

Aeroflot announces 3Q and 9M IFRS financial results

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

Key financial highlights

<i>RUB million, unless stated otherwise</i>	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change
Revenue	200,523	169,915	18.0%	466,345	404,773	15.2%
EBITDAR	64,594	54,958	17.5%	110,957	101,016	9.8%
<i>EBITDAR margin</i>	<i>32.2%</i>	<i>32.3%</i>	<i>(0.1) p.p.</i>	<i>23.8%</i>	<i>25.0%</i>	<i>(1.2) p.p.</i>
EBITDA	40,567	37,902	7.0%	47,189	53,306	(11.5%)
<i>EBITDA margin</i>	<i>20.2%</i>	<i>22.3%</i>	<i>(2.1) p.p.</i>	<i>10.1%</i>	<i>13.2%</i>	<i>(3.1) p.p.</i>
Profit for the period	27,718	24,261	14.2%	22,490	27,149	(17.2%)

Andrey Chikhanchin, PJSC Aeroflot Deputy CEO for Commerce and Finance, commented:

“Aeroflot Group has delivered a successful set of results for the third quarter – the high season and most important period of the year for any airline. The results are successful both operationally and financially, particularly in the context of the current environment in global commodity and currency markets, which to a greater or lesser degree impacts the results of all airlines, not just Russian carriers.

“Our decision to accelerate operational growth and increase carrying capacities during the third quarter has paid off by allowing us to grow passenger numbers while also increasing the load factor and maintaining positive yield dynamics. Group passenger numbers grew by 13.1% in the third quarter, bringing the increase in the first nine months of the year to 10.2%. We are therefore confident of achieving our previously announced operational targets for the full year.

“Revenue increased by 18.0% in the third quarter and was at a comparable level to the results of the second quarter. While revenue management remains a constant focus, this year we have strengthened our tactical use of capacity and load-factor management tools and introduced a number of other initiatives to reduce the risk of falling short of our revenue targets.

“We continued to maintain tight control of costs in the third quarter, and as a result revenue grew faster than costs during the period for the first time this year, in spite of currency pressures and the increased pace of fuel-price growth year-on-year, at 47%. For the first nine months of 2018 the cost of a tonne of jet fuel for the Group rose by 36% year-on-year.

“Our extensive programme to support our financial results – including initiatives on both the revenue and cost sides – has continued to deliver. Excluding fuel, CASK decreased by 2.3% in the third quarter despite increasing currency pressures on FX-denominated cost items.

“For the first nine months we recorded a net profit of RUB 22.5 billion. However, we have entered the fourth quarter with continued high jet fuel costs and excessive capacity in the market. Recent falls in the oil price will be reflected in aircraft fuel costs only in December. FX pressures on operating costs have not weakened, but rather somewhat strengthened. Aeroflot Group thus intends to maintain strict cost control in the fourth quarter.”

Key operating highlights

	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change
Passengers carried, thousand PAX	17,393	15,378	13.1%	42,249	38,340	10.2%
- international	7,700	6,975	10.4%	18,759	17,221	8.9%
- domestic	9,693	8,402	15.4%	23,490	21,119	11.2%
Revenue Passenger Kilometres, million	44,441	39,990	11.1%	108,428	99,382	9.1%
- international	24,793	22,884	8.3%	62,725	58,408	7.4%
- domestic	19,648	17,105	14.9%	45,703	40,974	11.5%
Available Seat Kilometres, million	49,411	45,035	9.7%	129,393	118,754	9.0%
- international	28,219	26,078	8.2%	76,180	69,820	9.1%
- domestic	21,192	18,956	11.8%	53,213	48,934	8.7%
Passenger load factor, %	89.9%	88.8%	1.1 p.p.	83.8%	83.7%	0.1 p.p.
- international	87.9%	87.8%	0.1 p.p.	82.3%	83.7%	(1.3 p.p.)
- domestic	92.7%	90.2%	2.5 p.p.	85.9%	83.7%	2.2 p.p.

In 9M 2018, Aeroflot Group carried 42.2 million passengers, up 10.2% year-on-year.

Revenue

<i>RUB million, unless stated otherwise</i>	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change
Passenger traffic revenue	177,622	149,702	18.7%	409,974	350,502	17.0%
- scheduled passenger flights	163,439	139,309	17.3%	379,408	327,726	15.8%
- charter passenger flights	14,183	10,393	36.5%	30,566	22,776	34.2%
Cargo flight revenue	4,661	4,117	13.2%	12,839	11,300	13.6%
Other revenue	18,240	16,096	13.3%	43,532	42,971	1.3%
Total revenue	200,523	169,915	18.0%	466,345	404,773	15.2%

In 9M 2018, Aeroflot Group's revenue increased by 15.2% year-on-year to RUB 466,345 million.

Revenue from scheduled passenger flights increased by 15.8% year-on-year to RUB 379,408 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 FX-denominated revenue.

Revenue from charter flights increased by 34.2% year-on-year to RUB 30,566 million, due among other factors to the expansion of Rossiya's charter programme.

Cargo revenue rose by 13.6% year-on-year to RUB 12,839 million as cargo and mail volumes grew by 14.2%.

Other revenue increased by 1.3% year-on-year to RUB 43,532 million, due to a rise in FX-denominated revenues from agreements with other airlines, which was offset to a significant degree by a decrease in 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 revenue and revenue from scheduled passenger flights.

Operating costs

<i>RUB million, unless stated otherwise</i>	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change
Aircraft servicing and passenger services	31,634	28,744	10.1%	80,268	74,706	7.4%
Staff costs	19,656	22,186	(11.4%)	61,315	60,509	1.3%
Operating lease expenses	24,027	17,056	40.9%	63,768	47,710	33.7%
Aircraft maintenance	11,750	10,566	11.2%	32,009	26,247	22.0%
Sales and marketing, administration and general expenses	8,400	9,339	(10.1%)	22,478	23,846	(5.7%)
Depreciation, amortisation and customs duties	3,442	3,738	(7.9%)	10,343	11,444	(9.6%)
Other net expenses	10,409	10,395	0.1%	27,353	28,505	(4.0%)
Operating costs less aircraft fuel	109,318	102,024	7.1%	297,534	272,967	9.0%
Aircraft fuel	54,080	33,727	60.3%	131,965	89,944	46.7%
Total operating costs	163,398	135,751	20.4%	429,499	362,911	18.3%

In 9M 2018, aircraft fuel costs increased by 46.7% year-on-year to RUB 131,965 million. This was due to an 36% year-on-year increase in the average price of aircraft fuel in rubles, as oil prices picked up more rapidly in the third quarter, as well as an increase in numbers of flights and flying time.

Excluding aircraft fuel costs, operating costs increased by 9.0% year-on-year to RUB 297,534 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 80,268 million, a 7.4% 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 1.3% year-on-year and amounted to RUB 61,315 million, due to an increase in salaries for aircraft captains effective from the start of 2018 and an increase in staff numbers to support the Group's operational growth. The moderate increase year-on-year was also attributable to revaluation of the reserve for future payments to employees.

Operating lease expenses rose to RUB 63,768 million, a 33.7% increase year-on-year, due to significant fleet expansion (net increase of 57 aircraft, or 21.8% year-on-year), as well as due to a year-on-year increase in LIBOR (average three-month LIBOR increased by 1.0 p.p. to 2.20%). The increase in these expenses in Q3 was due to higher depreciation and a weaker ruble compared to the same period last year.

Aircraft maintenance costs grew by 22.0% year-on-year to RUB 32,009 million. Maintenance costs were significantly affected by an increase in volumes of technical maintenance due to the 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 5.7% year-on-year to RUB 22,478 million, following the launch of the programme to optimise costs, including marketing and advertising spend.

Amortisation and customs tariffs decreased by 9.6% year-on-year to RUB 10,343 million, due among other factors to the ongoing reduction in the number of aircraft on financial leases.

Other expenses decreased by 4.0% to RUB 27,353 million, due among other factors to the accrual of a reserve for liabilities to pay capitalised social payments stipulated by Russian legislation in the year-ago period, as well as an increase in revenue from rebates of excise duty on jet fuel.

As a result of these factors, EBITDAR totalled RUB 110,957 million. The EBITDAR margin was 23.8%.

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change
Operating profit	37,125	34,164	8.7%	36,846	41,862	(12.0%)
Loss from investments, net	(110)	(36)	x3.1	(3)	(108)	(97.2%)
Finance income	2,043	1,566	30.5%	3,311	6,349	(47.9%)
Finance costs	(1,852)	(2,171)	(14.7%)	(5,365)	(6,331)	(15.3%)
Realised hedging result	(1,941)	(1,478)	31.3%	(4,925)	(4,226)	16.5%
Share of results of associates	136	106	28.3%	179	140	27.9%
Profit before tax	35,401	32,151	10.1%	30,043	37,686	(20.3%)
Income tax	(7,683)	(7,890)	(2.6%)	(7,553)	(10,537)	(28.3%)
Profit for the period	27,718	24,261	14.2%	22,490	27,149	(17.2%)

In 9M 2018, finance income decreased by 47.9% year-on-year to RUB 3,311 million, reflecting lower earnings from exchange-rate differences, as well as a general trend towards lower interest rates in Russia, which affects interest income from deposited free cash.

Finance costs decreased by 15.3% year-on-year to RUB 5,365 million, primarily due to reduction in the cost of debt servicing on the back of significant debt reduction in 2017.

The realised loss from hedging of RUB 4,925 million was attributable to a realised result related to hedging of USD-denominated revenue through USD-denominated lease obligations.

Aeroflot Group's net profit for 9M 2018 amounted to RUB 22,490 million, down 17.2% year-on-year.

Debt and liquidity

<i>RUB million, unless stated otherwise</i>	30.09.2018	31.12.2017	Change
Loans and borrowings	3,502	3,181	10.1%
Finance lease liabilities	92,449	100,689	(8.2%)
Person liabilities	920	922	(0.2%)
Total debt	96,871	104,792	(7.6%)
Cash and short-term investments	60,051	54,909	9.4%
Net debt	36,820	49,883	(26.2%)
Net debt / EBITDA	0.7x¹	0.9x²	-

Total debt as of 30 September 2018 decreased by 7.6% compared to 31 December 2017 to RUB 96,871 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 September 2018, undrawn lines available to Aeroflot Group from major Russian and international banks amounted to RUB 81.5 billion.

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¹ Calculated based on EBITDA for the 12 months ended 30.09.2018 of RUB 49,898 million.

² Calculated based on EBITDA for the 12 months ended 31.12.2017 of RUB 56,015 million.