

Aeroflot announces 6M 2018 IFRS financial results

Moscow, 29 August 2018 – Aeroflot Group (“the Group”, Moscow Exchange ticker: AFLT) today publishes its condensed consolidated interim financial statements for the six months ended 30 June 2018, in accordance with International Financial Reporting Standards.

Aeroflot Group financial highlights

<i>RUB million, unless stated otherwise</i>	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Revenue	153,880	131,735	16.8%	265,822	234,860	13.2%
EBITDAR ¹	35,596	32,315	10.2%	46,363	46,057	0.7%
<i>EBITDAR margin</i>	23.1%	24.5%	(1.4 p.p.)	17.4%	19.6%	(2.2 p.p.)
EBITDA ¹	14,354	16,539	(13.2%)	6,622	15,403	(57.0%)
<i>EBITDA margin</i>	9.3%	12.6%	(3.3 p.p.)	2.5%	6.6%	(4.1 p.p.)
Profit / (loss) for the period	6,315	8,229	(23.3%)	(5,228)	2,890	-

Andrey Chikhanchin, PJSC Aeroflot’s Deputy CEO for Commerce and Finance, said:

“Aeroflot Group disclosed first-quarter results under IFRS for the first time this year. Today’s publication of our half-year results provides investors and analysts with the opportunity to analyse our results for the second quarter and to make quarter-on-quarter comparisons across key indicators.

“In 2018, Aeroflot Group has continued to deliver operational growth, expanding the geographical coverage of its network and adding capacity on routes where we have seen the highest demand. The growth rate of passenger numbers in the second quarter accelerated to 9.6% year-on-year from 6.6% year-on-year in the first quarter, bringing the total increase for the first half to 8.2%, for a total of 24.9 million passengers. Traffic growth accelerated while we maintained a positive trend in yields, which increased by 8.6% year-on-year in the second quarter, compared to an increase of 3.6% year-on-year in the first quarter. Revenue from passenger traffic improved as a result, reaching RUB 135.5 billion in the second quarter, a 19.2% increase year-on-year, and 8.1 p.p. faster than the growth seen in the first quarter. The uptick in revenue was supported by the Company’s proactive approach to revenue management – including tactical optimisation through capacity and load factor management – as well as currency effects and increased demand for flights during the group stage of the World Cup in June.

“Nonetheless, revenue grew at a slower pace than costs. The key factor affecting operating costs was growth in aviation fuel prices, which increased by almost 30% year-on-year in the first half of 2018 with acceleration of growth during second quarter. In this context, management approved an extensive programme to mitigate external impact on the Company’s financial results, including initiatives on both the revenue and cost side. The programme has already had an effect on the costs side; excluding fuel, CASK increased by just 1.5% in the first half of 2018, and fell by 1.1% in the second quarter despite growing currency pressures on FX-denominated cost items, as well as increasing airport fees. We have also seen significant economies on SG&A expenses. At the CASK level, we have also seen economies on personnel costs, which reflects our efforts to maintain high labour productivity.

“As a result of active revenue management and implementation of cost-management initiatives, Aeroflot Group in the second quarter recorded a net profit of RUB 6.3 billion. The financial result for the second quarter partially mitigated the loss for the first quarter, and reduced the overall loss for the first half to RUB 5.2 billion. Aeroflot Group intends to maintain strict control and optimization of costs to support optimal financial results in the prevailing economic climate.”

Key operating highlights

	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Passengers carried, thousand PAX	13,871	12,660	9.6%	24,856	22,962	8.2%
- international	6,171	5,668	8.9%	11,059	10,245	7.9%
- domestic	7,699	6,993	10.1%	13,797	12,717	8.5%
Revenue Passenger Kilometres, million	35,244	32,459	8.6%	63,987	59,392	7.7%
- international	20,365	18,992	7.2%	37,932	35,523	6.8%
- domestic	14,879	13,466	10.5%	26,054	23,869	9.2%
Available Seat Kilometres, million	43,358	39,209	10.6%	79,982	73,719	8.5%
- international	25,457	22,895	11.2%	47,961	43,741	9.6%
- domestic	17,901	16,314	9.7%	32,020	29,977	6.8%
Passenger load factor, %	81.3%	82.8%	(1.5 p.p.)	80.0%	80.6%	(0.6 p.p.)
- international	80.0%	83.0%	(3.0 p.p.)	79.1%	81.2%	(2.1 p.p.)
- domestic	83.1%	82.5%	0.6 p.p.	81.4%	79.6%	1.7 p.p.

In 6M 2018, Aeroflot Group carried 24.9 million passengers, up 8.2% year-on-year.

Revenue

<i>RUB million, unless stated otherwise</i>	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Passenger traffic revenue	135,456	113,594	19.2%	232,352	200,799	15.7%
- scheduled passenger flights	124,862	106,080	17.7%	215,969	188,416	14.6%
- charter passenger flights	10,594	7,514	41.0%	16,383	12,383	32.3%
Cargo flight revenue	4,400	3,805	15.6%	8,178	7,183	13.9%
Other revenue	14,024	14,336	(2.2%)	25,292	26,878	(5.9%)
Total revenue	153,880	131,735	16.8%	265,822	234,860	13.2%

In 6M 2018, Aeroflot Group's revenue increased by 13.2% year-on-year to RUB 265,822 million.

Revenue from scheduled passenger flights increased by 14.6% year-on-year to RUB 215,969 million, driven by growth of passenger traffic. Revenue growth was affected by an increase in yields, primarily on international routes, as the ruble weakened against the euro and the consequent effect of this on FX-denominated revenue.

Revenue from charter flights increased by 32.3% year-on-year to RUB 16,383 million, due among other factors to the growth of Rossiya's charter programme.

Cargo revenue rose by 13.9% year-on-year to RUB 8,178 million as cargo and mail volumes grew by 10.6%.

Other revenue decreased by 5.9% year-on-year to RUB 25,292 million, due among other factors to a decrease in fuelling volumes and maintenance of aircraft belonging to other airlines, as well as the introduction of the new IFRS 15 standard, which affects the classification of service fees for reservation changes between other and recurring revenue.

Operating costs

<i>RUB million, unless stated otherwise</i>	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Aircraft servicing and passenger services	26,726	24,807	7.7%	48,634	45,961	5.8%
Staff costs	20,255	19,736	2.6%	41,659	38,324	8.7%
Operating lease expenses	21,242	15,776	34.6%	39,741	30,654	29.6%
Aircraft maintenance	11,790	7,503	57.1%	20,259	15,682	29.2%
Sales and marketing, administration and general expenses	7,918	8,336	(5.0%)	14,078	14,507	(3.0%)
Depreciation, amortisation and customs duties	3,037	3,906	(22.2%)	6,901	7,706	(10.4%)
Other net expenses	7,752	10,248	(24.4%)	16,944	18,112	(6.4%)
Operating costs less aircraft fuel	98,720	90,312	9.3%	188,216	170,946	10.1%
Aircraft fuel	43,843	28,790	52.3%	77,885	56,217	38.5%
Total operating costs	142,563	119,102	19.7%	266,101	227,163	17.1%

In 6M 2018, aircraft fuel costs increased by 38.5% year-on-year to RUB 77,885 million. This was due to almost 30.0% year-on-year increase in the average price of aircraft fuel in rubles as oil prices fluctuated, as well as an increase in numbers of flights and flying time.

Excluding aircraft fuel costs, operating costs increased by 10.1% year-on-year to RUB 188,216 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 48,634 million, a 5.8% increase year-on-year, due primarily to the growth of passenger traffic and increased airport fees. Optimisation of service costs constrained the growth rate of this cost item.

Staff costs rose 8.7% year-on-year and amounted to RUB 41,659 million, as a result of an increase in salaries for aircraft captains, effective from the start of 2018, as well as due to an increase in staff numbers to support the Group's operational growth.

Operating lease expenses amounted to RUB 39,741 million, a 29.6% increase year-on-year, due to significant expansion of the fleet (net increase of 59 aircraft, or 23.7%, on operating leases compared with 30 June 2017), as well as a year-on-year increase in the Libor rate in 6M 2018 (average three-month Libor rose by 1.0 p.p. to 2.13%).

Aircraft maintenance costs grew by 29.2% year-on-year to RUB 20,259 million. Maintenance costs were significantly affected by an increase in volumes of technical maintenance due to expansion of the fleet and the changing composition of regular maintenance work in the comparable periods, as well as growth of maintenance costs due to higher product quality demands.

Selling, general and administrative expenses (SG&A) decreased by 3.0% year-on-year to RUB 14,078 million, following the launch of a cost optimisation programme.

Amortisation and customs tariffs decreased by 10.4% year-on-year to RUB 6,901 million, due to a revision of plans for the use of fixed assets and an increase in projected length of service, as well as a reduction in the number of aircraft on financial leases.

Other expenses decreased by 6.4% year-on-year to RUB 16,944 million, due to a decrease in reserves for regular aircraft maintenance and repair work.

As a result of the impact of these factors, EBITDAR totalled RUB 46,363 million. The EBITDAR margin was 17.4%.

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Operating profit / (loss)	11,317	12,633	(10.4%)	(279)	7,697	-
(Loss) / profit from investments, net	(108)	(13)	-	107	(70)	-
Finance income	1,242	2,812	(55.8%)	2,124	4,783	(55.6%)
Finance costs	(2,436)	(2,121)	14.9%	(4,369)	(4,159)	5.0%
Realised hedging result	(1,691)	(1,357)	24.6%	(2,984)	(2,748)	8.6%
Share of results of associates	45	45	-	43	34	26.5%
Profit / (loss) before tax	8,369	11,999	(30.3%)	(5,358)	5,537	-
Income tax	(2,054)	(3,770)	(45.5%)	130	(2,647)	-
Profit / (loss) for the period	6,315	8,229	(23.3%)	(5,228)	2,890	-

In 6M 2018, finance income decreased by 55.6% year-on-year to RUB 2,124 million, reflecting lower earnings from exchange-rate differences, as well as a general trend towards lower interest rates in Russia.

Finance costs increased by 5.0% year-on-year to RUB 4,369 million, primarily due to effect from exchange-rate differences and recognition of long-term insurance deposits on aircraft leases at fair value. The increase in finance costs was partially compensated by a decrease in debt in 2017, which led to a reduction in the cost of debt servicing.

The realised loss from hedging of RUB 2,984 million was attributable to a realised result related to hedging of USD-denominated revenue through USD-denominated lease obligations.

Aeroflot Group's net loss for 6M 2018 amounted to RUB 5,228 million.

Debt and liquidity

<i>RUB million, unless stated otherwise</i>	30.06.2018	31.12.2017	Change
Loans and borrowings	3,524	3,181	10.8%
Finance lease liabilities	92,632	100,689	(8.0%)
Pension liabilities	943	922	2.3%
Total debt	97,099	104,792	(7.3%)
Cash and short-term investments	97,755	54,909	78.0%
Net debt	(656)	49,883	-
Net debt / EBITDA	-	0.9x	-

Total debt as of 30 June 2018 decreased by 7.3% compared to 31 December 2017 to RUB 97,099 million. The reduction was due to a decrease in finance lease liabilities following the decommissioning of four aircraft and reclassification of several aircraft to assets held for sale.

As of 30 June 2018, undrawn lines available to Aeroflot Group from major Russian and international banks amounted to RUB 91.7 billion.

Investor enquiries:

Aeroflot Investor Relations
+7 (495) 258-06-86
ir@aeroflot.ru

Media enquiries

Aeroflot Press Service
+7 (495) 752-90-71
+7 (499) 500-73-87
+7 (495) 753-86-39
presscentr@aeroflot.ru