

AEROFLOT ANNOUNCES FINANCIAL RESULTS FOR 12 MONTHS 2014 IN ACCORDANCE WITH IFRS

Moscow, 2 March 2015 – Aeroflot Group (“the Group”, Moscow Exchange ticker: AFLT) today published its consolidated financial statements for the twelve months ended 31 December 2014, in accordance with International Financial Reporting Standards.

2014 Financial Highlights

- Revenue reached RUB 319,771 million, up 9.9% year-on-year, on the back of a 10.7% increase in passenger traffic;
- EBITDAR¹ amounted to RUB 48,674 million or 15.2% of revenue;
- Adjusted net profit² amounted to RUB 10,844 million.

Shamil Kurmashov, JSC Aeroflot Deputy CEO for Finance and Network and Revenue Management, commented:

“Despite the unstable macroeconomic environment, Aeroflot Group continued to grow in 2014 and increased the number of passengers carried by 10.7% to 34.7 million. The growth in passenger numbers was primarily driven by an increase in domestic operations and a growth in traffic to key international destinations. In the fourth quarter, despite a significant deterioration in external economic conditions, Aeroflot Group outperformed the airline industry on monthly operating metrics. In particular, in December Group’s passenger traffic was up by 16.0% on the back of a 35.5% increase in passengers on domestic flights. Passenger traffic dynamics was the main driver of revenue growth that amounted to 9.9% in 2014.

In the second half of 2014, Russian air carriers faced serious external challenges, the major ones being a significant depreciation of the ruble and the resulting fall in consumer demand and downturn in the international travel market, which affected the annual financial results of the Group.

In 2014 the Group was profitable at operating profit level, despite external economic factors, supported by our focus on efficiency and cost control. Revaluation of finance lease obligations and other non-recurring primarily non-cash items resulted in the net loss of RUB 17.1 billion. Net profit adjusted for foreign exchange losses and non-recurring expenses amounted to RUB 10.8 billion.

We are confident that the Russian air transport market has a strong long-term potential and that our strategy and tactics are appropriate to respond to the current external challenges. Diversification of the market segments we operate in, expansion of low-cost operations, geographically balanced route network and partnerships with international companies, backed by our cost optimization and productivity enhancement programs, will provide support to our results and partially mitigate negative external impacts.”

Aeroflot Group FY 2014 Operating Highlights

	2014	2013	Change
Passengers carried (thousand)	34,735	31,391	10.7%
International	17,096	17,391	(1.7%)
Domestic	17,640	13,999	26.0%
Revenue Passenger Kilometres (million)	90,075	85,273	5.6%
International	55,107	56,113	(1.8%)
Domestic	34,968	29,161	19.9%

¹ EBITDAR = EBITDA before operating lease expenses. EBITDA = operating income + amortization and depreciation + customs duties.

² Net profit adjusted for foreign exchange losses and provisions for receivables, redelivery of aircraft and other non-recurring items.

Available Seat Kilometres (million)	115,834	109,064	6.2%
International	72,219	71,530	1.0%
Domestic	43,615	37,534	16.2%
Seat load factor	77.8%	78.2%	(0.4 p.p.)
International	76.3%	78.4%	(2.1 p.p.)
Domestic	80.2%	77.7%	2.5 p.p.

For the full year 2014, Group traffic totalled 34.7 million, a 10.7% year-on-year increase. Traffic results were mainly driven by passenger traffic on domestic routes that rose by 26.0% with a 2.5 percentage points (pps) increase in the seat load factor, on the back of increased flight frequencies and capacities addition on high-demand routes.

Aeroflot Group FY 2014 Financial Highlights

<i>RUB million, unless stated otherwise</i>	2014	2013	Change
Revenue	319,771	290,956	9.9%
EBITDAR ³	48,673	51,026	(4.6%)
<i>EBITDAR margin</i>	15.2%	17.5%	(2.3 p.p.)
EBITDA ¹	24,839	31,849	(22.0%)
<i>EBITDA margin</i>	7.8%	10.9%	(3.1 p.p.)
Operating profit	11,268	19,795	(43.1%)
<i>Operating profit margin</i>	3.5%	6.8%	(3.3 p.p.)
Profit/(loss) for the period	(17,146)	7,335	-
<i>Net margin</i>	-	2.5%	-
Adjusted profit for the period ⁴	10,844	15,944	(32.0%)
<i>Adjusted net margin</i>	3.4%	5.5%	(2.1 p.p.)

Revenue

<i>RUB million, unless stated otherwise</i>	2014	2013	Change
Passenger traffic revenue	268,636	247,768	8.4%
scheduled passenger flights	253,613	230,594	10.0%
charter passenger flights	15,023	17,174	(12.5%)
Cargo flights	8,718	9,778	(10.8%)
Other revenue	42,417	33,410	27.0%
Total revenue	319,771	290,956	9.9%

In 2014, Aeroflot Group's revenue increased by 9.9% year-on-year to RUB 319,771 million, primarily as a result of an increase in the revenue from scheduled passenger flights and other revenues.

Revenue from scheduled passenger flights increased by 10.0% to RUB 253,613 million, boosted by a 10.7% growth in passenger traffic year-on-year. Revenue from charter flights decreased by 12.5% to RUB 15,023 million, which is associated with the overall market dynamics in this segment.

Cargo revenue declined from a year earlier, mainly due to the decision of Aeroflot to suspend its dedicated cargo fleet in 2013 and switch to belly cargo operations.

³ EBITDAR = EBITDA before operating lease expenses. EBITDA = operating income + depreciation & amortization + customs duties.

⁴ Net profit adjusted for foreign exchange losses and provisions for receivables, redelivery of aircraft and other non-recurring items.

Other revenues increased by 27.0% year-on-year to RUB 42,417 million, mainly driven by increased airline agreements revenue, revenues related to the Aeroflot Bonus programme and refuelling services revenue.

Operating costs

<i>RUB million, unless stated otherwise</i>	2014	2013	Change
Aircraft servicing and passenger services	61,070	52,830	15.6%
Staff costs	52,148	45,349	15.0%
Operating lease expenses	23,834	19,177	24.3%
Aircraft maintenance	19,224	20,374	(5.6%)
Sales and marketing, administration and general expenses	22,206	21,471	3.4%
Depreciation, amortization and custom duties	13,571	12,054	12.6%
Other costs and expenses	29,251	20,778	40.8%
Operating costs less aircraft fuel	221,304	192,033	15.2%
Aircraft fuel	87,199	79,128	10.2%
Operating costs	308,503	271,161	13.8%

Aircraft fuel costs for 12 months of 2014 increased by 10.2% year-on-year to RUB 87,199 million. This increase is driven by the dynamics of oil and jet kerosene prices and weakening of the ruble as well as an increase in the Group's traffic volume, fleet expansion and addition of new routes.

Operating costs less aircraft fuel grew by 15.2% from a year earlier to RUB 221,304 million.

Aircraft servicing and passenger services costs amounted to 61,070 million, up 15.6% from 2013. This increase is primarily due to the change in the ruble's exchange rate against foreign currencies (+7.7%), expanded scale of operations and traffic volume (+3.0%), and the change in service rates (+4.9%).

Staff costs went up by 15.0% from 2013, to RUB 52,148 million, due to an increase in the Group's personnel headcount and scale of operations (+4.3%), indexation of salaries at the end of 2013 (+2.2%) and other factors (+8.5%), including a revision of the incentive system made in subsidiary airlines to bring it in line with the standards of JSC Aeroflot.

Operating lease expenses amounted to RUB 23,834 million, representing a 24.3% increase year-on-year, mainly due to the change in the ruble's exchange against foreign currencies (+16.2%), as well as the expansion of the Group's fleet during the year (+7.0%).

Aircraft maintenance costs decreased by 5.6% to RUB 19,224 million, mostly due to the capitalization of a part of repair costs and changes to the maintenance program following decommissioning of MD-11 and IL-96 aircraft.

Sales and marketing, administration and general expenses amounted to RUB 22,206 million, representing a slight change from the previous year.

Depreciation, amortization and custom duties expenses grew by 12.6% to RUB 13,571 million due to the expansion of the Group's fleet.

Other expenses totalled RUB 29,251 million, up 40.8% year-on-year, mainly due to the provision made for impairment of receivables.

Owing to the above factors, the Group's operating income for 2014 amounted to RUB 11,268 million (3.5% of revenue). EBITDAR was RUB 48,673 million (15.2% of revenue).

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	2014	2013	Change
Operating income	11,268	19,795	(43.1%)
Finance income	2,471	2,686	(8.0%)
Finance costs	(28,399)	(8,814)	222.2%
Hedging result	(1,723)	-	-
Share of results of associates	31	37	(16.2%)
(Loss)/profit before income tax	(16,352)	13,704	-
Income tax	(794)	(6,369)	(87.5%)
(Loss)/profit for the year	(17,146)	7,335	-
<i>Profit margin</i>	-	2.5%	-
Adjusted profit for the year ⁵	10,844	15,944	(32.0%)
<i>Adjusted profit margin</i>	3.4%	5.5%	(2.1 p.p.)

Finance income in 2014 decreased by 8.0% compared to the previous year, due to lower profits from hedging instruments.

The increase in finance costs to RUB 28,399 million in 2014 was primarily due to the foreign exchange loss of RUB 9,720 million, which stemmed mainly from revaluation of finance lease liabilities, increased interest expense (RUB 4,934 million), and losses on hedging instruments (RUB 13,740 million).

Due to the above factors, the Group incurred a net loss of RUB 17,146 million in 2014.

Net profit adjusted for foreign exchange losses and provisions for receivables, redelivery of aircraft and other non-recurrent items amounted to RUB 10,844 million in 2014.

Debt

<i>RUB million, unless stated otherwise</i>	31.12.2014	31.12.2013	Change
Loans and borrowings	24,203	13,406	80.5%
Finance lease liabilities	149,278	72,036	107.2%
Pension liabilities	659	707	(6.8%)
Customs duties	169	436	(61.2%)
Total debt	174,309	86,585	101.3%
Cash and short-term investments	27,508	18,933	45.3%
Net debt	146,801	67,652	117.0%
Net debt/EBITDA	5.9x	2.1x	-

Total debt grew by 101.3% for the 12 months ended 31 December 2014, to RUB 174,309 million, mainly due to an increase in liabilities under finance lease contracts denominated in foreign currency resulting from the change in the ruble's exchange rate against the dollar and the euro.

As of 31 December 2014, undrawn credit lines available to Aeroflot Group from major Russian and international banks totalled RUB 21.6 billion.

⁵ Net profit adjusted for foreign exchange losses and provisions for receivables, redelivery of aircraft and other non-recurring items.

Aeroflot's FY 2014 IFRS results conference call and webcast

Aeroflot is pleased to invite investors and analysts to join its FY 2014 results conference call and webcast to be held today at 5:00 pm Moscow time (2:00 pm London; 9:00 am New York). Shamil Kurmashov, Aeroflot's Deputy CEO for Finance and Network and Revenue Management, and Giorgio Callegari, Aeroflot's Deputy CEO for Strategy and Alliances, will host the call.

The conference call and webcast details are provided below.

Conference call dial-in details:

Russia: +7 495 213 0977

UK: +44 20 3427 1912

UK (toll free): 0 800 279 4841

USA: +1 212 444 0896

USA (toll free): 1 877 280 1254

Conference ID: 1711281

Webcast link:

<http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=2561>

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