AEROFLOT ANNOUNCES FY 2017 IFRS FINANCIAL RESULTS

Moscow, 1 March 2018 – Aeroflot Group ("the Group", Moscow Exchange ticker: AFLT) today publishes its audited financial statements in accordance with International Financial Reporting Standards for the year ended 31 December 2017.

Aeroflot Group financial highlights for FY 2017

- Revenue increased to RUB 532,934 million, 7.5% year-on year;
- EBITDAR reached RUB 121,808 million. The EBITDAR margin was 22.9%;
- EBITDA reached RUB 56,015 million. The EBITDA margin was 10.5%;
- Net income totalled RUB 23,060 million.

Shamil Kurmashov, PJSC Aeroflot Deputy CEO for Commerce and Finance, commented:

"2017 was another landmark year for Aeroflot, as the Group's airlines carried 50.1 million passengers, 15.4% more than the previous year. We took full advantage of the opportunities offered by the growing passenger transportation market in both the scheduled and charter segments. The Group continued its sustainable growth on domestic and international routes. The Group utilised its significant capacity additions – up 14.2% year-on-year – efficiently, resulting in an increased load factor of 82.8%, 1.4 p.p. higher than in 2016. This is a particularly notable achievement given our already high load factor, which has now increased for three years in a row, adding a total of 5.1 p.p.

"The financial results for the year reflect a normalisation of profitability and the effect of a number of market factors that had already had an impact on our 9M 2017 results. Yields came under pressure from a changing competitive landscape and international carriers adding capacity back into the Russian market, while the re-opening of the Turkish market led to structural changes in demand. On the other hand, higher oil prices and the change in ruble and currency correlation pattern rate put pressure on fuel costs, a key expense item accounting for 24.9% of operating costs. The key tools available to help us manage the impact of these macro factors are an efficient system for purchasing fuel on favourable conditions, as well as continued incremental improvements in fuel efficiency. In 2017 specific consumption was 22.8 g per seat-kilometre, a reduction of 0.6% year-on-year.

"The fourth quarter saw the continuation of some positive trends that first began to emerge in the third quarter. In Q4 2017 we were able to achieve an increase in the pace of revenue growth to 11.9%, compared to 7.5% for the year, as well as a slow-down in cost growth. EBITDA for the quarter reached RUB 2.7 billion, or 3.2 times more than the final quarter of 2016. The key factor here was increased yields, which also showed an improved trend during the period (year-on-year growth of 1% in the fourth quarter compared to a year-on-year decrease of more than 5% in 9M 2017).

"Given the impact of FX swings and higher fuel prices – as well as the lack of the material currency differences on returns of pre-payments for aircraft that affected the 2016 results – the financial result for 2017 was lower, reflecting the normalisation of profitability. In turn, the significant reduction of the debt burden thanks to pre-term repayment of credit lines during the year, as well as economies on other non-operational costs, supported net profit, which came in at RUB 23.1 billion."

Key operating highlights

	2017	2016	Change
Passengers carried, thousand PAX	50,129	43,440	15.4%
- international	22,550	18,289	23.3%
- domestic	27,579	25,151	9.7%
Revenue Passenger Kilometres, million	130,222	112,110	16.2%
- international	77,034	63,433	21.4%
- domestic	53,188	48,678	9.3%
Available Seat Kilometres, million	157,211	137,654	14.2%
- international	93,429	79,334	17.8%
- domestic	63,781	58,320	9.4%
Passenger load factor, %	82.8%	81.4%	1.4 p.p.
- international	82.5%	80.0%	2.5 p.p.
- domestic	83.4%	83.5%	(0.1 p.p.)

In 2017 Aeroflot Group carried 50.1 million passengers, up 15.4% year-on-year.

Key financial highlights

RUB million, unless stated otherwise	**2017**	**2016**	**Change**
Revenue	532,934	495,880	7.5%
EBITDAR[1]	121,808	137,567	(11.5%)
EBITDAR margin	*22.9%*	*27.7%*	*(4.8 p.p.)*
EBITDA[1]	56,015	78,004	(28.2%)
EBITDA margin	*10.5%*	*15.7%*	*(5.2 p.p.)*
Operating profit	40,411	63,254	(36.1%)
Operating profit margin	*7.6%*	*12.8%*	*(5.2 p.p.)*
Profit for the period	23,060	38,826	(40.6%)
Net profit margin	*4.3%*	*7.8%*	*(3.5 p.p.)*

Revenue

RUB million, unless stated otherwise	**2017**	**2016**	**Change**
Passenger traffic revenue	458,390	421,377	8.8%
- scheduled passenger flights	427,529	403,760	5.9%
- charter passenger flights	30,861	17,617	75.2%
Cargo flight revenue	16,526	12,589	31.3%
Other revenue	58,018	61,914	(6.3%)
Total revenue	**532,934**	**495,880**	**7.5%**

In 2017, Aeroflot Group's revenue increased by 7.5% year-on-year to RUB 532,934 million.

[1] EBITDAR = EBITDA + operating lease expenses. EBITDA = operating profit + depreciation & amortisation + customs duties.

Revenue from scheduled passenger flights increased by 5.9% year-on-year to RUB 427,529 million, driven by an increase in passenger traffic. Revenue growth was affected by a decrease in yields, primarily on international routes, due to the strengthening of the ruble and the consequent effect of this on FX-denominated revenue.

Revenue from charter flights increased by 75.2% to RUB 30,861 million, due among other factors to the growth of Rossiya's charter programme.

Cargo revenue rose by 31.3% year-on-year to RUB 16,526 million as the Group added new wide-body aircraft to its fleet and cargo and mail volumes grew by 32.8%.

Other revenue decreased by 6.3% year-on-year to RUB 58,018 million, due mainly to a decrease in the ruble equivalent of FX-denominated revenues from airline agreements as a consequence of changes in the exchange rate.

Operating costs

RUB million, unless stated otherwise	**2017**	**2016**	**Change**
Aircraft servicing and passenger services	96,418	87,227	10.5%
Staff costs	82,801	64,682	28.0%
Operating lease expenses	65,793	59,563	10.5%
Aircraft maintenance	36,433	38,236	(4.7%)
Sales and marketing, administration and general expenses	36,139	30,294	19.3%
Depreciation, amortisation and customs duties	15,604	14,750	5.8%
Other net expenses	36,650	36,292	1.0%
Operating costs less aircraft fuel	**369,838**	**331,044**	**11.7%**
Aircraft fuel	122,685	101,582	20.8%
Total operating costs	**492,523**	**432,626**	**13.8%**

In 2017, aircraft fuel costs increased by 20.8% year-on-year to RUB 122,685 million. This was due to an increase in the average price of aircraft fuel in rubles amid changes in the price of oil and exchange rates, as well as an increase in flight numbers and flying time.

The strengthening of the ruble mitigated the increase in expenses due to the growth of the business. Excluding fuel costs, operating expenses increased by 11.7% year-on-year to RUB 369,838 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 96,418 million, a 10.5% increase year-on-year, due primarily to the growth of passenger traffic and increased airport taxes. This item was also impacted by new initiatives aimed at boosting service quality.

Staff costs rose 28.0% year-on-year and amounted to RUB 82,801 million, as a result of salary indexation in accordance with the collective bargaining agreement, an increase in the number of staff to support operational growth, growth of the variable component of salaries linked to the achievement of corporate KPIs, and an increase in unused vacation accrual, as well as payment of bonuses to pilots.

Operating lease expenses rose to RUB 65,793 million, a 10.5% increase year-on-year, due to expansion of the fleet (net increase of 42 aircraft, or 17.7%, on operating leases compared with 31 December 2016), as well as an increase in the average six-month LIBOR rate in 2017 compared to 2016.

Aircraft maintenance costs fell by 4.7% year-on-year to RUB 36,433 million. Aircraft maintenance costs were significantly impacted by the strengthening of the ruble, as well as by ongoing development of A-Tekhnics, our maintenance subsidiary, resulting in increasing volumes of in-house maintenance and implications for cost allocation by nature.

Selling, general and administrative expenses (SG&A) grew by 19.3% year-on-year to RUB 36,139 million, due to increased investment in marketing campaigns, in particular promoting Aeroflot in key international markets. This programme is delivering notable results, as Aeroflot carried 4.4 million international transit passengers in 2017, a 18.6% increase year-on-year.

Amortisation and customs tariffs increased by 5.8% year-on-year to RUB 15,604 million, due to the introduction of IT equipment during the year.

Other expenses increased by 1.0% year-on-year to RUB 36,650 million.

As a result of the impact of these factors, EBITDAR totalled RUB 121,808 million, and the EBITDAR margin was 22.9%. EBITDA totalled RUB 56,015 million, and the EBITDA margin was 10.5%.

Non-operating gains and losses

RUB million, unless stated otherwise	2017	2016	Change
Operating profit	**40,411**	**63,254**	**(36.1%)**
Loss from sale and impairment of investments	(144)	(2,935)	(95.1%)
Finance income	7,127	19,802	(64.0%)
Finance costs	(8,225)	(9,443)	(12.9%)
Realised hedging result	(5,613)	(12,310)	(54.4%)
Share of results of associates	170	12	-
Result from disposal of companies	-	(5,099)	-
Profit before tax	**33,726**	**53,281**	**(36.7%)**
Income tax	(10,666)	(14,455)	(26.2%)
Profit for the period	**23,060**	**38,826**	**(40.6%)**

Finance income decreased by 64.0% year-on-year to RUB 7,127 million, mainly due to lower earnings from exchange-rate differences.

Finance costs declined by 12.9% year-on-year to RUB 8,225 million as debt levels fell, leading to a reduction in the cost of debt servicing.

The realized loss from hedging of RUB 5,613 million was attributable both to settlements under derivative instruments recognised in equity and to a realised result related to hedging of USD-denominated revenue through USD-denominated lease obligations.

Aeroflot Group’s net profit for 2017 amounted to RUB 23,060 million.

Debt and liquidity

RUB million, unless stated otherwise	30.12.2017	31.12.2016	Change
Loans and borrowings	3,181	20,367	(84.4%)
Finance lease liabilities	100,689	122,736	(18.0%)
Pension liabilities	922	805	14.5%
Total debt	**104,792**	**143,908**	**(27.2%)**
Cash and short-term investments	54,909	37,795	45.3%
Net debt	**49,883**	**106,113**	**(53.0%)**
Net debt / EBITDA	**0.9x**	**1.4x**	**-**

Total debt as of 31 December 2017 decreased by 27.2% compared to 31 December 2016, to RUB 104,792 million. The reduction was due to repayment of loans and borrowings both as they came due and ahead of schedule, as well as to adjustments to the valuation of financial leases due to changes in the RUB-USD exchange rate as of 31 December 2017 compared to 31 December 2016. Despite significant repayments, cash and short-term investments increased by more than 45.3% versus 31 December 2016 and totalled RUB 54,909 million.

As of 31 December 2017, undrawn lines available to Aeroflot Group from major Russian and international banks amounted to RUB 103.2 billion.

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