the period		-	-	-	-	2,871	2,871	19	2,890
Profit from hedging net of related deferred tax	16	-	-	-	4,693	-	4,693	-	4,693
Total other comprehensive profit		-	-	-	-	-	4,693	-	4,693
Total comprehensive profit		-	-	-	-	-	7,564	19	7,583
Sale of shares to holders of non-controlling interest		-	-	-	-	-	-	3,589	3,589
Dividends declared	20	-	-	-	-	(18,594)	(18,594)	(270)	(18,864)
30 June 2017		1,359	(1,912)	(5)	(29,494)	61,475	31,423	1,654	33,077
1 January 2018		1,359	7,864	(5)	(25,159)	81,476	65,535	1,764	67,299
The impact of the new standards (IFRS 9, IFRS 15)	3	-	-	5	-	1,115	1,120	(17)	1,103
Total restated 1 January 2018		1,359	7,864	-	(25,159)	82,591	66,655	1,747	68,402
Loss for the period		-	-	-	-	(5,011)	(5,011)	(217)	(5,228)
Loss from hedging net of related deferred tax	16	-	-	-	(4,083)	-	(4,083)	-	(4,083)
Total other comprehensive loss							(4,083)	-	(4,083)
Total comprehensive loss							(9,094)	(217)	(9,311)
Treasury shares buyback reserve	19	-	(7,040)	-	-	-	(7,040)	-	(7,040)
Dividends declared	20	-	-	-	-	(14,222)	(14,222)	(284)	(14,506)
30 June 2018		1,359	824	-	(29,242)	63,358	36,299	1,246	37,545

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 33.

## **1. NATURE OF THE BUSINESS**

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

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

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

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

**PJSC AEROFLOT**

Notes to the Condensed Consolidated Interim Financial Statements  
for the 6 months ended 30 June 2018

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

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

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

Type of aircraft	Ownership	PSJC AEROFLOT	JSC AK ROSSIYA	JSC AK AURORA	LLC POBEDA	GROUP TOTAL
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
<b>Total owned aircraft</b>		-	-	<b>7</b>	-	<b>7</b>
Airbus A319	Finance lease	-	9	-	-	9
Airbus A321	Finance lease	9	-	-	-	9
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
An-148	Finance lease	-	5	-	-	5
<b>Total aircraft under finance leases</b>		<b>27</b>	<b>14</b>	-	-	<b>41</b>
SSJ 100	Operating lease	45	-	-	-	45
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	79	5	-	-	84
Airbus A321	Operating lease	28	-	-	-	28
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	41	17	-	20	78
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	7	8	-	-	15
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
<b>Total aircraft under operating leases</b>		<b>214</b>	<b>56</b>	<b>18</b>	<b>20</b>	<b>308</b>
<b>Total fleet</b>		<b>241</b>	<b>70</b>	<b>25</b>	<b>20</b>	<b>356</b>

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



## 2. BASIS OF PREPARATION

### *Basis of preparation*

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

### *Foreign currency translation*

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

	Official exchange rates	
	RUB / USD 1.00	RUB / EUR 1.00
As at 30 June 2018	62.76	72.99
Average rate for 6 months 2018	59.35	71.82
As at 31 December 2017	57.60	68.87
Average rate for 6 months 2017	57.99	62.72

## 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

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

### *Adoption of IFRS 9 "Financial Instruments"*

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

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

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

#### *Classification of financial assets*

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

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

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

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

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

### 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

#### *Classification of financial assets (continued)*

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

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

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

#### *Measurement of financial assets*

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

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

##### *a) Debt instruments*

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

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

##### *b) Equity instruments*

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

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

#### *Impairment of debt financial assets*

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

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

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 (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 assets to collect the contractual cash flows.

##### *(ii) Reclassification from available-for-sale financial assets to financial assets at fair value, which changes are recognised in profit 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 6 months 2018, the revaluation income at fair value on these investments in the amount of RUB 228 million was recognised in Condensed Consolidated Interim Statement of Profit or Loss.

### 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

There were no significant changes in respect of financial obligations.



### 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

	Cash and cash equivalents	Financial accounts receivables	Debt financial investments	Equity financial investments	Aircraft lease security deposits	Other financial assets	Total
<b>Gross book value per IAS 39 (opening balance at 1 January 2018)</b>	<b>45,978</b>	<b>46,339</b>	<b>18,457</b>	<b>3,252</b>	<b>2,025</b>	<b>583</b>	<b>116,634</b>
Amounts adjusted through retained earnings at the beginning of the period	-	-	-	2,574	-	-	2,574
<b>Gross book value per IFRS 9 (opening balance at 1 January 2018)</b>	<b>45,978</b>	<b>46,339</b>	<b>18,457</b>	<b>5,826</b>	<b>2,025</b>	<b>583</b>	<b>119,208</b>
Change in gross book value for the period	41,836	5,759	1,150	213	1,401	554	50,913
<b>Gross book value at 30 June 2018</b>	<b>87,814</b>	<b>52,098</b>	<b>19,607</b>	<b>6,039</b>	<b>3,426</b>	<b>1,137</b>	<b>170,121</b>

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

	Financial accounts receivable	Other financial assets	Total impairment provision
<b>1 January 2018 – IAS 39</b>	<b>(11,348)</b>	<b>(9,440)</b>	<b>(20,788)</b>
Amounts adjusted through retained earnings at the beginning of the period	(40)	(30)	(70)
<b>1 January 2018 – IFRS 9</b>	<b>(11,388)</b>	<b>(9,470)</b>	<b>(20,858)</b>
Provision increase	(542)	(139)	(681)
Provision release	18	-	18
Provision recovery	274	-	274
<b>30 June 2018</b>	<b>(11,638)</b>	<b>(9,609)</b>	<b>(21,247)</b>

#### *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.

### 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

According to IFRS 15, the Group evaluates the goods or services under the agreement with the customer and identifies performance obligations for each distinct promise to transfer the good or service to the customer. The agreement between the Programme participant and the Company is a ticket for a regular flight purchased by the passenger. Under this agreement, there are two performance obligations to be performed: to provide the passenger with a seat on the selected flight (performance obligation No. 1); to provide the passenger with services in the future (flight class upgrades or other goods and services) for the amount of accrued bonus miles (performance obligation No. 2). Thus, different to the method applied in the previous periods, the allocation of transaction price to each performance obligation is performed on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. 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.

### 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

#### *(iii) Accounting for commission fees payable to agents;*

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

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

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

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

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

	2018
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
<b>Opening retained earnings 1 January 2018 - after IFRS 9/IFRS 15 Adoption</b>	<b>82,579</b>

#### *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.

### 3. ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

#### *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

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Scheduled passenger flights	124,862	106,080	215,969	188,416
Charter passenger flights	10,594	7,514	16,383	12,383
Cargo flights	4,400	3,805	8,178	7,183
<b>Total traffic revenue</b>	<b>139,856</b>	<b>117,399</b>	<b>240,530</b>	<b>207,982</b>

### 5. OTHER REVENUE

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Airline agreements revenue	8,612	8,253	15,115	15,333
Revenue from partners under the frequent flyer programme	2,993	2,644	5,683	5,117
Sales of duty-free goods	420	388	797	768
In-flight catering services	439	415	706	676
Ground handling and maintenance	139	388	287	718
Hotel revenue	164	114	262	210
Refuelling services	4	47	9	237
Other revenue	1,253	2,087	2,433	3,819
<b>Total other revenue</b>	<b>14,024</b>	<b>14,336</b>	<b>25,292</b>	<b>26,878</b>



## 6. OPERATING COSTS, EXCLUDING STAFF COSTS, DEPRECIATION AND AMORTISATION

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Operating lease expenses	21,242	15,776	39,741	30,654
Aircraft servicing	20,989	20,021	38,192	37,128
Aircraft maintenance	11,790	7,503	20,259	15,682
Passenger services expenses	5,737	4,786	10,442	8,833
Administration and general expenses	4,992	3,925	9,113	7,688
Communication services and booking systems	3,186	3,273	7,305	7,248
Food cost for in-flight catering	2,743	2,572	5,184	4,706
Sales and marketing expenses	2,926	4,411	4,965	6,819
Insurance expenses	546	510	1,062	1,007
Cost of duty-free goods sold	329	217	531	436
Customs duties	101	348	507	702
Other expenses	2,163	1,854	4,159	3,579
<b>Operating costs less aircraft fuel, staff costs and depreciation and amortisation</b>	<b>76,744</b>	<b>65,196</b>	<b>141,460</b>	<b>124,482</b>
Aircraft fuel	43,843	28,790	77,885	56,217
<b>Total operating costs less staff costs and depreciation and amortisation</b>	<b>120,587</b>	<b>93,986</b>	<b>219,345</b>	<b>180,699</b>

## 7. STAFF COSTS

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Wages and salaries	15,130	15,582	31,653	30,009
Pension costs	3,914	3,111	7,639	6,213
Social security costs	1,211	1,043	2,367	2,102
<b>Total staff costs</b>	<b>20,255</b>	<b>19,736</b>	<b>41,659</b>	<b>38,324</b>

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 6 months 2018, 20% for 6 months 2017) of the transfers made personally by the employees participating in the programme, and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under defined benefit pension plans.

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Payments to the RF Pension Fund	3,900	3,114	7,610	6,219
Changes in pension plans	14	(3)	29	(6)
<b>Total pension costs</b>	<b>3,914</b>	<b>3,111</b>	<b>7,639</b>	<b>6,213</b>

**8. FINANCE INCOME AND COSTS**

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
<i>Finance income:</i>				
Interest income	1,237	1,431	2,119	2,390
Foreign exchange gain, net	-	1,381	-	2,393
Other financial income	5	-	5	-
<b>Total finance income</b>	<b>1,242</b>	<b>2,812</b>	<b>2,124</b>	<b>4,783</b>
<i>Finance costs:</i>				
Foreign exchange loss, net	(1,199)	-	(363)	-
Interest expense	(1,157)	(1,945)	(2,874)	(3,906)
Other finance costs	(80)	(176)	(1,132)	(253)
<b>Total finance costs</b>	<b>(2,436)</b>	<b>(2,121)</b>	<b>(4,369)</b>	<b>(4,159)</b>
	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
<i>Hedging result:</i>				
Effect of revenue hedging with liabilities in foreign currency (Note 16)	(1,691)	(1,357)	(2,984)	(2,748)
<b>Total loss on hedging result</b>	<b>(1,691)</b>	<b>(1,357)</b>	<b>(2,984)</b>	<b>(2,748)</b>

**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 6 months 2018 equalled 20 – 46% (6 months 2017: 15 – 29%).

Expected weighted average annual income tax rate applied to loss making Group companies for the 6 months 2018 equalled to 0 – 21% (6 months 2017: 0 – 20%).

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Current income tax	19	(2,218)	910	(1,838)
Change in deferred income tax	(2,073)	(1,552)	(780)	(809)
<b>Income tax</b>	<b>(2,054)</b>	<b>(3,770)</b>	<b>130</b>	<b>(2,647)</b>

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

In the reporting period, the Group did not recognise deferred tax assets from tax losses in the amount RUB 5 million.

**10. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Trade accounts receivable	39,322	36,853
Other financial receivables	12,776	9,486
Less impairment provision	(11,638)	(11,348)
<b>Total financial receivables</b>	<b>40,460</b>	<b>34,991</b>
Prepayments for delivery of aircraft	11,124	25,285
VAT and other taxes recoverable	14,105	15,842
Prepayments to suppliers	14,908	13,803
Deferred customs duties related to imported aircraft under operating leases, current portion	254	397
Other receivables	2,866	3,152
Less impairment provision	(611)	(538)
<b>Total accounts receivable and prepayments</b>	<b>83,106</b>	<b>92,932</b>

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

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

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

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

The Group paid advances in amount of RUB 6,389 million for 11 aircraft delivered under operating lease during 6 months of 2018 (for 6 months of 2017: RUB 4,603 million). The above mentioned advances were recognised as part of prepayments to suppliers and other non-current assets. These assets should be written off to operating lease expenses over the term of the operating lease agreements.

**11. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT**

As at 30 June 2018 and 31 December 2017, the non-current portions of prepayments for aircraft was RUB 10,545 million and RUB 13,089 million, respectively. Changes in the non-current portion of prepayments are due to the approaching aircraft delivery dates as well as new non-current prepayments.

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

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

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

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

**12. PROPERTY, PLANT AND EQUIPMENT**

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<b>Cost</b>						
<b>1 January 2017</b>	<b>8,147</b>	<b>112,942</b>	<b>10,131</b>	<b>23,937</b>	<b>4,721</b>	<b>159,878</b>
Additions	610	-	4	2,185	565	3,364
Capitalised expenditures	-	495	-	-	758	1,253
Disposals	(56)	(1,286)	-	(293)	(19)	(1,654)
Transfers to assets held for sale	(114)	(6,477)	-	-	-	(6,591)
Transfers	2,797	1,209	10	244	(4,260)	-
<b>30 June 2017</b>	<b>11,384</b>	<b>106,883</b>	<b>10,145</b>	<b>26,073</b>	<b>1,765</b>	<b>156,250</b>
<b>1 January 2018</b>	<b>12,583</b>	<b>107,176</b>	<b>10,151</b>	<b>27,606</b>	<b>3,627</b>	<b>161,143</b>
Additions	2,196	-	9	1,358	1,364	4,927
Capitalised expenditures	-	889	-	-	381	1,270
Disposals	(108)	(740)	-	(287)	(40)	(1,175)
Transfers to assets held for sale (Note 13)	(239)	(16,354)	-	-	-	(16,593)
Transfers	-	612	3	453	(1,068)	-
<b>30 June 2018</b>	<b>14,432</b>	<b>91,583</b>	<b>10,163</b>	<b>29,130</b>	<b>4,264</b>	<b>149,572</b>
<b>Accumulated depreciation</b>						
<b>1 January 2017</b>	<b>(1,511)</b>	<b>(36,756)</b>	<b>(4,970)</b>	<b>(11,671)</b>	<b>(73)</b>	<b>(54,981)</b>
Charge for the period	(583)	(4,238)	(114)	(1,548)	-	(6,483)
Accrual of impairment provision	4	-	-	-	-	4
Disposals	30	696	-	215	-	941
Transfers to assets held for sale	21	3,634	-	-	-	3,655
<b>30 June 2017</b>	<b>(2,039)</b>	<b>(36,664)</b>	<b>(5,084)</b>	<b>(13,004)</b>	<b>(73)</b>	<b>(56,864)</b>
<b>1 January 2018</b>	<b>(2,892)</b>	<b>(40,691)</b>	<b>(5,169)</b>	<b>(14,384)</b>	<b>(75)</b>	<b>(63,211)</b>
Charge for the period	(684)	(3,609)	(133)	(1,630)	-	(6,056)
(Increase)/Recovery of impairment provision	(25)	-	-	-	1	(24)
Disposals	74	505	-	244	-	823
Transfers to assets held for sale (Note 13)	44	8,199	-	-	-	8,243
<b>30 June 2018</b>	<b>(3,483)</b>	<b>(35,596)</b>	<b>(5,302)</b>	<b>(15,770)</b>	<b>(74)</b>	<b>(60,225)</b>
<b>Carrying amount</b>						
<b>1 January 2018</b>	<b>9,691</b>	<b>66,485</b>	<b>4,982</b>	<b>13,222</b>	<b>3,552</b>	<b>97,932</b>
<b>30 June 2018</b>	<b>10,949</b>	<b>55,987</b>	<b>4,861</b>	<b>13,360</b>	<b>4,190</b>	<b>89,347</b>

Capitalised borrowing costs for 6 months 2018 amounted to RUB 381 million (6 months 2017: RUB 757 million). The capitalisation rate of interest expenses for the period was 3.6% p.a. (6 months 2017: 3.2% p.a.).



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

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

As at 30 June 2018, the amount of net assets held for sale amounted to RUB 309 million (31 December 2017: RUB 915 million).

	<b>Initial cost of property plant and equipment</b>	<b>Accumulated depreciation and impairment</b>	<b>Total assets</b>	<b>Total liabilities</b>
<b>1 January 2018</b>	<b>6,759</b>	<b>(3,634)</b>	<b>3,125</b>	<b>(2,210)</b>
Additions (Note 12)	16,593	(8,243)	8,350	(8,648)
Disposals	(6,724)	3,694	(3,030)	2,877
Revaluation	-	-	-	(773)
<b>30 June 2018</b>	<b>16,628</b>	<b>(8,183)</b>	<b>8,445</b>	<b>(8,754)</b>

During 6 months 2018 the Group disposed of 4 Airbus A321 aircraft (during 6 months 2017: nil), profit from disposal amounted to RUB 65 million.

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
Deferred revenue related to the frequent flyer programme, current	3,457	1,720
Deferred revenue related to the frequent flyer programme, non-current	3,540	3,842
Other current liabilities related to frequent flyer programme (Note 18)	3,760	2,566
Other non-current liabilities related to frequent flyer programme	2,781	2,563
<b>Total deferred revenue and other liabilities related to the frequent flyer programme</b>	<b>13,538</b>	<b>10,691</b>

**15. PROVISIONS FOR LIABILITIES**

	Regular repairs and maintenance works	Other provisions	Total provisions
<b>1 January 2017</b>	<b>13,510</b>	<b>2,585</b>	<b>16,095</b>
Charge of provision for the period	5,458	1,729	7,187
Use of provision for the period	(426)	(30)	(456)
Release of provision for the period	(892)	(1,210)	(2,102)
Unwinding of the discount	1,039	-	1,039
Foreign exchange profit, net	(241)	(40)	(281)
<b>30 June 2017</b>	<b>18,448</b>	<b>3,034</b>	<b>21,482</b>
<b>1 January 2018</b>	<b>24,654</b>	<b>1,728</b>	<b>26,382</b>
Charge of provision for the period	5,749	142	5,891
Use of provision for the period	(4,109)	(34)	(4,143)
Release of provision for the period	(2,005)	(2)	(2,007)
Unwinding of the discount	900	-	900
Foreign exchange loss, net	2,238	-	2,238
Other changes	-	(1,666)	(1,666)
<b>30 June 2018</b>	<b>27,427</b>	<b>168</b>	<b>27,595</b>
		<b>30 June 2018</b>	<b>31 December 2017</b>
Current liabilities		6,323	9,433
Non-current liabilities		21,272	16,949
<b>Total provisions</b>		<b>27,595</b>	<b>26,382</b>

*Litigations*

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

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

*Regular repairs and maintenance works*

As at 30 June 2018, the Group made a provision of RUB 27,427 million (31 December 2017: RUB 24,654 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

**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 30 June 2018 is disclosed in Note 1.

	<b>30 June 2018</b>	<b>31 December 2017</b>
Total outstanding payments on finance lease contracts	102,083	111,270
Future finance lease interest expense	(9,451)	(10,581)
<b>Total finance lease liabilities</b>	<b>92,632</b>	<b>100,689</b>
<i>Including:</i>		
Current finance lease liabilities	15,333	16,015
Non-current finance lease liabilities	77,299	84,674
<b>Total finance lease liabilities</b>	<b>92,632</b>	<b>100,689</b>

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

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

As at 30 June 2018, finance lease liabilities and liabilities related to assets held for sale in the amount of RUB 95,139 million denominated in US dollars (31 December 2017: RUB 96,271 million) were designated as a hedging instrument for highly probable revenue forecasted for the period 2018 – 2026 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities match the future cash inflows on the revenue being hedged. As at 30 June 2018, accumulated foreign currency loss of RUB 36,552 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 6 months 2018 was RUB 2,984 million (for 6 months 2017: RUB 2,748 million).

**17. LOANS AND BORROWINGS**

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Short-term bank loans and borrowings:</b>		
Short-term loans and borrowings in Russian Roubles	175	-
<b>Total short-term loans and borrowings</b>	<b>175</b>	<b>-</b>
	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Long-term bank loans and borrowings:</b>		
Long-term loans and borrowings in Russian Roubles	2,931	2,800
Long-term loans and borrowings in US dollars	418	381
<b>Total long-term loans and borrowings</b>	<b>3,349</b>	<b>3,181</b>

**17. LOANS AND BORROWINGS (CONTINUED)***The main changes in loans and borrowings during reporting period*

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

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

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

*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 30 June 2018, the Group was able to raise RUB 91,703 million in cash (31 December 2017: RUB 103,175 million).

**18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Accounts payable	45,368	34,095
Other financial payables	5,236	6,880
Dividends payable	14,559	65
<b>Total financial payables</b>	<b>65,163</b>	<b>41,040</b>
Staff and social funds related liabilities	18,824	19,434
Other current liabilities related to frequent flyer programme (Note 14)	3,760	2,566
Other taxes payable	1,803	2,626
Advances received (other than unearned traffic revenue)	1,456	1,451
Other payables (Note 19)	7,841	836
<b>Total accounts payable and accrued liabilities</b>	<b>98,847</b>	<b>67,953</b>

**19. SHARE CAPITAL**

As at 30 June 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
30 June 2018	1,110,616,299	1,110,616,299

On 25 June 2018, the General Meeting of Shareholders of the Company decided to make a major transaction in which there is an interest - operating lease of fifty new MS-21-300 aircraft. Owners of voting shares who voted against this decision or did not participate in voting on this issue were entitled to claim the buyback by the Company of all their shares. As at 30 June 2018, the total number of treasury shares subject to buyback by the Company from shareholders was 47,817,796. The comprehensive cost of mentioned shares subject to buyback by the Company from shareholders at the reporting period amounted to RUB 7,040 million.

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

The Company's shares are listed on the Moscow Exchange ("MICEX"). As at 30 June 2018 and 31 December 2017, weighted average price was RUB 140.25 and RUB 139.10 per share, respectively.

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 30 June 2018 and 31 December 2017, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 9.8 per GDR and EUR 9.91 per GDR, respectively.

**20. DIVIDENDS**

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

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

**21. OPERATING SEGMENTS**

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.

**21. OPERATING SEGMENTS (CONTINUED)**

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

	<b>Passenger traffic</b>	<b>Other</b>	<b>Inter-segment sales elimination</b>	<b>Total Group</b>
<b>6m 2018</b>				
External sales	263,797	2,025	-	265,822
Inter-segment sales	335	9,976	(10,311)	-
<b>Total revenue</b>	<b>264,132</b>	<b>12,001</b>	<b>(10,311)</b>	<b>265,822</b>
<b>Operating (loss)/profit</b>	<b>(992)</b>	<b>713</b>	<b>-</b>	<b>(279)</b>
Gain on investments, net				107
Finance income				2,124
Finance costs				(4,369)
Hedging result				(2,984)
Share of financial results of associates				43
<b>Loss before income tax</b>				<b>(5,358)</b>
Income tax				130
<b>Loss for the period</b>				<b>(5,228)</b>
	<b>Passenger traffic</b>	<b>Other</b>	<b>Inter-segment sales elimination</b>	<b>Total Group</b>
<b>6m 2017</b>				
External sales	233,126	1,734	-	234,860
Inter-segment sales	-	9,158	(9,158)	-
<b>Total revenue</b>	<b>233,126</b>	<b>10,892</b>	<b>(9,158)</b>	<b>234,860</b>
<b>Operating profit</b>	<b>7,081</b>	<b>888</b>	<b>(272)</b>	<b>7,697</b>
Loss from sale and impairment of investments, net				(70)
Finance income				4,783
Finance costs				(4,159)
Hedging result				(2,748)
Share of financial results of associates				34
<b>Profit before income tax</b>				<b>5,537</b>
Income tax				(2,647)
<b>Profit for the period</b>				<b>2,890</b>



**21. OPERATING SEGMENTS (CONTINUED)**

	<b>Air transportation</b>	<b>Other</b>	<b>Inter-segment sales elimination</b>	<b>Total Group</b>
<b>Three months ended</b>				
<b>30 June 2018</b>				
External sales	152,724	1,156	-	153,880
Inter-segment sales	174	5,256	(5,430)	-
<b>Total revenue</b>	<b>152,898</b>	<b>6,412</b>	<b>(5,430)</b>	<b>153,880</b>
<b>Operating profit</b>	<b>10,775</b>	<b>542</b>	<b>-</b>	<b>11,317</b>
Loss from sale and impairment of investments, net				(108)
Finance income				1,242
Finance costs				(2,436)
Hedging result				(1,691)
Share of results of associates				45
<b>Profit before income tax</b>				<b>8,369</b>
Income tax				(2,054)
<b>Profit for the period</b>				<b>6,315</b>
	<b>Air transportation</b>	<b>Other</b>	<b>Inter-segment sales elimination</b>	<b>Total Group</b>
<b>Three months ended</b>				
<b>30 June 2017</b>				
External sales	130,852	883	-	131,735
Inter-segment sales	-	4,882	(4,882)	-
<b>Total revenue</b>	<b>130,852</b>	<b>5,765</b>	<b>(4,882)</b>	<b>131,735</b>
<b>Operating profit</b>	<b>12,252</b>	<b>653</b>	<b>(272)</b>	<b>12,633</b>
Loss from sale and impairment of investments, net				(13)
Finance income				2,812
Finance costs				(2,121)
Hedging result				(1,357)
Share of results of associates				45
<b>Profit before income tax</b>				<b>11,999</b>
Income tax				(3,770)
<b>Profit for the period</b>				<b>8,229</b>

## 22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

**Liabilities carried at amortised cost.** The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 30 June 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 6 months of 2018 and 6 months 2017 there was no transfer between levels 1, 2 or 3 of the fair value hierarchy.

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

	Measured at amortised cost	Measured at fair value through profit or loss	Total
Cash and cash equivalents	87,785	-	87,785
Short-term financial investments	9,970	-	9,970
Financial receivables (Note 10)	40,460	-	40,460
Aircraft lease security deposits	3,422	-	3,422
Long-term financial instruments	61	6,039	6,100
Other current assets	461	-	461
Other non-current assets	676	-	676
<b>Total financial assets</b>	<b>142,835</b>	<b>6,039</b>	<b>148,874</b>

	Financial liabilities	Total
Financial payables (Note 18)	65,163	65,163
Finance lease liabilities (Note 16)	92,632	92,632
Loans and borrowings (Note 17)	3,524	3,524
Other long-term liabilities	334	334
<b>Total financial liabilities</b>	<b>161,653</b>	<b>161,653</b>

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

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

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

	<b>Other financial liabilities</b>	<b>Total</b>
Financial payables	41,040	<b>41,040</b>
Finance lease liabilities	100,689	<b>100,689</b>
Loans and borrowings	3,181	<b>3,181</b>
Other non-current liabilities	306	<b>306</b>
<b>Total financial liabilities</b>	<b>145,216</b>	<b>145,216</b>

**23. RELATED-PARTY TRANSACTIONS**

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

As at 30 June 2018 and 31 December 2017, the outstanding balances with related parties and income and expense items with related parties for 6 months 2018 and 6 months 2017 were disclosed below.

**Associates**

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

As at 30 June 2018 and 31 December 2017, the outstanding balances with associates and income and expense items with associates for 6 months 2018 and 6 months 2017 were as follows:

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	183	84

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2018</b>	<b>30 June 2017</b>	<b>30 June 2018</b>	<b>30 June 2017</b>
<b>Transactions</b>				
Sales to associates	1	1	3	3
Purchase of goods and services from associates	667	670	1,249	1,105

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

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

As at 30 June 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 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:

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Assets</b>		
<i>Cash and cash equivalents</i>	48,212	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 74% for finance lease (including liabilities related to assets held for sale) and about 66% for operating lease (31 December 2017: 71% and 49%, respectively).

For 6 months 2018 the share of Group's transactions with government-related entities is about 23% of operating costs, and about 1% of revenue (6 months 2017: about 23% and about 2%, respectively). These expenses primarily include costs of motor fuels supplies, expenses for operating lease of aircraft and aircraft engines as well as air navigation and aircraft maintenance services in the airports.

As at 30 June 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 748 million (6 months 2017: RUB 879 million).

**23. RELATED-PARTY TRANSACTIONS (CONTINUED)*****Compensation of key management personnel (continued)***

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

***Bonus programmes based on the Group's capitalisation***

In 2016 the Group approved bonus programmes for its key management personnel and members of the Company's Board of Directors. These programmes run for 3.5 years and are to be exercised in 4 tranches of cash payments. The amounts of payments depend on the level of increase in the Company's capitalisation, the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalisation by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 30 June 2018, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2018 till 30 June 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 978 million for 6 months 2018 and was reflected in labour costs and other financial expenses respectively (6 months 2017: expenses under bonus programmes amounted to RUB 1,529 million). As at 30 June 2018, the outstanding amount of the liability under these programmes was RUB 1,464 million (31 December 2017: RUB 2,558 million).

**24. COMMITMENTS UNDER OPERATING LEASES**

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
On demand or within 1 year	88,427	73,565
Later than 1 year and not later than 5 years	333,197	272,048
Later than 5 years	544,567	314,968
<b>Total operating lease commitments</b>	<b>966,191</b>	<b>660,581</b>

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

**25. CAPITAL COMMITMENTS**

As at 30 June 2018, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 251,591 million (31 December 2017: RUB 394,937 million).

These commitments mainly relate to purchase 22 Airbus A-350 (31 December 2017: 22 aircraft), 4 Airbus A-320/321 (31 December 2017: 15 aircraft), 5 Boeing B777 (31 December 2017: 6 aircraft) 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.

## **26. CONTINGENCIES**

### ***Operating Environment of the Group***

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

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

### ***Tax contingencies***

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

These circumstances may create tax risks in the RF that are substantially more significant than in other countries. The Group's management believes that it has provided adequately for tax liabilities in these Condensed Consolidated Interim 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.



## **26. CONTINGENCIES (CONTINUED)**

### ***Tax contingencies (continued)***

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

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

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

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

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

### ***Insurance***

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

### ***Litigations***

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

As at 30 June 2018 the Group's subsidiaries JSC Orenair and JSC Donavia were within bankruptcy process, thus their assets of RUB 1,493 million (31 December 2017: RUB 1,779 million), including cash and cash equivalents in the amount of RUB 461 million (31 December 2017: RUB 422 million), have had limited availability to the Group as it is defined by Russian legislation.