PUBLIC JOINT STOCK COMPANY AEROFLOT – RUSSIAN AIRLINES

IFRS Consolidated Financial Statements for the year ended 31 December 2019

Contents

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

Management is responsible for the preparation of Consolidated Financial Statements that present fairly the consolidated financial position of the Group as at 31 December 2019, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2019 (presented on pages 7 to 74) were approved on 2 March 2020 and signed on behalf of management by:

V. G. Saveliev
General Director

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

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Aeroflot:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Aeroflot and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

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

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Our audit approach

Overview

Overall Group materiality: Russian Roubles ("RUB") 6,779 million, which represents 1% of the Group's revenue for the reporting year.

- We conducted our audit work at three companies of the Group: PJSC Aeroflot, JSC Rossiya Airlines and LLC Pobeda Airlines;
- In respect of the other Group companies, we performed analytical procedures;
- Our audit scope addressed 98.6% of the Group's revenue and 79% of the Group's profit before tax.

- Key audit matter: adoption of IFRS 16, *Leases:* general effect and the effect on accounting of provision for repair and maintenance works on return of aircraft to lessor.

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

Materiality

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

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

Overall Group materiality	RUB 6,779 million
How we determined it	1% of the Group's revenue for the reporting year
Rationale for the materiality benchmark applied	We chose revenue as the materiality benchmark. Given the volatility of the Group's financial results, revenue represents a more appropriate measure of the size of the business and risks of misstatement than profit before tax. We chose 1% of the benchmark, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 16, *Leases*: general effect *See Notes 2, 3, 4, 20, 28*	
The Group adopted IFRS 16, *Leases* effective 1 January 2019 using the full retrospective approach which requires each prior reporting period presented to be restated. Right-of-use assets, correspondent liabilities and financial assets are measured at transition as if the new rules had always been applied. The cumulative effect from adoption of the new standard was recorded as of 1 January 2018. Total effect from the transition to IFRS 16, *Leases* reduced the Group's net assets by RUB 45,548 million as of 1 January 2018 and by RUB 106,956 million as of 31 December 2018. The most significant effect from adaption of the new standard and respective changes in the accounting policies related to accounting of aircraft and engines, including following: • recognition of right-of-use assets and financial liabilities related to the basic lease payments under lease agreements; • accounting for payments to lessor's aircraft maintenance reserve as financial assets and lease liabilities instead of current period expenses; • accounting of regular aircraft heavy repair and maintenance works required by lease agreements previously classified as operating lease under IAS 17, *Leases* as a separate component of right-of-use assets instead of current period expenses; • accounting for payments to aircraft repair service providers under 'payment by flight hour' scheme as advances due to suppliers until the actual works are made, instead of current period expenses.	Management of the Group did an analysis of the contracts with aircraft lessors and manufacturers and other lease contracts and developed new accounting policies for lease accounting. We reviewed the calculation models and accounting policies developed by management for leases of different assets and performed the following procedures for current and restated comparative information: • verified that changes in accounting policies and practical expedients applied are made in accordance with IFRS 16, *Leases;* • on sample basis reconciled right-of-use assets and lease liabilities recognised in the current and comparative periods to the calculation models for aircraft and for other leases, as well as verified mathematical accuracy of the calculation models; • on sample basis reconciled input data used in the calculation models, including payments to lessor's aircraft maintenance reserve, to the terms of the lease agreements; • on sample basis we verified rationality of accounting estimates used for the leasing calculation models, including estimation of the initial and, where applicable, revised discount rates by reconciliation of these rates to the rates calculated based on external sources; verified expected periods of capital repairs by reconciliation with repairs schedule provided by management. In addition, on sample basis we tested the expected share of reimbursements from lessor's aircraft maintenance reserves by reconciliation to share of reimbursements made in prior periods;

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 16, *Leases*: general effect *(continued)* We focused on this matter due to material effect from transition to IFRS 16 *Leases* to the consolidated financial statements as of 1 January 2018 and 31 December 2018, and due to significance of the accounting estimates and practical expedients, applied by the Group in developing respective accounting policies as described in Notes 3 and 4 to the consolidated financial statements.	• verified completeness of provided calculation models for aircraft leases by reconciliation the number of models to the aircraft fleet, and for other leases by reconciliation to rent expenses; • reviewed the approach to determine useful life of right-of-use assets; • on sample basis tested the exchange rates applied to lease liabilities in foreign currencies by reconciliation to the official exchange rates at respective date; • on sample basis tested initial costs of capitalised repairs by reconciliation to the supporting documents or, for comparative periods, to the information audited in prior years; • on sample basis verified classification of capitalised and current costs on repair and maintenance; • on sample basis performed testing of advances due to aircraft repair service providers by reconciliation to the supporting documents or, for comparative periods, with information audited in prior years. We reviewed the respective disclosures in the consolidated financial statements for consistency with the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 16, *Leases*.
Adoption of IFRS 16, *Leases*: effect on accounting of provision for repair and maintenance works on return of aircraft to lessor *See Notes 2, 3, 4, 27* As part of transition to IFRS 16, *Leases* management of the Group revised accounting policies for repair and maintenance works on return of aircraft to lessor required by lease agreements.	We reviewed the calculation of the provision and new accounting policies and performed the following procedures for current and restated comparative amounts, included in the right-of-use assets and liabilities: • verified that changes in accounting policies and key judgments are in accordance with relevant IFRS;

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 16, *Leases*: effect on accounting of provision for repair and maintenance works on return of aircraft to lessor *(continued)* The Group applied judgement in determine when the obligation becomes unavoidable in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets.* The Group applied unified approach for accounting of all repair and maintenance works on return of aircraft to lessor, including those that depend on utilisation of aircraft, because such repairs are identifiable events and are planned by the Group in advance. Management of the Group estimates costs of the capital repairs for aircraft at re-delivery date to the lessor and recognizes the discounted amount of these costs as part of right-of-use assets in correspondence with provision for restoration obligation to bring leased assets in a condition, required by the lease terms. Useful life of right-of-use assets is equal to the expected lease period according to lease agreement. Changes in accounting policies were applied retrospectively, with restatement of the comparative information. As a result of abovementioned changes, in accounting policies the provision for repair and maintenance works on return of the aircraft increased by RUB 138,768 million as of 1 January 2018 and by RUB 193,103 million as of 31 December 2018. Calculation of the provision at each reporting date was made based on calculation model, which includes a number of accounting estimates and variables, including commencement dates, expected dates and cost of repairs, discounting rates, currencies of liabilities related to repairs. We focused on this matter due to material effect from changes in accounting policies to the consolidated financial statements, and due to significance of the estimates used by the Group in applying these accounting policies and judgments for provision calculation.	• reviewed the logic and mathematical accuracy of the Group's financial model, used for the calculation of provision and related right-of-use asset as of each reporting date; • on sample basis assessed completeness of the repair and maintenance works included to the provision by reconciliation with the terms of aircrafts lease agreements; • on sample basis assessed key assumptions used by the Group in the calculation model by reconciliation to the supporting documents and accumulated historical information (including reconciliation to the aircraft lease agreements, actual costs, currencies, and accumulated statistics on frequency of repairs for similar aircraft); • for the comparative information on a sample basis verified that estimates made for costs and dates of repair and maintenance works on return of the aircraft to the lessor do not contradict to information audited by us in prior periods; • on sample basis compared useful life of right-of-use asset recognised on repair and maintenance works on return of aircraft to lessor to the terms of lease agreements related to re-delivery aircraft condition; • on sample basis tested discount rates, applied by the Group at each reporting date by comparison with the rates calculated based on external sources; • on sample basis tested the exchange rates used for the calculation of the part of provision in foreign currencies as of each reporting date by reconciliation to the official rates at respective date. We reviewed the respective disclosures in the consolidated financial statements for consistency with the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates* and Errors and IFRS 16, *Leases*.

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How we tailored our Group audit scope

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

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

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

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

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

Other information

Management is responsible for the other information. The other information comprises Annual report for the year 2019 and Issuer's Report for the 1st Quarter 2020 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read Annual report for the year 2019 and Issuer's Report for the 1st Quarter 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.The certified auditor responsible for the audit resulting in this independent auditor's report is Alexey Fegetsyn.

AO PricewaterhouseCoopers Audit

2 March 2020

Moscow, Russian Federation

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

Audited entity: PJSC Aeroflot

Record made in the Unified State Register of Legal Entities on 2 August 2002 under State Registration Number 1027700092661

Taxpayer Identification Number 7712040126

119019, Russian Federation, Moscow, 1 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

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

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

	Note	2019	2018*
Traffic revenue	5	613,852	553,192
Other revenue	6	64,029	58,378
Revenue		**677,881**	**611,570**
Operating costs, excluding staff costs, depreciation and amortisation	7	(434,606)	(388,745)
Staff costs	8	(92,413)	(82,186)
Depreciation and amortisation	19, 20, 24	(107,477)	(90,129)
Other operating income/(expenses), net	9	17,278	10,226
Operating costs		**(617,218)**	**(550,834)**
Operating profit		**60,663**	**60,736**
Gain/(loss) from impairment and fair value changes of investments, net	17	357	(689)
Finance income	10	5,486	6,816
Finance costs	10	(52,050)	(128,394)
Hedging result	28	(2,368)	(6,788)
Share of results of associates		160	254
Result from disposal of subsidiaries	23	1,555	1,240
Profit/(loss) before income tax		**13,803**	**(66,825)**
Income tax	11	(291)	11,131
PROFIT/(LOSS) FOR THE YEAR		**13,512**	**(55,694)**
Attributable to:			
Shareholders of the Company		10,649	(54,361)
Non-controlling interest		2,863	(1,333)
PROFIT/(LOSS) FOR THE YEAR		**13,512**	**(55,694)**
Basic and diluted profit/(loss) per share (in Roubles per share)		**10.0**	**(49.6)**
Weighted average number of shares outstanding (millions)	32	**1,062.8**	**1,096.2**

* Revised Consolidated Financial Statements for the year ended 31 December 2018 due to adoption of a new IFRS 16 “Leases” (see Note 4)

Approved on 2 March 2020 and signed on behalf of management

V. G. Saveliev
General Director

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

The Consolidated Statement of Profit or Loss is to be read in conjunction with the notes to, and forms a part of, the Consolidated Financial Statements presented on pages 7 to 74

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

	Note	2019	2018*
Profit/(loss) for the period		**13,512**	**(55,694)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Effect from hedging revenue with foreign currency liabilities	28	67,541	(10,873)
Deferred tax related to a result from cash-flow hedging instruments	11	(13,508)	2,175
Other comprehensive income/(loss)		**54,033**	**(8,698)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**67,545**	**(64,392)**
Total comprehensive income/(loss), attributable to:			
Shareholders of the Company		64,682	(63,059)
Non-controlling interest		2,863	(1,333)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**67,545**	**(64,392)**

* Revised Consolidated Financial Statements for the year ended 31 December 2018 due to adoption of a new IFRS 16 “Leases” (see Note 4)

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

	Note	31 December 2019	31 December 2018*	1 January 2018*
ASSETS				
Current assets				
Cash and cash equivalents	12	12,883	23,711	45,978
Short-term financial investments	17	12,978	6,437	8,931
Accounts receivable and prepayments	14	96,467	78,223	85,096
Current income tax prepayment		2,878	5,488	3,580
Aircraft lease security deposits	13	2,242	532	423
Expendable spare parts and inventories	16	15,570	14,300	12,468
Assets classified as held for sale	21	-	6,483	2,969
Current financial assets under lease agreements	4	3,834	1,804	576
Other current assets		-	226	422
Total current assets		**146,852**	**137,204**	**160,443**
Non-current assets				
Right-of-use assets	20	629,115	668,793	536,678
Property, plant and equipment	19	26,743	26,634	23,355
Prepayments for aircraft	15	20,745	21,148	13,089
Deferred tax assets	11	27,894	39,403	22,114
Goodwill	25	6,660	6,660	6,660
Long-term financial investments	17	5,856	5,393	5,883
Intangible assets	24	2,600	2,250	2,054
Non-current financial assets under lease agreements	4	18,356	19,261	13,509
Aircraft lease security deposits	13	2,099	4,283	1,602
Investments in associates		567	545	329
Other non-current assets	18	45,831	36,246	27,782
Total non-current assets		**786,466**	**830,616**	**653,055**
TOTAL ASSETS		**933,318**	**967,820**	**813,498**
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	22, 26	71,737	71,426	69,598
Unearned traffic revenue	26	53,399	49,874	44,006
Deferred revenue related to the frequent flyer programme	26	4,365	4,086	2,295
Provisions for liabilities	27	24,531	25,865	10,125
Lease liabilities	28	70,814	78,528	59,244
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	12,568	175	-
Liabilities related to assets classified as held for sale	21	-	6,254	2,210
Current income tax liabilities		4	19	-
Total current liabilities		**237,418**	**236,227**	**187,478**
Non-current liabilities				
Long-term loans and borrowings	29	3,224	3,311	3,181
Lease liabilities	28	486,310	577,403	434,534
Provisions for liabilities	27	192,281	202,384	155,025
Deferred tax liabilities	11	467	766	294
Deferred revenue related to the frequent flyer programme	26	4,910	3,282	3,842
Other non-current liabilities	30	6,758	6,068	6,291
Total non-current liabilities		**693,950**	**793,214**	**603,167**
TOTAL LIABILITIES		**931,368**	**1,029,441**	**790,645**
Equity				
Share capital	32	1,359	1,359	1,359
Treasury shares buyback reserve	32	(7,040)	(7,040)	-
Accumulated profit on disposal of treasury shares	32	7,864	7,864	7,864
Hedge reserve	28	20,176	(33,857)	(25,159)
Retained (loss)/earnings		(24,051)	(31,843)	36,740
Equity attributable to shareholders of the Company		**(1,692)**	**(63,517)**	**20,804**
Non-controlling interest		3,642	1,896	2,049
TOTAL EQUITY		**1,950**	**(61,621)**	**22,853**
TOTAL LIABILITIES AND EQUITY		**933,318**	**967,820**	**813,498**

* Revised Consolidated Financial Statements for the year ended 31 December 2018 due to adoption of a new IFRS 16 “Leases” (see Note 4)

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

	Note	2019	2018*
Cash flows from operating activities:			
Profit/(loss) before income tax		13,803	(66,825)
Adjustments for:			
Depreciation and amortisation	19, 20, 24	107,477	90,129
Change in expected credit losses and impairment of prepayments	9	(228)	1,217
Change in impairment provision for obsolete expendable spare parts and inventory		(54)	9
Change in impairment provision for property, plant and equipment and right-of-use assets	19, 20	77	36
(Profit)/loss on disposal of property, plant and equipment and intangible assets		(1,154)	1,398
Profit from disposal of assets classified as held for sale	9, 21	(1,072)	(660)
(Gain)/loss from impairment and fair value changes of investments, net		(357)	689
Hedging result	28	2,368	6,788
Change in provisions for liabilities	9, 27	(2,351)	1,625
Interest expense	10	49,970	48,702
Interest income	10	(3,711)	(5,365)
Foreign exchange (gain)/loss, net	10	(598)	79,640
Dividend income		(108)	(93)
Revaluation/modification under lease contracts	9	(2,181)	301
Profit from disposal of subsidiaries	23	(1,555)	(1,240)
Loss from change in the fair value of derivative financial instruments	10	2,067	-
Other operating (income)/expenses, net		161	(302)
Total operating cash flows before working capital changes		**162,554**	**156,049**
Increase in accounts receivable and prepayments		(688)	(12,526)
Increase in expendable spare parts and inventories		(1,205)	(1,809)
Decrease in accounts payable and accrued liabilities		(8,752)	(2,490)
Total operating cash flows after working capital changes		**151,909**	**139,224**
Change in restricted cash		220	178
Income tax paid		(3,738)	(7,101)
Income tax refunded		3,834	1,701
Net cash flows from operating activities		**152,225**	**134,002**

* Revised Consolidated Financial Statements for the year ended 31 December 2018 due to adoption of a new IFRS 16 “Leases” (see Note 4)

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

	Note	2019	2018*
Cash flows from investing activities:			
Deposits return		16,791	23,926
Deposits placement		(23,969)	(21,152)
Proceeds from sale of property, plant and equipment		3,887	93
Proceeds from sale of assets held for sale		6,192	4,203
Interest received		1,803	3,115
Purchases of property, plant and equipment, right-of-use assets, intangible assets and capitalized repair expenses	19, 20, 24	(26,781)	(34,656)
Dividends received		224	136
Prepayments for aircraft	14, 15	(28,592)	(13,888)
Return of prepayments for aircraft	14, 15	6,392	23,968
Payment for financial assets under aircraft lease contracts		(5,730)	(4,741)
Repayment of financial assets under aircraft lease contracts		3,598	2,420
Repayment of lease security deposits	13	(395)	(2,428)
Return of lease security deposits	13	435	-
Net cash flows used in investing activities		**(46,145)**	**(19,004)**
Cash flows from financing activities:			
Receipt of loans and borrowings	29, 37	36,161	350
Repayment of loans and borrowings	29, 37	(23,674)	(131)
Repayment of the lease liabilities principal	28	(78,694)	(73,795)
Interest paid except for interest under lease contracts		(407)	(253)
Interest paid under lease contracts		(45,586)	(43,775)
Dividends paid	37	(3,286)	(14,543)
Purchase of treasury shares	32	-	(7,040)
Net cash used in financing activities		**(115,486)**	**(139,187)**
Effect of exchange rate fluctuations on cash and cash equivalents		(1,422)	1,922
Net decrease in cash and cash equivalents		**(10,828)**	**(22,267)**
Cash and cash equivalents at the beginning of the period		23,711	45,978
Cash and cash equivalents at the end of the period		**12,883**	**23,711**
Non-cash transactions as part of the investing activities:			
Right-of-use assets acquired under lease contracts		42,255	137,336

* Revised Consolidated Financial Statements for the year ended 31 December 2018 due to adoption of a new IFRS 16 “Leases” (see Note 4)

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

	Note	Share capital	Accumulated profit on disposal of treasury shares and treasury shares buyback reserve	Hedge reserve	Retained earnings/ (loss)	Total	Non-controlling interest	Total equity
		Equity attributable to shareholders of the Company						
1 January 2018		**1,359**	**7,864**	**(25,159)**	**82,591**	**66,655**	**1,746**	**68,401**
The impact of the new standard (IFRS) 16	4	**-**	**-**	**-**	**(45,851)**	**(45,851)**	**303**	**(45,548)**
Total restated 1 January 2018*		**1,359**	**7,864**	**(25,159)**	**36,740**	**20,804**	**2,049**	**22,853**
Loss for the year		**-**	**-**	**-**	**(54,361)**	**(54,361)**	**(1,333)**	**(55,694)**
Loss from hedging net of related deferred tax	28	-	-	(8,698)	-	(8,698)	-	(8,698)
Total other comprehensive loss						**(8,698)**	**-**	**(8,698)**
Total comprehensive loss						**(63,059)**	**(1,333)**	**(64,392)**
Purchase of treasury shares	32	-	(7,040)	-	-	(7,040)	-	(7,040)
Capital increase in companies with non-controlling interest		-	-	-	-	-	1,500	1,500
Dividends declared	33	-	-	-	(14,222)	(14,222)	(320)	(14,542)
31 December 2018*		**1,359**	**824**	**(33,857)**	**(31,843)**	**(63,517)**	**1,896**	**(61,621)**
1 January 2019*		**1,359**	**824**	**(33,857)**	**(31,843)**	**(63,517)**	**1,896**	**(61,621)**
Profit for the period		**-**	**-**	**-**	**10,649**	**10,649**	**2,863**	**13,512**
Profit from hedging net of related deferred tax	28	-	-	54,033	-	54,033	-	54,033
Total other comprehensive profit						**54,033**	**-**	**54,033**
Total comprehensive profit						**64,682**	**2,863**	**67,545**
Dividends declared	33	-	-	-	(2,857)	(2,857)	(1,117)	(3,974)
31 December 2019		**1,359**	**824**	**20,176**	**(24,051)**	**(1,692)**	**3,642**	**1,950**

* Revised Consolidated Financial Statements for the year ended 31 December 2018 due to adoption of a new IFRS 16 “Leases” (see Note 4)

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

1. NATURE OF THE BUSINESS

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

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

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

As at 31 December 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 1 Arbat Street, 119019, RF.

The principal subsidiaries are:

Company name	Registered address	Principal activity	31 December 2019	31 December 2018
JSC Rossiya airlines ("AK Rossiya")	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
LLC Pobeda Airlines ("Pobeda")	Moscow, RF	Airline	100.00%	100.00%
JSC Aurora Airlines ("AK Aurora")	Yuzhno-Sakhalinsk, RF	Airline	51.00%	51.00%
LLC Aeroflot-Finance ("Aeroflot-Finance")	Moscow, RF	Finance services	100.00%	100.00%
JSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
JSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%
LLC A-Technics	Moscow, RF	Technical maintenance	100.00%	100.00%
"Aeroflot Aviation School"	Moscow, RF	Education	100.00%	100.00%
JSC Donavia ("Donavia") (Note 23)	Rostov-on-Don, RF	Airline	-	100.00%

The Group's major associate is:

Company name	Registered address	Principal activity	31 December 2019	31 December 2018
JSC Sheremetyevo Bezopasnost	Moscow Region, RF	Aviation security	45.00%	45.00%

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

1. NATURE OF THE BUSINESS (CONTINUED)

The table below provides information on the Group's aircraft fleet as at 31 December 2019 (number of aircraft):

TYPE OF AIRCRAFT	OWNERSHIP	AEROFLOT	AK ROSSIYA	AK AURORA	POBEDA	GROUP TOTAL
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		**-**	**-**	**6**	**-**	**6**
SSJ 100	Lease	49	-	-	-	49
Airbus A319	Lease	-	20	10	-	30
Airbus A320	Lease	76	6	-	-	82
Airbus A321	Lease	33	-	-	-	33
Airbus A330	Lease	21	-	-	-	21
Boeing B737	Lease	47	16	-	30	93
Boeing B747	Lease	-	9	-	-	9
Boeing B777	Lease	19	10	-	-	29
DHC 8-Q200	Lease	-	-	2	-	2
DHC 8-Q300	Lease	-	-	2	-	2
DHC 6-400	Lease	-	-	3	-	3
Total aircraft under leases		**245**	**61**	**17**	**30**	**353**
Total fleet		**245**	**61**	**23**	**30**	**359**

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

Basis of presentation

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

These Consolidated Financial Statements have been prepared on the historical cost convention except for financial instruments, which are initially recognized at fair value and financial instruments measured at fair value through profit or loss. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. Except for changes in accounting policies as a result of the transition to IFRS 16 from 1 January 2019, these principles were applied consistently for all periods presented in the Financial Statements, unless otherwise indicated in Note 4.

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

Going concern

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

Functional and presentation currency

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

Consolidation

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

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

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

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

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

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

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

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

Consolidation (continued)

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

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

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

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

a) fair value, or

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

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

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

Purchases of non-controlling interests

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

Investments in associates

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

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

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

Investments in associates (continued)

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

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

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

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

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss.

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

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

Goodwill

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

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

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

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

Foreign currency translation

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

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

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

	Official exchange rates	
	RUB / USD 1.00	**RUB / EUR 1.00**
As at 31 December 2019	61.91	69.34
Average rate for 2019	64.74	72.50
As at 31 December 2018	69.47	79.46
Average rate for 2018	62.71	73.95

Revenue recognition

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

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

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

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

Revenue recognition (continued)

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

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

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

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

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

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

Flight catering: Flight catering revenue is recognised when food is delivered to board of the aircraft, as it is the moment of transferring control over goods to the customers.

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

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

Group Companies have no significant assets under contracts with customers. At the time the unconditional right to income arises, the Group recognizes accounts receivable. Group contractual obligations include: unearned traffic revenue from passengers, liabilities under the frequent flyer programme as well as other advances from customers (Note 26).

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

Segment information

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

Intangible assets

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

Property, plant and equipment

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

(a) Fleet

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

(ii) *Depreciation of fleet:* The Group depreciates owned fleet assets on a straight-line basis to the end of their estimated useful life. The airframe, engines and interior of aircraft are depreciated separately over their respective estimated useful lives.

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

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

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

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

(c) Construction in progress

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

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

Right-of-use assets (RUA)

The Group leases various aircraft, aircraft engines, buildings, equipment and vehicles. Contracts may contain both lease and non-lease components. The Group decided to apply practical expedients for accounting of underlying assets under lease contracts not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability on a present value basis;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For depreciation of right-of-use assets the Group separate follow components: aircraft fuselage and interior; aircraft engines. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

Aircraft fuselage and interior	20 years
Engines	5-20 years
Buildings	50 years
Equipment and transport vehicles	5-10 years

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend index or a rate, initially measured using the index or rate as at the commencement date;
- 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 that option.

Extension and termination options are provided for in some of lease contracts for aircraft and other leases of the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

Lease liabilities (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions. To determine the incremental borrowing rate, the Group sends indicative rates requests to banks and makes adjustments specific to the lease, e.g. term, country, currency and collateral.

A 10 BPS increase or decrease in discount rate at 31 December 2019 would result in a decrease in lease liabilities of RUB 3,402 million or in an increase of RUB 3,483 million respectively (31 December 2018: decrease of RUB 2,256 million or increase of RUB 2,269 million respectively).

Lease payments under some aircraft lease agreements include a floating interest rate (LIBOR) component. For such liabilities at a floating interest rate (LIBOR), the Group periodically revalues cash flows in order to reflect the movement of market interest rates (LIBOR). Such revaluation results in a change in the effective interest rate under the agreement. At the same time, since a floating interest rate lease liability is initially recognized in the principal amount due upon maturity, revaluation of future interest payments that are dependent on LIBOR does not significantly affect the carrying amount of the liability.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are 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.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture with value of RUB 300 thousand or less.

The Group does not provide residual value guarantees in relation to equipment leases for most contracts.

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 depreciated 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 depreciated, the carrying amount of such a component is written off and included into expenses of the reporting period at the time of the next repair.

The Group also accrues a provision for restoring an aircraft to the condition required by the terms and conditions of the lease before return to a lessor. The provision is added to right-of-use assets as of commencement date in amount of estimated of costs to be incurred in restoring the asset. The provision for repairs and maintenance works on 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. The Group's discount rates are determined by reference to current market pre-tax rate and risks specific to the obligation, and calculated based on government bond rates taking into account currency and term of a liability for each type of repair. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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

Accounting for payments to lessor's aircraft maintenance reserve

According to certain aircraft lease agreements in addition to the lease payments during the lease period the Group makes monthly payments to lessor's 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 accumulated maintenance reserve. At the end of the lease period, any remaining balance in the reserve fund is not reimbursed.

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, which are not expected to be returned 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 under lease agreements. 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 and is initially measured at present value of future refund with application of the discount rate used to measure the lease liability. The financial asset is increased by interest over the life period of the asset using the effective interest method to the nominal amount to be 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). Present 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 do not depend on the index or rate.

Payments to maintenance reserve that are not expected to be repaid in cash are accounted for similar to other lease payments 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 when they arise 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 engine auxiliary power units 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 and recorded within "Other non-current assets" (Note 18). 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 on 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.

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

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

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

Gain or loss on disposal of property, plant and equipment

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

Non-current assets classified as held for sale

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

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

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

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

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

Capitalisation of borrowing costs

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

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

Capitalisation of borrowing costs (continued)

The capitalisation starts when the Group:

(a) bears expenses related to the qualifying asset;

(b) bears borrowing costs; and

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

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

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

Impairment of property, plant and equipment and right-of-use assets

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

Financial instruments – key measurement terms

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

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

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

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

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

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

(iii) level 3 measurements, which are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs) Note 38

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

Financial instruments – key measurement terms (continued)

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

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

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

Financial instruments – initial recognition

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

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

Financial assets – classification and subsequent measurement – measurement categories

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

Financial assets – classification and subsequent measurement – business model

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

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

Financial assets – classification and subsequent measurement – business model (continued)

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

Financial assets – classification and subsequent measurement – cash flow characteristics

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

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

Financial assets – reclassification

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

Financial assets impairment – credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Debt instruments measured at AC, trade and other accounts receivable, loans and borrowings are presented in the consolidated statement of financial position net of the allowance for ECL.

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

Financial assets – write-off

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

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

Financial assets - derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification

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

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

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

Financial liabilities – measurement categories

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

Financial liabilities – derecognition

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

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

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

Financial liabilities – derecognition (continued)

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

Offsetting financial instrument

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

Aircraft lease security deposits

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

Cash and cash equivalents

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

Trade and other receivables

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

Trade and other payables

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

Loans and borrowings

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

Short-term loans and borrowings comprise:

- interest bearing loans and borrowings with a term shorter than one year;
- current portion of long-term loans and borrowings.

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

Financial instruments and hedge accounting

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

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

Financial instruments and hedge accounting (continued)

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

Cash flow hedge

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

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

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

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

Prepayments

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

Expendable spare parts and inventories

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

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

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

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

Value added taxes

Value added tax ("VAT") related to sales of goods or provision of services is recorded as a liability to the budget on an accruals basis. Domestic flights in general are subject to VAT at 10% and international flights are subject to VAT at 0%. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported leased aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT.

The recovery of input VAT is typically delayed by up to six months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the date of the Consolidated Statement of Financial Position is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the Consolidated Statement of Financial Position as VAT receivable. VAT receivable that is not expected to be recovered within the twelve months from the reporting date is classified as a non-current asset. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT.

Frequent flyer programme

Since 1999, the Group operates a frequent flyer programme referred to as "Aeroflot Bonus". Subject to the Programme terms, to increase customer loyalty to the Company's services, Aeroflot Bonus miles are awarded for the use of the Group's and its partners' services, and in the form of free promo miles to incentivise participation in the Programme. The miles earned entitle the participants to a number of benefits such as free flights, flight class upgrades and redeem miles for special awards from programme partners if the additional conditions of the Programme are met.

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

The estimated value of miles earned, but not used by Aeroflot Bonus participants on the Group's own flights is recognised within short-term and long-term deferred revenue under the frequent flyer programme (Note 26) within current and non-current liabilities in the Group's Consolidated Statement of Financial Position.

The estimated value of bonus miles accumulated by Aerfolot Bonus participants for using the services provided by the partners of the programme is recognised as other accrued current and non-current liabilities under the frequent flyer programme (Notes 26) within accounts payable and accrued liabilities in the Group's Consolidated Statement of Financial Position.

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

Employee benefits

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

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

Provisions for liabilities

Provisions for liabilities are recognised if, and only if, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate (Note 27). Where the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax

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

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

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

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

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

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

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

Uncertain income tax positions

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

Pensions

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

The Group also participates in a defined contribution plan, under which the Group has committed to making additional contributions as a percentage (20% in 2019) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Share capital

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

Treasury shares purchased

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

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

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

Dividends

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

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

Earnings/loss per share

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Useful lives and residual value of property, plant and equipment

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

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

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

Frequent flyer programme

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

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

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

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

Frequent flyer programme (continued)

At the reporting date, the Group assesses and recognises a performance obligation for the amount of accrued bonus miles accumulated by Aeroflot Bonus Programme participants. The estimate is made based on the statistical information available to the Group and reflects the expected amount of miles to be used after the reporting date multiplied by their estimated value. The assessment of the estimated value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Programme participants are a matter of management judgement. A change in these estimates may require an adjustment in deferred revenue, accounts payable and accrued liabilities and other non-current liabilities under the frequent flyer programme in the Consolidated Statement of Financial Position (Note 26) and revenue adjustment in the Consolidated Statement of Profit or Loss (Note 5, 6).

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

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

Compliance with tax legislation

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

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 25.

Deferred tax asset recognition

The recognised deferred tax assets represent income tax in respect of expenses or losses that may be set off against future taxable income or profit and are recorded in the Consolidated Statement of Financial Position. Deferred income tax assets are recognised to the extent that realisation of the related tax deduction is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

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

ECL measurement

Measurement of ECLs for all financial instruments at AC is a significant estimate that involves determination methodology, models and data inputs. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Taking into account the short term of assets, the forecasted macroeconomic indicators did not have a significant impact on the level of losses. Detailed information is provided in Note 36.

Assessment of lease periods

The possibility of extending and terminating the contracts is provided for in a number of lease agreements for aircraft, aircraft engines, buildings and equipment of the Group. It used to maximize operational flexibility regarding the management of assets used in the activities of the Group. Most of the conditions regarding the possibility of extension and termination of contracts can be used only by the Group and not by the lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of buildings and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate) the lease.

Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension and termination options in aircraft are provided for in a number of lease agreements for aircraft, aircraft engines and buildings. It used to maximize operational flexibility regarding the management of assets used in the activities of the Group. Most of extension and termination options contracts can be used only by the Group and not by the lessor. The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

As at 31 December 2019, 31 December 2018 and 1 January 2018 lease liability under most of lease contracts included rent payments for the periods of extension, as the Group was reasonably certain that the extension options will be exercised. The amount of potential future cash outflows not included in the lease liability because it is not reasonably certain that the leases will be extended is not material.

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

The costs of regular capital repairs and maintenance of aircraft

Provision for restoration obligation to bring leased assets in a condition, required by the lease terms is recognised as part of the cost of right-of-use asset in the amount of estimated costs to restore an asset as of the date of initial recognition of the lease and then is depreciated over the lease terms. In determining weather present obligation should be recognised in accordance with IAS 37 «Provisions, contingent liabilities and contingent assets» the Group applies a unified approach to accounting for all costs of repairs and maintenance before return of the aircraft 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 required upon return of aircraft. Estimates of expected costs are based on the most reliable data on the assessment date. 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.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

New standards and interpretations effective from 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 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. 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.

Adoption of IFRS 16 "Leases" affected changes in accounting policy for regular capital repairs and maintenance of aircrafts, accounting for payments to lessor's aircraft maintenance reserve and accounting for payments made to aircraft repair service providers under payment for flight hours scheme (PBH - Power-by-the-Hour).

The main changes in accounting policies since 1 January 2019 at transition to IFRS 16 "Leases"

Accounting for right-of-use assets and liabilities

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 Consolidated Interim Statement of Profit or Loss.

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

– not 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 on a straight-line basis 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).

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

New standards and interpretations effective from 1 January 2019 (continued)

The main changes in accounting policies related to IFRS 16 in comparison with accounting policies applied in previous reporting periods are presented below:

Accounting for costs of regular capital repairs and maintenance of aircraft

At transition to IFRS 16 the cost of regular capital repairs and maintenance works under aircraft lease agreements during the period of operation of the aircraft is capitalized into right-of-use assets and depreciated 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 depreciated, the carrying amount of such a component is written off 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.

At transition to IFRS 16 the Group also accrues a provision for repairs and maintenance works on return of aircraft to lessor. The provision is added to right-of-use assets in amount of estimated of costs to be incurred in restoring the asset as of commencement date and depreciated on a straight-line basis over the lease term. Before transition to IFRS 16 the Group accrued a provision for repairs and maintenance works during the lease period in an estimated amount and accounted as current periods expenses the Consolidated Statement of Profit or Loss.

Accounting for payments to lessor's aircraft maintenance reserve

At transition to IFRS 16 to account for payments to aircraft maintenance reserve 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 leasee 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 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 implied 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 to be 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 do not depend on the index or rate.

Payments to maintenance reserve that are not expected to be repaid in cash are accounted for similar to other lease 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.

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

New standards and interpretations effective from 1 January 2019 (continued)

Before transition to IFRS 16 payments to lessor's aircraft maintenance reserve were accounted as current period aircraft repairs and maintenance expenses reduced for amounts of reimbursements received from lessor for actual repairs made.

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

At transition to IFRS 16 payments to aircraft repair service providers under payment for flight hours scheme are accounted as advance payments for the corresponding types of repairs and recorded within "Other non-current assets". 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 on 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.

Before transition to IFRS 16 payments to aircraft repair service providers under payment for flight hours scheme were accounted as current period aircraft repairs and maintenance expenses.

Hedge accounting

A significant part of the Group's aircraft lease agreements are in US dollars. Due to recognition of lease liabilities related 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.

IFRS 9 prohibits the retrospective adoption of hedging rules, and therefore the requirements of this standard at transition to IFRS 16 were applied perspectively from January 1, 2019. If the Group reflected the hedge accounting of leasing liabilities in US dollars of the future highly probable revenue in the same currency in respect of the liabilities recognized as a result of applying IFRS 16 from 1 January 2018, then a positive effect on the financial result for 12 months, ended 31 December 2018 would have amounted to RUB 64,4 billion, as a result profit for the year would have amounted to RUB 8,7 billion.

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

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

New standards and interpretations effective from 1 January 2019 (continued)

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 financial statements	**IFRS 16 impact**	**Restated financial statements**	**Published financial statements**	**IFRS 16 impact**	**Restated financial statements**
ASSETS						
Current assets						
Accounts receivable and prepayments	87,868	(9,645)	78,223	92,749	(7,653)	85,096
Aircraft lease security deposits	525	7	532	423	-	423
Expendable spare parts and inventories	14,659	(359)	14,300	12,779	(311)	12,468
Assets classified as held for sale	6,404	79	6,483	3,125	(156)	2,969
Current financial assets under lease agreements	-	1,804	1,804	-	576	576
Non-current assets						
Right-of-use assets	-	668,793	668,793	-	536,678	536,678
Property, plant and equipment	90,964	(64,330)	26,634	97,932	(74,577)	23,355
Deferred tax assets	12,002	27,401	39,403	10,468	11,646	22,114
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	-	1,602
Other non-current assets	27,990	8,256	36,246	19,728	8,054	27,782

	31 December 2018			1 January 2018		
	Published financial statements	**IFRS 16 impact**	**Restated financial statements**	**Published financial statements**	**IFRS 16 impact**	**Restated financial statements**
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	69,346	2,080	71,426	68,367	1,231	69,598
Provisions for liabilities	11,393	14,472	25,865	9,433	692	10,125
Lease liabilities	15,219	63,309	78,528	16,015	43,229	59,244
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	499,398	577,403	84,674	349,860	434,534
Provisions for liabilities	23,753	178,631	202,384	16,949	138,076	155,025
Deferred tax liabilities	137	629	766	68	226	294
Equity						
Retained (loss)/earnings	74,958	(106,801)	(31,843)	82,591	(45,851)	36,740
Equity attributable to shareholders of the Company	43,284	(106,801)	(63,517)	66,655	(45,851)	20,804
Non-controlling interest	2,051	(155)	1,896	1,746	303	2,049

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

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

New standards and interpretations effective from 1 January 2019 (continued)

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

	31 December 2018		
	Published financial statements	**IFRS 16 impact**	**Restated financial statements**
Traffic revenue	553,192	-	553,192
Other revenue	58,378	-	58,378
Revenue	**611,570**	**-**	**611,570**
Operating costs, excluding staff costs, depreciation and amortisation	(496,337)	107,592	(388,745)
Staff costs	(82,817)	631	(82,186)
Depreciation and amortisation	(12,912)	(77,217)	(90,129)
Other operating income/(expenses), net	153	10,073	10,226
Operating costs	**(591,913)**	**41,079**	**(550,834)**
Operating profit	**19,657**	**41,079**	**60,736**
Loss from impairment and fair value changes of investments, net	(689)	-	(689)
Finance income	4,164	2,652	6,816
Finance costs	(7,904)	(120,490)	(128,394)
Hedging result	(6,788)	-	(6,788)
Share of results of associates	254	-	254
Result from disposal of subsidiaries	1,240	-	1,240
Profit/(loss) before income tax	**9,934**	**(76,759)**	**(66,825)**
Income tax	(4,221)	15,352	11,131
PROFIT/(LOSS) FOR THE PERIOD	**5,713**	**(61,407)**	**(55,694)**
Attributable to:			
Shareholders of the Company	6,589	(60,950)	(54,361)
Non-controlling interest	(876)	(457)	(1,333)
PROFIT/(LOSS) FOR THE PERIOD	**5,713**	**(61,407)**	**(55,694)**
Basic and diluted profit/(loss) per share (in Roubles per share)	**6.0**		**(49.6)**
Weighted average number of shares outstanding (millions)	**1,096.2**		**1,096.2**

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

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

New standards and interpretations effective from 1 January 2019 (continued)

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

	2018		
	Published financial statements	**IFRS 16 impact**	**Restated financial statements**
Cash flows from operating activities:			
Profit/(loss) before income tax	9,934	(76,759)	(66,825)
Adjustments	33,167	189,707	222,874
Total operating cash flows before working capital changes	**43,101**	**112,948**	**156,049**
Change in working capital	(18,384)	1,559	(16,825)
Total operating cash flows after working capital changes	**24,717**	**114,507**	**139,224**
Other changes from operation activities	(5,222)	-	(5,222)
Net cash flows from operating activities	**19,495**	**114,507**	**134,002**
Net cash flows from/(used in) investing activities	**4,842**	**(23,846)**	**(19,004)**
Net cash used in financing activities	**(48,526)**	**(90,661)**	**(139,187)**
Effect of exchange rate fluctuations on cash and cash equivalents	1,922	-	1,922
Net decrease in cash and cash equivalents	**(22,267)**	**-**	**(22,267)**
Cash and cash equivalents at the beginning of the period	45,978	-	45,978
Cash and cash equivalents at the beginning of the period	**23,711**	**-**	**23,711**

Adoption of other new standards

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

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

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

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

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

New standards and interpretations effective from 1 January 2020 or later

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted:

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

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

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

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

New standards and interpretations effective from 1 January 2020 or later (continued)

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

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

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

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

5. TRAFFIC REVENUE

	2019	**2018**
Scheduled passenger flights	557,132	496,454
Charter passenger flights	37,438	37,838
Cargo flights	19,282	18,900
Total traffic revenue	**613,852**	**553,192**

6. OTHER REVENUE

	2019	**2018**
Airline agreements revenue	40,883	36,646
Revenue from partners under the frequent flyer programme	14,453	12,704
Sales of goods on board	1,505	1,667
In-flight catering services	1,583	1,579
Ground handling and maintenance	419	560
Hotel revenue	382	512
Other revenue	4,804	4,710
Total other revenue	**64,029**	**58,378**

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

7. OPERATING COSTS LESS STAFF COSTS AND DEPRECIATION AND AMORTISATION

	2019	2018
Aircraft servicing	101,199	84,617
Aircraft maintenance	30,566	24,229
Passenger services expenses	26,041	23,754
Administration and general expenses	19,527	18,251
Communication expenses	18,551	15,584
Food cost for in-flight catering	14,361	11,103
Sales and marketing expenses	11,880	11,077
Expenses related to variable lease payments not included in lease liabilities	5,854	4,076
Insurance expenses	2,624	2,274
Short-term leases	2,245	1,525
Cost of goods sold on board	849	888
Other expenses	10,033	9,503
Operating costs less aircraft fuel, staff costs and depreciation and amortisation	**243,730**	**206,881**
Aircraft fuel	190,876	181,864
Total operating costs less staff costs and depreciation and amortisation	**434,606**	**388,745**

8. STAFF COSTS

	2019	2018
Wages and salaries	71,324	63,578
Pension costs	16,250	14,506
Social security costs	4,839	4,102
Total staff costs	**92,413**	**82,186**

Pension costs include:

- compulsory payments to the RF Pension Fund,
- contributions to a non-government pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 12 months 2019, 20% for 12 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.

	2019	2018
Payments to the RF Pension Fund	16,182	14,465
Change in pension plans	68	41
Total pension costs	**16,250**	**14,506**

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

9. OTHER OPERATING INCOME AND EXPENSES, NET

	2019	2018
Reimbursement of fuel excise tax (Note 41)	9,635	9,243
Recovery/(accrual) of provision for other liabilities (Note 27)	1,323	(1,625)
Gain/(loss) on fixed assets disposal and impairment on fixed assets	1,128	(1,416)
Profit on disposal of assets classified as held for sale (Note 21)	1,072	660
Recovery of provision for regular repair and maintenance (Note 27)	1,028	-
Fines and penalties received from suppliers	833	727
Insurance compensation received	525	1,387
Gain on accounts payable write-off	445	35
Revaluation of lease obligations	2,181	(301)
Recovery/(accrual) of provision for ECL and impairment provision for prepayments (Note 14)	228	(1,217)
Loss on accounts receivable write-off	(2)	(19)
Other income/(expense), net	(1,118)	2,752
Total other operating income/(expenses), net	**17,278**	**10,226**

10 FINANCE INCOME AND COSTS

	2019	2018
Finance income:		
Interest income	3,711	5,365
Gain on foreign exchange, net	598	-
Other finance income	1,177	1,451
Total finance income	**5,486**	**6,816**

	2019	2018
Finance costs:		
Loss on change in fair value of derivative financial instruments not subject to hedge accounting	(2,067)	-
Loss on foreign exchange, net	-	(79,640)
Interest expense	(5,275)	(5,003)
Interest expense on lease	(44,695)	(43,699)
Other finance costs	(13)	(52)
Total finance costs	**(52,050)**	**(128,394)**

The loss on change in fair value of derivative financial instruments for the 12 months of 2019 relates to fuel option contracts entered into in 2019 for the purpose of hedging a portion of aircraft fuel costs.

11. INCOME TAX

	2019	2018
Current income tax charge	(2,589)	(3,511)
Change in deferred income tax	2,298	14,642
Income tax	**(291)**	**11,131**

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

11. INCOME TAX (CONTINUED)

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

	2019	**2018**
Profit/(Loss) before income tax	13,803	(66,825)
Tax rate applicable in accordance with Russian legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with Russian legislation	(2,761)	13,365
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	695	977
Non-deductible expenses	(2,741)	(4,003)
Unrecognised current year tax losses	-	(5)
Recognition of previously unrecognised tax losses	4,412	-
Prior years income tax adjustments	104	797
Income tax	**(291)**	**11,131**

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

11. INCOME TAX (CONTINUED)

	31 December 2019	Changes for the year	31 December 2018	Changes for the year	1 January 2018
Tax effect of temporary differences:					
Tax losses carried forward	3,788	3,339	449	429	20
Long-term financial investments	1	(13)	14	(4)	18
Accounts receivable	900	146	754	272	482
Property, plant and equipment	69	31	38	(856)	894
Lease liabilities	111,416	(21,011)	132,427	33,671	98,756
Accounts payable and provisions for liabilities	47,515	(1,817)	49,332	13,030	36,302
Deferred tax liabilities before tax set-off	**163,689**		**183,014**		**136,472**
Deferred tax set-off	(135,795)		(143,611)		(114,358)
Deferred tax assets after tax set-off	**27,894**		**39,403**		**22,114**
Property, plant and equipment	(908)	234	(1,142)	(646)	(496)
Right-of-use assets	(123,977)	9,772	(133,749)	(26,413)	(107,336)
Long-term financial investments	(513)	(406)	(107)	(64)	(43)
Accounts receivable	(6,420)	(1,254)	(5,166)	(1,215)	(3,951)
Accounts payable	(6)	(6)	-	9	(9)
Financial assets under lease agreements	(4,438)	(225)	(4,213)	(1,396)	(2,817)
Deferred tax liabilities before tax set-off	**(136,262)**		**(144,377)**		**(114,652)**
Deferred tax set-off	135,795		143,611		114,358
Deferred tax liabilities after tax set-off	**(467)**		**(766)**		**(294)**
Movements for the year, net		(11,210)		16,817	
Movements of deferred tax recognised directly in other comprehensive income		13,508		(2,175)	
Deferred tax for the year income		**2,298**		**14,642**	

As at 31 December 2019 the Group recognised deferred tax assets from tax losses in the amount of RUB 3,788 million (31 December 2018: RUB 449 million).

Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been introduced in Russian legislation. The amount of losses carried forward that can be used every year during this period is limited to 50% of annual profit. These changes will not have material impact for the Group's Consolidated Financial Statements.

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

12. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Bank deposits denominated with maturity of less than 90 days in Roubles	4,258	7,870
Bank deposits denominated with maturity of less than 90 days in US Dollars	557	380
Cash on hand and bank accounts denominated in Roubles	5,755	11,525
Cash on hand and bank accounts denominated in US Dollars	870	2,468
Cash on hand and bank accounts denominated in other currencies	801	606
Cash on hand and bank accounts denominated in Euro	301	262
Cash in transit	341	600
Total cash and cash equivalents	**12,883**	**23,711**

Information about the Group's exposure to interest rate risk, sensitivity analysis of financial assets as well as an assessment of impairment based on the risk of default assumption and expected loss ratios are disclosed in Note 36.

As at 31 December 2019 about 50% of the Group's funds are held in 2 highly reliable state-controlled Russian banks – Sberbank with long-term credit rating BBB (Fitch rating agency) and VTB Bank (PJSC) with long-term credit rating BBB- (S&P rating agency) (as at 31 December 2018 65% of Group's cash was held in VTB Bank (PJSC) with long-term credit rating BBB- (S&P rating agency) and Sberbank with long-term credit rating BBB- (Fitch rating agency)).

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

As at 31 December 2019 the Group had restricted cash of RUB 193 million recorded as part of other non-current assets (31 December 2018: RUB 437 million of them RUB 211 million recorded as part of other non-current assets and RUB 226 million as part of other current assets) in the Group's Consolidated Statement of Financial Position.

13. AIRCRAFT LEASE SECURITY DEPOSITS

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to two monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using discount rate of aircraft lease from 1,9% to 10% p.a. in 2019 depending on the currency of the security deposit (2018: from 1,9% to 10% p.a.).

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

13. AIRCRAFT LEASE SECURITY DEPOSITS (CONTINUED)

	Aircraft lease security deposits
1 January 2018	**2,025**
Payment of security deposits	2,428
Discount capitalized in right-of-use assets	(649)
Amortisation charge for the year	145
Provision for expected credit loss	(12)
Foreign exchange difference	878
31 December 2018	**4,815**
Payment of security deposits	395
Discount capitalized in right-of-use assets	(56)
Amortisation charge for the year	160
Provision for expected credit loss	(12)
Return of security deposits during the year	(435)
Set-off against lease liabilities	(53)
Foreign exchange difference	(473)
31 December 2019	**4,341**

As at 31 December 2019 and 31 December 2018, most of security deposits were granted to large international leasing companies.

The Group's exposure to risks for security deposits under aircraft lease agreements and impairment assessment based on the risk of default assumption and expected loss ratios disclosed in Note 36.

	31 December 2019	31 December 2018
Current portion of security deposits	2,242	532
Non-current portion of security deposits	2,099	4,283
Total aircraft lease security deposits	**4,341**	**4,815**

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2019	31 December 2018
Trade accounts receivable	35,110	39,911
Other financial receivables	8,666	12,401
Less provision for ECL	(10,949)	(11,470)
Total financial receivables	**32,827**	**40,842**
Prepayments to suppliers	11,681	11,810
VAT and other taxes recoverable	19,083	16,759
Prepayments for delivery of aircraft	28,995	5,770
Other receivables	4,425	3,597
Less impairment provision	(544)	(555)
Total accounts receivable and prepayments	**96,467**	**78,223**

As at 31 December 2019 the Group recognised provision for ECL for accounts receivable from OJSC Transaero Airlines for passengers transportation, refuelling services, aircraft servicing and ground handling of RUB 6,351 million (31 December 2018: RUB 6,301 million).

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

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

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

Financial receivables are analysed by currencies in Note 36.

As at 31 December 2019 and 31 December 2018, the Group made sufficient provision for expected credit losses for accounts receivable and impairment provision for prepayments.

Financial receivables are analysed by credit quality in Note 36.

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

	31 December 2019		**31 December 2018**	
Type of aircraft	**Number of aircraft, units**	**Expected delivery date**	**Number of aircraft, units**	**Expected delivery date**
Boeing B777	2	2020	2	2019
Airbus A350	11	2020	-	-

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

	Impairment provision
1 January 2018	**11,886**
Changes in accounting policy	40
Additional provision for impairment and ECL	1,713
Release of provision	(1,118)
Recovery of provision	(496)
31 December 2018	**12,025**
Additional provision for impairment and ECL	704
Release of provision	(304)
Recovery of provision	(932)
31 December 2019	**11,493**

15. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT

As at 31 December 2019 and 31 December 2018, the non-current portions of prepayments for aircraft was RUB 20,745 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 14).

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

15. NON-CURRENT PORTION OF PREPAYMENTS FOR AIRCRAFT (CONTINUED)

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

	31 December 2019		31 December 2018	
Type of aircraft	**Number of aircraft, units**	**Expected delivery date**	**Number of aircraft, units**	**Expected delivery date**
Airbus A350	11	2021	22	2020-2021
Boeing B777	1	2021	3	2020-2021

16. EXPENDABLE SPARE PARTS AND INVENTORIES

	31 December 2019	31 December 2018
Expendable spare parts	12,521	11,309
Fuel	347	504
Other inventories	3,725	3,564
Total expendable spare parts and inventories, gross	**16,593**	**15,377**
Less: written-off obsolete expendable spare parts and inventories	(1,023)	(1,077)
Total expendable spare parts and inventories	**15,570**	**14,300**

17. FINANCIAL INVESTMENTS

	31 December 2019	31 December 2018
Long-term investments:		
Investments in equity securities measured at fair value through profit or loss	5,761	5,310
Debt securities accounted at amortized cost	95	113
Total long-term financial investments (before expected credit loss	**5,856**	**5,423**
Less: provision for expected credit loss of long-term financial	-	(30)
Total long-term financial investments	**5,856**	**5,393**

The Group's investment in government related company JSC MASH in the share of 2.428% is estimated at fair value through profit or loss according to the discounted cash flow model and is reflected in the Consolidated Statement of Financial Position in the amount of RUB 5,706 million as at 31 December 2019 (RUB 5,244 million as at 31 December 2018).

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

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

17. FINANCIAL INVESTMENTS (CONTINUED)

(a) the weighted average cost of capital equal to 12.2% p.a. as at 31 December 2019 (as at 31 December 2018:14.5% p.a) based on public capital markets data, data about peer companies and the actual cost of capital of JSC MASH determined based on the effective rate in financial statements;

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

(c) passenger traffic in 2020 is planned at the level of 53 million passengers based on data from public sources. Growth rate of passenger traffic in 2021-2026 is evenly distributed, taking into account the growth of up to 82 million passengers till 2026.

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

	31 December 2019	31 December 2018
Other short-term financial investments:		
Loans issued and promissory notes of third parties	9,723	9,580
Deposits placed in banks for more than 90 days	12,986	6,464
Other short-term investments	4	4
Total other short-term financial investments (before expected credit loss provision)	**22,713**	**16,048**
Less: provision for expected credit loss of short-term financial	(9,735)	(9,611)
Total short-term financial investments	**12,978**	**6,437**

All short-term investments are carried at amortized cost (Note 36).

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

As at 31 December 2019, deposits with maturity for more than 90 days are placed in the largest Russian commercial banks with long-term credit rating not lower than B1 according to Moody's credit rating agency.

18. OTHER NON-CURRENT ASSETS

	31 December 2019	31 December 2018
Prepaid expenses for aircraft repair service providers for PBH	37,058	31,059
Long-term prepaid expenses	5,963	3,372
Other non-current assets	2,810	1,815
Total other non-current assets	**45,831**	**36,246**

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

19. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
Cost					
1 January 2018	**8,140**	**10,150**	**19,470**	**2,760**	**40,520**
Additions (i)	833	92	2,745	3,385	**7,055**
Disposals	(181)	(197)	(811)	(42)	**(1,231)**
Transfers	401	6	1,142	(1,549)	**-**
31 December 2018	**9,193**	**10,051**	**22,546**	**4,554**	**46,344**
Additions (ii)	657	73	1,603	4,021	**6,354**
Disposals	(128)	(59)	(4,686)	(734)	**(5,607)**
Transfers (iii)	345	449	2,756	(3,550)	**-**
31 December 2019	**10,067**	**10,514**	**22,219**	**4,291**	**47,091**
Accumulated depreciation and impairment					
1 January 2018	**(1,756)**	**(5,169)**	**(10,165)**	**(75)**	**(17,165)**
Charge for the year	(794)	(255)	(2,369)	-	**(3,418)**
Recovery/(accrual) of impairment provision	(20)	-	4	(20)	**(36)**
Disposals	70	70	769	-	**909**
31 December 2018	**(2,500)**	**(5,354)**	**(11,761)**	**(95)**	**(19,710)**
Charge for the year	(907)	(280)	(2,525)	-	**(3,712)**
Recovery/(accrual) of impairment provision	(28)	-	27	20	**19**
Disposals	119	21	2,915	-	**3,055**
31 December 2019	**(3,316)**	**(5,613)**	**(11,344)**	**(75)**	**(20,348)**
Carrying amount					
1 January 2018	**6,384**	**4,981**	**9,305**	**2,685**	**23,355**
31 December 2018	**6,693**	**4,697**	**10,785**	**4,459**	**26,634**
31 December 2019	**6,751**	**4,901**	**10,875**	**4,216**	**26,743**

(i) During 2018 additions mainly relate to an aircraft engine at LLC Pobeda Airlines.

(ii) During 2019 additions construction in progress mainly relate to building hangar for aircraft maintenance services.

(iii) During 2019 transfers primarily relate to A350 Full Flight Simulator.

As at 31 December 2019 the cost of fully depreciated property, plant and equipment was RUB 5,603 million (31 December 2018: RUB 5,255 million).

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

20. RIGHT-OF-USE ASSETS

	Aircraft and engines	Land and buildings	Transport, equipment and other	Prepayments	Total
Cost					
1 January 2018	**731,738**	**12,262**	**8,419**	**2,928**	**755,347**
Additions	175,843	5,257	150	2,813	184,063
Capitalised expenditures	7,900	-	-	547	8,447
Disposals	(13,102)	(12)	(15)	-	(13,129)
Transfers to assets classified as held for sale (Note 21)	(15,041)	-	-	-	(15,041)
Transfers	2,762	-	-	(2,762)	-
Remeasurement/modification of right-of-use assets	35,669	(439)	(193)	-	35,037
31 December 2018	**925,769**	**17,068**	**8,361**	**3,526**	**954,724**
Additions	48,613	846	4,997	2,931	57,387
Capitalised expenditures	9,521	-	-	1,373	10,894
Disposals	(26,252)	(6,180)	(48)	(280)	(32,760)
Transfers from assets classified as held for sale (Note 21)	5,064	-	-	-	5,064
Transfers	3,175	86	-	(3,261)	-
Remeasurement/modification of right-of-use assets	(7,062)	180	609	-	(6,273)
31 December 2019	**958,828**	**12,000**	**13,919**	**4,289**	**989,036**
Accumulated depreciation and impairment					
1 January 2018	**(208,956)**	**(6,896)**	**(2,817)**	**-**	**(218,669)**
Charge for the year	(82,673)	(2,184)	(1,174)	-	(86,031)
Disposals	11,765	-	15	-	11,780
Transfers to assets classified as held for sale (Note 21)	6,904	-	-	-	6,904
Modification of right-of-use assets	85	-	-	-	85
31 December 2018	**(272,875)**	**(9,080)**	**(3,976)**	**-**	**(285,931)**
Charge for the year	(99,704)	(1,908)	(1,576)	-	(103,188)
Recovery/(accrual) of impairment provision	(96)	-	-	-	(96)
Disposals	24,576	6,180	48	-	30,804
Transfers from assets classified as held for sale	(2,485)	-	-	-	(2,485)
Modification of right-of-use assets	467	96	412	-	975
31 December 2019	**(350,117)**	**(4,712)**	**(5,092)**	**-**	**(359,921)**
Carrying amount					
1 January 2018	**522,782**	**5,366**	**5,602**	**2,928**	**536,678**
31 December 2018	**652,894**	**7,988**	**4,385**	**3,526**	**668,793**
31 December 2019	**608,711**	**7,288**	**8,827**	**4,289**	**629,115**

Prepayments for right-of-use assets include cost of spare parts, which will be installed on the aircraft, as well as amount of capitalized borrowing costs and discount on lease deposits related to aircraft, lease term for which has not started.

Capitalized borrowing costs for 12 months 2019 amounted to RUB 1,373 million (12 months 2018: RUB 551 million). The capitalization rate of interest expenses and translation differences for the period was 5.9% p.a. (12 months 2018: 3.6% p.a.).

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

20. RIGHT-OF-USE ASSETS (CONTINUED)

In 2019, three aircraft previously classified as assets held for sale were returned to right-of-use assets because of the decision of their sale and leaseback. This transaction resulted in loss of RUB 60 million.

21. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2018, the amount of net assets held for sale was RUB 229 million, as at 31 December 2019 assets held for sale were disposed.

	Initial cost of RUA	Accumulated depreciation and impairment	Total assets	Total liabilities
1 January 2018	**6,641**	**(3,672)**	**2,969**	**(2,210)**
Additions (Note 20)	14,928	(6,791)	8,137	(8,531)
Disposals	(10,307)	5,648	(4,659)	6,050
Release of impairment provision	-	36	36	-
Revaluation	-	-	-	(1,563)
31 December 2018	**11,262**	**(4,779)**	**6,483**	**(6,254)**
Additions (Note 20)	-	-	-	(285)
Disposals	(6,726)	2,588	(4,138)	6,290
Transfers to RUA	(4,770)	2,191	(2,579)	-
Revaluation	-	-	-	483
Modificationa/Revaluation of RUA and liabilities	234	-	234	(234)
31 December 2019	**-**	**-**	**-**	**-**

During 12 months 2019 the Group disposed of 7 Airbus A321 aircraft (during 12 months 2018: 6 aircraft), profit from disposal amounted to RUB 1,072 million (during 12 months 2018: RUB 660 million).

22. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2019	31 December 2018
Accounts payable	38,524	40,585
Other financial payables	2,951	4,994
Dividends payable	752	64
Total financial payables	**42,227**	**45,643**
Staff and social funds related liabilities	18,529	16,387
Advances received (other than unearned traffic revenue)	3,846	3,343
Other current liabilities related to the frequent flyer programme (Note 26)	4,254	4,196
Other taxes payable	1,638	1,323
Other payables	1,243	534
Total accounts payable and accrued liabilities	**71,737**	**71,426**

As at 31 December 2019, staff related liabilities primarily include salary payable, as well as social contribution liabilities of RUB 9,869 million (31 December 2018: RUB 8,315 million) and the unused vacation accrual of RUB 8,558 million (31 December 2018: RUB 7,978 million).

Financial payables by currency are analysed in Note 36.

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

23. DISPOSAL OF SUBSIDIARIES

In November 2019, the Group disposed of JSC Donavia. Profit from the disposal in the amount of RUB 1,555 million was recognised in profit or loss for 12 months 2019. JSC Donavia did not conduct any significant operating activities in 2019.

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

Profit on disposal of JSC Donavia and JSC Orenburg airlines in 2019 and 2018 includes the following components:

	2019	2018
	JSC Donavia	**JSC Orenburg airlines**
Negative net assets of disposed company	2,517	18,325
Group's share in negative net assets of disposed company	2,517	18,325
Intragroup liabilities, including:		
Accounts payable from disposed company to the Group	(168)	(8,013)
Loan issued by the Group to disposed company	(794)	(9,072)
Profit from disposal	**1,555**	**1,240**

24 INTANGIBLE ASSETS

	Software	Licences	Investments in software and R&D	Trademark and client base	Other	Total
Cost						
1 January 2018	**3,793**	**134**	**892**	**1,630**	**97**	**6,546**
Additions	766	-	76	-	25	867
Disposals	(11)	-	-	-	(1)	(12)
Transfer	-	-	(11)	-	11	-
31 December 2018	**4,548**	**134**	**957**	**1,630**	**132**	**7,401**
Additions	667	-	43	3	262	975
Disposals	(10)	-	(46)	(1)	(75)	(132)
Transfer	-	-	-	-	-	-
31 December 2019	**5,205**	**134**	**954**	**1,632**	**319**	**8,244**
Accumulated amortisation and impairment						
1 January 2018	**(3,242)**	**(89)**	**(103)**	**(1,040)**	**(18)**	**(4,492)**
Charge for the year	(285)	-	(209)	(133)	(41)	(668)
Disposals	9	-	-	-	-	9
31 December 2018	**(3,518)**	**(89)**	**(312)**	**(1,173)**	**(59)**	**(5,151)**
Charge for the year	(354)	-	(116)	(89)	(19)	(578)
Disposals	10	-	-	-	75	85
31 December 2019	**(3,862)**	**(89)**	**(428)**	**(1,262)**	**(3)**	**(5,644)**
Carrying amount						
1 January 2018	**551**	**45**	**789**	**590**	**79**	**2,054**
31 December 2018	**1,030**	**45**	**645**	**457**	**73**	**2,250**
31 December 2019	**1,343**	**45**	**526**	**370**	**316**	**2,600**

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

25 GOODWILL

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

The aggregate carrying amount of goodwill, allocated to the Group's business-units as at 31 December 2019 and as at 31 December 2018 is presented in the table below:

CGU name	**31 December 2019**	**31 December 2018**
AK Rossiya	6,502	6,502
AK Aurora	158	158
Total	**6,660**	**6,660**

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

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

AK Rossiya

The discount rate calculation is based on weighted average cost of capital (WACC) and amounts to 12.6% p.a. for the entire forecast period (31 December 2018: 14.1% p.a.).

The growth rate for the terminal value calculation was set at the level of Russia's GDP long-term growth rate of 2.7% p.a. (2018: 2.7% p.a.).

The budget for 2020 of AK Rossiya was adopted as a basis to forecasting the cash flows.

The Group's management has conducted a sensitivity analysis of the goodwill impairment test results to changes in rates of return as the most sensitive indicator. In case of decrease of this rate by 12.5% even though all other variables held constant, it would result in an impairment of CGU's goodwill in the full amount. The results of the impairment test for goodwill are also sensitive to assumptions regarding seat occupancy and discount rates.

26. LIABILITIES ARISING FROM CONTRACTS WITH CUSTOMERS

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

	Note	**31 December 2019**	**31 December 2018**
Unearned traffic revenue		53,399	49,874
Deferred revenue related to the frequent flyer programme, current		4,365	4,086
Other current liabilities related to the frequent flyer programme	22	4,254	4,196
Other short-term advances received under contracts with customers		141	106
Total current contract liabilities		**62,159**	**58,262**
Deferred revenue related to the frequent flyer programme, non-current		4,910	3,282
Other non-current liabilities related to the frequent flyer programme	30	2,435	2,456
Long-term advances received under contracts with customers		2,500	2,500
Total non-current contract liabilities		**9,845**	**8,238**

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

26. LIABILITIES ARISING FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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

The change in the amount of obligations for tickets sold but unused compared with 31 December 2018 was due to the growth in the volume of services rendered.

The reasons for the change in obligations under the frequent flyer programme are the increase in the rate of accumulation of bonus miles due to the increase in participants and the increase in the volume of services rendered for the carriage of passengers due to the continued development of services.

In the current reporting period, revenue was recognized in the amount of RUB 58,357 million in relation to the obligations under the contracts as of 31 December 2018 (in 2018: RUB 51,351 million in relation to the obligations under the contracts as of 1 January 2018), of which RUB 49,874 million (in 2018: RUB 44,052 million) related to advances in the form of unearned transport revenue and RUB 8,483 million (in 2018: RUB 7,299 million) to the frequent flyer programme.

The main part of long-term performance obligations to customers is the sum of obligations under the frequent flyer programme Aeroflot Bonus, which is calculated on the basis of accumulated experience and statistics of previous years on the preferences of passengers in the use of accumulated bonus miles (Note 30).

27. PROVISIONS FOR LIABILITIES

	Regular repairs and maintenance works	Other provisions	Total provisions
1 January 2018	**163,422**	**1,728**	**165,150**
Charge of provision for the year	32,211	1,640	33,851
Use of provision for the year	(9,105)	(33)	(9,138)
Remeasurement of provision for the period	35,287	-	35,287
Release of provision for the year	-	(15)	(15)
Unwinding of the discount	4,780	-	4,780
Reclassification	-	(1,666)	(1,666)
31 December 2018	**226,595**	**1,654**	**228,249**
Charge of provision for the year	9,929	197	10,126
Use of provision for the year	(15,652)	(8)	(15,660)
Remeasurement of provison for period	(8,181)	-	(8,181)
Release of provision for the year	(1,028)	(1,520)	(2,548)
Unwinding of the discount	4,830	-	4,830
Foreign exchange profit, net	-	(4)	(4)
31 December 2019	**216,493**	**319**	**216,812**

	31 December 2019	31 December 2018
Current liabilities	24,531	25,865
Non-current liabilities	192,281	202,384
Total provisions	**216,812**	**228,249**

Litigations

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 41).

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

28. LEASE LIABILITIES

The Group leases aircraft and engines, as well as other objects (real estate, transport etc.) from third and related parties under lease agreements. List of aircraft of the Group operated on a lease basis as at 31 December 2019 is disclosed in Note 1. According to the terms of the contracts, the aircraft lease term varies from 6 to 16 years with the possibility of extending this period. Leased assets, the carrying amount of which is disclosed in Note 20, actually represent collateral for lease liabilities, since, in case of default by the lessee, these assets are returned to the lessor.

Some leases for aircraft and aircraft engines contain variable payment terms that depend on flying hours. Variable lease payments that are dependent on flying hours are recognized in profit or loss in the period in which a condition arises leading to such payments (Note 7). According to the best available estimates, the undiscounted amount of variable cash flows, not included in the assessment of lease liabilities, as at 31 December 2019 amounted to RUB 45,246 million (31 December 2018: RUB 48,677 million, 1 January 2018: RUB 33,049 million).

The total amount of lease payments for the 12 months 2019 and 12 months 2018 is presented below:

	2019	2018
Repayment of the lease liabilities principal	78,694	73,795
Interest paid under lease contracts	45,586	43,775
Expenses related to variable lease payments not included in lease liabilities	6,838	3,407
Short-term leases	2,245	1,525
Total lease payments	**133,363**	**122,502**

As at 31 December 2019 and 31 December 2018, liabilities for most leases did not include lease payments for renewal periods, as the Group was not reasonably certain that extension options would be exercised. The amount of potential future flows not included in the lease liability due to the lack of sufficient confidence in their extension as at 31 December 2019 was RUB 100,475 million, as at 31 December 2018: RUB 112,699 million, as at 1 January 2018: RUB 70,041 million.

The Group has contractual lease liabilities, the period of which as of the reporting date has not started. Future cash outflows under such lease agreements were not included in the assessment of the lease liability and as at 31 December 2019 their undiscounted amount amounted to RUB 290,856 million (as at 31 December 2018: RUB 270,763 million, as at 1 January 2018: RUB 132,011 million).

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 December 2019 lease liabilities in the amount of RUB 506,713 million denominated in US dollars (31 December 2018 lease liabilities and liabilities related to assets held for sale: RUB 93,816 million) were designated as a hedging instrument for highly probable revenue forecasted for the period 2019 – 2031 in the same amount. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities match the future cash inflows on the revenue being hedged. As at 31 December 2019, accumulated foreign currency profit of RUB 25,220 million (before deferred income tax) on the lease liabilities (31 December 2018 accumulated foreign currency loss: 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 12 months 2019 was RUB 2,368 million (for 12 months 2018: RUB 6,788 million).

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

29. LOANS AND BORROWINGS

	31 December 2019	31 December 2018
Short-term loans and borrowings:		
Short-term loans in Russian Roubles	12 568	175
Total short-term loans and borrowings	**12 568**	**175**
Long-term loans and borrowings:		
Long-term loans in Russian Roubles	2 800	2 844
Long-term loans and borrowings in US dollars	424	467
Total long-term loans and borrowings	**3 224**	**3 311**

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 and RUB 4,500 million. As at 31 December 2019 loan in amount of USD 80 million was fully paid. Loan in amount of RUB 4,500 million was unsecured and issued for the period up to March 2020.

The Group has withdrawn a credit line with PJSC Sviaz-bank (fixed interest rate) in the amount of USD 70 million. As at 31 December 2019, withdrawn part of credit line was fully paid.

The Group has withdrawn a credit line with PJSC BANK URALSIB (fixed interest rate) in the amount of USD 30 million and RUB 2,500 million. As at 31 December 2019, withdrawn part of credit line was fully paid.

The Group has withdrawn a credit line with PJSC Sberbank (fixed interest rate) in the amount of RUB 17,300 million. As at 31 December 2019 loan in amount of RUB 9,300 million was fully paid. Loan in amount of RUB 8,000 million was unsecured and issued for the period up to April 2020.

As at 31 December 2019 and 31 December 2018, the Group had no secured loans or borrowings.

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

Exchange bonds programme

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

Undrawn commitments

As at 31 December 2019, the Group was able to raise amount equivalent to RUB 100,971 million in cash (31 December 2018: RUB 84,183 million) available under existing credit lines granted to the Group by various lending institutions.

30. OTHER NON-CURRENT LIABILITIES

	31 December 2019	31 December 2018
Other non-current liabilities related to frequent flyer programme (Note 26)	2,435	2,456
Defined benefit pension obligation, non-current portion	784	908
Other non-current liabilities	3,539	2,704
Total other non-current liabilities	**6,758**	**6,068**

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

31. NON-CONTROLLING INTEREST

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

	2019	**2018**
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
Profit/(Loss) attributable to non-controlling interest for the year	2,039	(2,812)
Accumulated losses attributable to non-controlling interests in subsidiary	(5,541)	(7,166)

The summarised financial information of AK Rossiya is presented below:

	31 December 2019	**31 December 2018**
Current assets	15,348	13,553
Non-current assets	107,475	123,180
Current liabilities	42,116	39,474
Non-current liabilities	102,872	125,923

	2019	**2018**
Revenue	126,171	114,523
Profit/(loss) for the year	8,157	(10,127)
Comprehensive income/(loss) for the year	8,157	(10,127)

As at 31 December 2019 and 31 December 2018 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

32. SHARE CAPITAL

As at 31 December 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 December 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 December 2019 and 31 December 2018, the total number of treasury shares purchased by the Company from shareholders was 47,817,796.

These treasury 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 December 2019 and 31 December 2018, weighted average price was RUB 103.88 and RUB 101.08 per share, respectively.

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

32. SHARE CAPITAL (CONTINUED)

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 31 December 2019 and 31 December 2018, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 7.10 per GDR and EUR 6.56 per GDR, respectively.

33. DIVIDENDS

At the annual shareholders' meeting held on 25 June 2019 the shareholders approved dividends in respect of 2018 in the amount of RUB 2.6877 per share totalling to RUB 2,857 million for the Company's total declared and placed shares excluding treasury shares bought back from shareholders. All dividends are declared and paid in Russian Roubles.

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 excluding treasury shares bought back from shareholders. All dividends are declared and paid in Russian Roubles.

34. 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 itineraries information was aggregated in "Passenger Traffic" segment as passenger flight services on different itineraries have similar economic characteristics and meet aggregation criteria.

The passenger traffic operational performance is measured based on internal management reports which are reviewed by the Group's General Director. Passenger traffic revenue by flight itineraries is allocated based on the geographic destinations of flights. Passenger traffic revenue by flight itineraries is used to measure performance as the Group believes that such information is the most material in evaluating the results.
The segment "Other" is mainly included sales revenue of goods on board, in-flight catering services and ground handling. 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.

2019	**Note**	**Air transportation**	**Other**	**Inter-segment sales elimination**	**Total Group**
External sales		673,821	4,060	-	677,881
Inter-segment sales		725	26,734	(27,459)	**-**
Total revenue	5	**674,546**	**30,794**	**(27,459)**	**677,881**
Operating profit		**58,874**	**1,789**	**-**	**60,663**
Gain from fair value changes of investments, net	17				357
Finance income	10				5,486
Finance costs	10				(52,050)
Hedging result	28				(2,368)
Share of financial results of associates					160
Subsidiaries disposal	23				1,555
Profit before income tax					**13,803**
Income tax	11				(291)
Profit for the year					**13,512**

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

34. OPERATING SEGMENTS (CONTINUED)

	Air transportation	Other	Inter-segment sales elimination	Total Group
31 December 2019				
Segment assets	900,666	14,758	(13,445)	901,979
Investments in associates	-	567	-	567
Unallocated assets				30,772
Total assets				**933,318**
Segment liabilities	928,211	8,698	(6,013)	930,896
Unallocated liabilities				472
Total liabilities				**931,368**
2019				
Capital expenditures and PP&E additions (Note 19)	4,937	1,417	-	**6,354**
PP&E depreciation (Note 19)	3,053	659	-	**3,712**
Capital expenditures and RUA additions (Note 20)	61,772	236	-	**62,008**
RUA depreciation (Notes 20)	101,834	379	-	**102,213**

2018	**Note**	**Air transportation**	**Other**	**Inter-segment sales elimination**	**Total Group**
External sales		607,270	4,300	-	611,570
Inter-segment sales		713	21,972	(22,685)	**-**
Total revenue		**607,983**	**26,272**	**(22,685)**	**611,570**
Operating profit		**58,126**	**2,610**	**-**	**60,736**
Loss from impairment and fair value changes of	17				(689)
Finance income	10				6,816
Finance costs	10				(128,394)
Hedging result	28				(6,788)
Share of financial results of associates					254
Subsidiaries disposal	23				1,240
Loss before income tax					**(66,825)**
Income tax	11				11,131
Loss for the year					**(55,694)**

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

34. OPERATING SEGMENTS (CONTINUED)

	Air transportation	**Other**	**Inter-segment sales elimination**	**Total Group**
31 December 2018				
Segment assets	914,641	20,319	(12,575)	922,385
Investments in associates	-	545	-	545
Unallocated assets				44,890
Total assets				**967,820**
Segment liabilities	1,026,552	7,088	(4,983)	1,028,657
Unallocated liabilities				784
Total liabilities				**1,029,441**
2018				
Capital expenditures and PP&E additions (Note 19)	5,484	1,571	-	**7,055**
PP&E depreciation (Note 19)	2,912	506	-	**3,418**
Capital expenditures and RUA additions (Note 20)	226,946	601	-	**227,547**
RUA depreciation (Notes 20)	85,612	334	-	**85,946**

	2019	**2018**
Scheduled passenger flights		
International flights from the RF to:		
Europe	72,161	67,939
Asia	42,135	37,455
America	14,532	14,793
CIS	13,512	12,788
Middle East and Africa	16,648	12,435
Total scheduled passenger revenue from flights from the RF	**158,988**	**145,410**
International flights to the RF from:		
Europe	73,147	68,733
Asia	44,176	39,292
America	15,033	14,937
CIS	13,234	12,428
Middle East and Africa	17,178	13,082
Total scheduled passenger revenue from flights to the RF	**162,768**	**148,472**
Domestic scheduled passenger flights	234,801	202,191
Other international flights	575	381
Total scheduled passenger traffic revenue	**557,132**	**496,454**

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

35. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

Financial assets and liabilities are classified by measurement categories as at 31 December 2019 as follows:

	Note	Financial assets measured at amortised cost	Financial assets measured at fair value through profit or loss	Total
Cash and cash equivalents	12	12,883	-	**12,883**
Short-term financial investments	17	12,978	-	**12,978**
Financial receivables	14	32,827	-	**32,827**
Aircraft lease security deposits	13	4,341	-	**4,341**
Long-term financial investments	17	95	5,761	**5,856**
Financial assets under lease agreements	4	22,190	-	**22,190**
Other non-current assets		535	-	**535**
Total financial assets		**85,849**	**5,761**	**91,610**

	Note	Financial liabilities measured at amortised cost	Total
Financial payables	22	42,227	**42,227**
Lease liabilities	28	557,124	**557,124**
Loans and borrowings	29	15,792	**15,792**
Other non-current liabilities		1,032	**1,032**
Total financial liabilities		**616,175**	**616,175**

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

	Note	Financial assets measured at amortised cost	Financial assets measured at fair value through profit or loss	Total
Cash and cash equivalents	12	23,711	-	**23,711**
Short-term financial investments	17	6,437	-	**6,437**
Financial receivables	14	40,842	-	**40,842**
Aircraft lease security deposits	13	4,815	-	**4,815**
Long-term financial investments	17	83	5,310	**5,393**
Financial assets under lease agreements	4	21,065	-	**21,065**
Other current assets		226	-	**226**
Other non-current assets		458	-	**458**
Total financial assets		**97,637**	**5,310**	**102,947**

	Note	Financial liabilities measured at amortised cost	Total
Financial payables	22	45,643	**45,643**
Lease liabilities	28	655,931	**655,931**
Loans and borrowings	29	3,486	**3,486**
Other non-current liabilities		201	**201**
Total financial liabilities		**705,261**	**705,261**

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS

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

Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed financial conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group utilises a detailed budgeting and cash forecasting process to ensure its liquidity is maintained at appropriate level.

The following are the Group's financial liabilities as at 31 December 2019 and 31 December 2018 by contractual maturity (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

	Average interest rate						
31 December 2019	**Incremental borrowing rate**	**Effective rate**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans and borrowings	3.5% - 6.8%	3.5% - 6.8%	13,009	2,978	-	470	16,457
Lease liabilities	4.8% - 9.7%	4.8% - 9.7%	106,223	101,829	266,971	248,969	723,992
Financial payables			42,227	1,032	-	-	43,259
Total future payments, including future interest payments			**161,459**	**105,839**	**266,971**	**249,439**	**783,708**

	Average interest rate						
31 December 2018	**Incremental borrowing rate**	**Effective rate**	**0–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
Loans and borrowings	2.3% - 8.1%	2.3% - 8.1%	432	290	3,054	467	4,243
Lease liabilities	5.0% - 9.8%	5.0% - 9.8%	123,038	115,141	303,499	346,387	888,065
Financial payables			45,643	200	-	-	45,843
Total future payments, including future interest payments			**169,113**	**115,631**	**306,553**	**346,854**	**938,151**

As at 31 December 2019, the Group has net short-term liabilities in the amount of RUB 90,566 million (as at 31 December 2018: RUB 99,023 million). In 2019, the Group received net profit of RUB 13,512 million (in 2018 loss: RUB 55,694 million). The cost of fuel, in the absence of sharp jumps in 2019, continued to remain at significantly higher levels compared to historical average values, which, in conditions of limited purchasing power of passengers, created some pressure on financial results. The cash flow from operating activities for 2019 year was positive and amounted to RUB 152,225 million (in 2018: RUB 134,002 million).

The Group Treasury provides flexibility of financing through available credit lines. At 31 December 2019, within the credit lines provided by various credit organizations, the Group had the opportunity to raise additional funds in the amount of RUB 100,971 million for repayment of financial liabilities (31 December 2018: RUB 84,183). In addition to improve liquidity, the Group plans to increase the Group's operating efficiency and further increase cash flow from operating activities.

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Group is exposed to currency risk in relation to revenue as well as purchases and borrowings that are denominated in a currency other than Rouble. The currencies in which these transactions are primarily denominated are Euro and US Dollar. The Groups analyses the exchange rate trends on a regular basis.

The Group uses long-term lease liabilities nominated in US Dollars as hedging instrument for risk of change in US Dollar exchange rate in relation to revenue (Note 28).

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

		31 December 2019				31 December 2018			
In millions of Russian Roubles	**Note**	**US Dollar**	**Euro**	**Other currencies***	**Total**	**US Dollar**	**Euro**	**Other currencies***	**Total**
Cash and cash equivalents	12	1,427	301	801	2,529	2,848	262	606	3,716
Financial receivables		18,117	3,321	3,182	24,620	23,853	4,769	4,045	32,667
Financial assets under lease agreements		22,190	-	-	22,190	21,066	-	-	21,066
Aircraft lease security deposits		3,929	-	-	3,929	4,402	-	-	4,402
Other non-current assets		121	68	3	192	130	78	4	212
Total assets		**45,784**	**3,690**	**3,986**	**53,460**	**52,299**	**5,109**	**4,655**	**62,063**
Financial payables		16,250	2,918	800	19,968	17,505	8,928	5,115	31,548
Lease liabilities		537,362	368	287	538,017	632,794	1,116	718	634,628
Long-term loans and borrowings	29	424	-	-	424	467	-	-	467
Total liabilities		**554,036**	**3,286**	**1,087**	**558,409**	**650,766**	**10,044**	**5,833**	**666,643**
Total (liabilities)/ assets, net		**(508,252)**	**404**	**2,899**	**(504,949)**	**(598,467)**	**(4,935)**	**(1,178)**	**(604,580)**

*currencies other than functional currency of the Group

Strengthening or weakening of listed below currencies against rouble as at 31 December 2019 and 31 December 2018, would change profit after tax by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant:

	31 December 2019		31 December 2018	
	Percent of change in rate of currency versus rouble	**Effect on profit after tax ((increase)/ decrease)**	**Percent of change in rate of currency versus rouble**	**Effect on profit after tax ((increase)/ decrease)**
Decrease in the rate of currency versus rouble:				
US Dollar	20%	(246)	20%	(80,744)
Euro	20%	65	20%	(790)
Other currencies	20%	464	20%	(188)
Increase in the rate of currency versus rouble:				
US Dollar	20%	246	20%	80,744
Euro	20%	(65)	20%	790
Other currencies	20%	(464)	20%	188

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

As at 31 December 2019 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 81,320 million. The change of other currencies would have no material impact on equity. As at 31 December 2018 the increase in the US dollar rate against rouble by 20% by would have led to a reduction in the amount of the Group's equity by RUB 95,755 million. The change of other currencies would have no material impact on equity.

Interest rate risk

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

As at 31 December 2019 and 31 December 2018, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2019	**31 December 2018**
Fixed rate financial instruments:		
Financial assets	17,813	14,693
Financial liabilities	(290,901)	(311,735)
Total fixed rate financial instruments	**(273,088)**	**(297,042)**
Variable rate financial instruments:		
Financial liabilities	(282,015)	(347,682)
Variable rate financial liabilities	**(282,015)**	**(347,682)**

As at 31 December 2019 and 31 December 2018 the Group had bank loans and lease liabilities with variable interest rates. If the variable part of interest rates as at 31 December 2019 and 31 December 2018 were 20% higher or lower than the actual variable part of interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2018: would not have changed significantly).

Aircraft fuel price risk

If the price of Brent crude oil as at 31 December 2019 or 31 December 2018 were 10% higher or lower than the actual price, then, with all other variables held constant (including forecasts of future oil prices), the impact on the consolidated financial result and the amount of the Group's equity would be insignificant.

Capital management risk

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

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

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

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Capital management risk (continued)

Total debt consists of short-term and long-term borrowings (including the current portion) (Note 29), lease liabilities (Note 28) and defined benefit pension obligation.

Net debt is defined as total debt, including lease liabilities and pension plans liabilities, less cash, cash equivalents and short-term financial investments. As at 31 December 2019 pension plans liabilities amounted to RUB 784 million (as at 31 December 2018: RUB 908 million).

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

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

The ratios are as follows:

	As at and for the year ended 31 December 2019	**As at and for the year ended 31 December 2018**
Total debt	573,700	660,325
Cash and cash equivalents and short-term financial investments	(25,861)	(30,148)
Net debt	547,839	630,177
Equity attributable to shareholders of the Company	(1,692)	(63,517)
Total capital	546,147	566,660
EBITDA	168,924	151,517
Net debt/Total capital	1.0	1.1
Total debt/EBITDA	3.4	4.4
Net debt/EBITDA	3.2	4.2

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

There were no changes in the Group's approach to capital management in 2019 and 2018.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements in 2019 and 2018, except for minimal share capital according to the legislation.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, financial receivables and investments in securities.

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets

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

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

Finance receivables

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

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

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

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

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

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Finance receivables (continued)

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

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

	31 December 2019		
Expected credit losses category	**Basis for recognition of expected credit loss provision**	**Estimated gross carrying amount at default**	**Lifetime expected credit losses**
Performing asset	Expected credit losses for 12 months. Where the term of the asset is less than 12 months, the estimated credit losses are based on the term of the asset.	31,276	(57)
Underperforming asset	Lifetime expected losses	1,182	(13)
Non-performing asset	Lifetime expected losses	11,318	(10,879)
Total		**43,776**	**(10,949)**

	31 December 2018		
Expected credit losses category	**Basis for recognition of expected credit loss provision**	**Estimated gross carrying amount at default**	**Lifetime expected credit losses**
Performing asset	Expected credit losses for 12 months. Where the term of the asset is less than 12 months, the estimated credit losses are based on the term of the asset.	40,041	(477)
Underperforming asset	Lifetime expected losses	262	(8)
Non-performing asset	Lifetime expected losses	12,009	(10,985)
Total		**52,312**	**(11,470)**

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

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Finance receivables (continued)

The loss allowance for loans to customers as at 31 December 2019 and 31 December 2018 reconciles to the opening loss allowance for that provision as follows:

	Performing	Underperforming	Non-performing	Total
Opening loss allowance as at 1 January 2019	**477**	**8**	**10,985**	**11,470**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	-	-	301	**301**
New financial assets originated or purchased	57	13	133	**203**
Write-offs	-	-	(301)	**(301)**
Recoveries	(477)	(8)	(239)	**(724)**
Closing loss allowance as at 31 December 2019	**57**	**13**	**10,879**	**10,949**

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

Financial assets under lease agreements

Provision for expected credit loss is also created in respect of financial assets related to payments to aircraft maintenance reserve. Calculation of the Group expected credit loss provision considers forecasting macroeconomic information – dynamics of forecast country ratings by rating agencies.

Other assets at amortised cost

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

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Other assets at amortised cost (continued)

	31 December 2019				
Category	**Asset**	**Expected credit loss rate**	**Basis for recognition of expected credit loss provision**	**Gross carrying amount**	**Lifetime expected credit losses**
Performing asset	Cash and cash equivalents	0%	Expected credit losses for 12 months. In cases where the term of the asset is less than 12 months, the estimated losses are based on the term of the asset	12,883	-
	Financial assets under lease agreements	0,02%-2,15%		22,312	(122)
	Financial investments	0,12% - 4,26%		13,080	(7)
	Aircraft lease security deposits	0,45% - 1,43%		4,365	(24)
Non-performing asset	Financial investments	100%	Lifetime expected losses	9,728	(9,728)
Total				**62,368**	**(9,881)**

	31 December 2018				
Category	**Asset**	**Expected credit loss rate**	**Basis for recognition of expected credit loss provision**	**Gross carrying amount**	**Lifetime expected credit losses**
Performing asset	Cash and cash equivalents	0%	Expected credit losses for 12 months. In cases where the term of the asset is less than 12 months, the estimated losses are based on the term of the asset	23,711	-
	Financial assets under lease agreements	0%		21,065	-
	Financial investments	0,12% - 4,26%		6,547	(27)
	Aircraft lease security deposits	0,45% - 1,43%		4,881	(11)
Underperforming asset	Financial investments	100%	Lifetime expected losses	30	(30)
Non-performing asset	Financial investments	100%	Lifetime expected losses	9,584	(9,584)
Total				**65,818**	**(9,652)**

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

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

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

36. RISKS CONNECTED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Other assets at amortised cost (continued)

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

	31 December 2019	31 December 2018
Cash and cash equivalents (excluding petty cash) (Note 12)	12,817	23,630
Financial receivables (Note 14)	32,831	40,843
Current financial assets under lease agreements	3,834	1,804
Non-current financial assets under lease agreements	18,356	19,261
Short-term financial investments (Note 17)	12,978	6,437
Long-term financial investments (Note 17)	93	80
Aircraft lease security deposits (Note 13)	4,341	4,817
Other non-current assets	193	437
Total financial assets exposed to credit risk	**85,443**	**97,309**

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

- Applying a system of limits. The limits reflect the Group's willingness to bear the credit risk within reasonable limits in order to maintain competitiveness and achievement of business objectives. The limit can be set for any source of risk or an individual counterparty. Qualitative factors that take into account the ownership structure (including the presence of an external investment rating), the period of work with the Group, the existence of lawsuits and quantitative coefficients based on the reporting are applied to establish limits.

- Assessment of credit quality of counterparties (credit ratings). The Group applies the internal credit rating system primarily, but not limited to, for agents that sale of passenger and freight traffic. The counterparty's credit rating is updated on a monthly basis and allows timely response to deteriorating credit quality of the counterparty. The credit rating affects the required amount of financial security under the contract, the recalculation of which also takes place on a monthly basis.

- Regular monitoring of credit risk indicators. Indicators of credit risks allow to reveal in advance the growth of the credit risk of an individual counterparty (a group of counterparties). As a result, the Group may take the necessary actions to prevent financial losses in the event of default of the counterparty. Indicators are applied at the ERP system level. When developing indicators, the company applies methods of quantitative statistical analysis, predictive models, as well as expert indicators.

- Regular reporting on credit risk. Providing regular reporting is an essential component that allows interested persons to observe the efficiency of risk reduction measures and the dynamics of its evaluation. The reporting is provided to the management of the Group, interested structural units, audit commissions, and also to the Board of Directors.

Credit risk concentration

As at 31 December 2019 and as at 31 December 2018, a large portion of cash was placed in two banks, which causes the credit risk concentration for the Group (Note 12).

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

37. CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

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

	Borrowings	Lease liabilities	Other liabilities arising from financing activities	Total
1 January 2019	**3,486**	**655,931**	**64**	**659,481**
Cash repayment of liabilities	(24,081)	(124,280)	(3,286)	(151,647)
Cash inflows	36,161	-	-	36,161
Forex adjustments	(213)	(68,220)	-	(68,433)
Non-cash inflows of financial liabilities	-	42,212	3,974	46,186
Interest accrual	432	44,695	-	45,127
Other changes not related to cash flows	7	6,786	-	6,793
31 December 2019	**15,792**	**557,124**	**752**	**573,668**

	Borrowings	Lease liabilities	Other liabilities arising from financing activities	Total
1 January 2018	**3,181**	**493,778**	**65**	**497,024**
Cash repayment of liabilities	(385)	(117,570)	(14,543)	(132,498)
Cash inflows	350	-	-	350
Forex adjustments	79	104,497	-	104,576
Non-cash inflows of financial liabilities	-	135,785	14,542	150,327
Interest accrual	261	43,699	-	43,960
Other changes not related to cash flows	-	(4,258)	-	(4,258)
31 December 2018	**3,486**	**655,931**	**64**	**659,481**

Dividends paid in the amount of RUB 3,286 million are reflected in changes of other liabilities for 2019 (in 2018: RUB 14,543 million).

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets carried at amortised cost. The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and remaining maturity. Discount rates depend on the credit risk of the counterparty. Carrying amounts of financial receivables (Note 14), investments, lease security deposits (Note 13), deposits placed for more than 90 days and other financial assets and loans granted (Note 17) are approximately equal to their fair value, which belongs to Level 2 in the fair value hierarchy. Cash and cash equivalents (Note 12), except for cash, belong to level 2 in the fair value hierarchy and are carried at amortized cost, which is approximately equal to their current fair value.

Financial assets measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are mainly represented by investments in JSC MASH that do not have market quotes. The fair value measurement of JSC MASH cost belong to Level 3 in the fair value hierarchy and are determined through a regular estimation of the expected discounted cash flows, where one or more of the significant inputs is not based on observable market data, including the following: (i) the discount rate determined using the CAPM; (ii) the forecast of passenger traffic and the number of take-off and landing operations based on the evaluation of historical data and public information; (iii) the growth rate of tariffs for ground handling and airport services; and (iv) the amount of capital investments estimated based on the forecast information published by JSC MASH (Note 17).

Liabilities carried at amortised cost. The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2019 and 31 December 2018, the fair values of financial payables (Note 22), loans and borrowings (Note 29) were not materially different from their carrying amounts. The fair values of financial payables and loans and borrowings are categorised as Levels 2.

39. RELATED-PARTY TRANSACTIONS

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

As at 31 December 2019 and 31 December 2018, the outstanding balances with related parties and income and expense items with related parties for 12 months 2019 and 12 months 2018 were disclosed below.

Associates

As at 31 December 2019 and 31 December 2018, the outstanding balances with associates and income and expense items with associates for 12 months 2019 and 12 months 2018 were as follows:

	31 December 2019	31 December 2018
Liabilities		
Accounts payable and accrued liabilities	197	136

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

39. RELATED-PARTY TRANSACTIONS (CONTINUED)

Associates (continued)

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

	31 December 2019	31 December 2018
Transactions		
Sales to associates	15	17
Purchase of goods and services from associates	3,212	2,753

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

Government-related entities

As at 31 December 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 December 2019	31 December 2018
Assets		
Cash	6,770	15,649

As at 31 December 2019 the share of financial assets under aircraft lease contracts signed by the Group with government-related entities was 39% (31 December 2018: 36%).

During 2019 the Group has withdrawn a credit lines provided by government-related entities, amount of the credit lines are disclosed in Note 29.

The amounts of the Group's lease liabilities (including liabilities related to assets held for sale) are disclosed in Notes 21and 28. As at 31 December 2019 the share of liabilities under lease agreement signed by the Group with government-related entities was about 58% (31 December 2018: share of liabilities under lease agreement (including liabilities related to assets held for sale): about 56%), the share of interest expenses on lease for 12 months 2019 was approximately 55% (for 12 months 2018: the share of interest expenses on lease (including liabilities related to assets held for sale): approximately .51%).

For 12 months 2019 the share of Group's transactions with government-related entities was about 22% of operating costs, and about 2% of revenue (for 12 months 2018: about 24% and about 2%, respectively). These expenses primarily include costs of motor fuels supplies, expenses as well as air navigation and aircraft maintenance services in the airports.

39. RELATED-PARTY TRANSACTIONS (CONTINUED)

Government-related entities (continued)

As at 31 December 2019 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group. As at 31 December 2019 the amount of accumulated profit of these subsidiaries was RUB 1,086 million (31 December 2018: RUB 745 million).

Transactions with the Russian Government also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 8, 9, 11, 14 and 22.

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 2,138 million for 12 months 2019 (12 months 2018: RUB 1,548 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.

Long-term bonus programmes for management

In 2019 the Company approved long-term bonus programmes for its key management personnel and members of the Company's Board of Directors. The amounts of payments under the programmes depend on the criteria of Group passenger traffic, share of international transit from total passenger traffic of the Group and transportation profitability. The fair value of the liabilities under the bonus programmes as of 31 December 2019, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2019 till 31 December 2019 and amount of payment deferred till the end of the programmes. Previously adopted programmes were terminated.

As at 31 December 2019, the outstanding amount of the liability under these programmes was RUB 410 million (31 December 2018: RUB 220 million).

40. CAPITAL COMMITMENTS

As at 31 December 2019, the Group had non-cancellable agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 185 638 million (31 December 2018: RUB 255,116 million). These commitments mainly relate to purchase 22 Airbus A350 (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.

41. CONTINGENCIES

Operating Environment of the Group

The economy of the Russian Federation displays certain characteristics of an emerging market. It is particularly sensitive to oil and gas price fluctuations. The legal, tax and regulatory frameworks of the RF continue to develop and are subject to frequent changes and varying interpretations. 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.

41. CONTINGENCIES (CONTINUED)

Operating Environment of the Group (continued)

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 Russian Federation 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 Russian Federation 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 Russian Federation 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). Also in accordance with the amendments to the Russian Tax Code adopted in 2019, since September 1, 2019, excise duties charged on the aviation fuel obtained by the Group's airlines are subject to deduction using the coefficient 2.08, increased by V_{AVIA} coefficient, determined in accordance with par. 21 of article 200 of the Russian Tax Code.

Since 1 January 2015, the Russian Tax Code has been supplemented with the framework of beneficial ownership to the income paid from the Russian Federation (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 this 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), if the transaction price is not in accord with market. 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 change cannot be reliably estimated; however, it may be significant to the financial position and/or the business activity of the Group.

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

In addition to the above matters, as at 31 December 2019 and 31 December 2018 management estimates that the Group does not have obligations related with tax risks, probability of which estimates as “more than insignificant”.

Management will vigorously defend the Group’s positions and interpretations that applied in calculating taxes recognised in Consolidated Financial Statements, if it will be changed by the tax authorities.

41. CONTINGENCIES (CONTINUED)

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 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.