



AEROFLOT ANNOUNCES 4Q AND FY 2018 IFRS FINANCIAL RESULTS

Moscow, 4 March 2019 – Aeroflot Group (“the Group”, Moscow Exchange ticker: AFLT) today publishes its consolidated financial statements for the three months (4Q) and full year (FY) ending 31 December 2018, in accordance with International Financial Reporting Standards.

Key financial highlights

<i>RUB million, unless stated otherwise</i>	4Q 2018	4Q 2017	Change	12M 2018	12M 2017	Change
Revenue	145,225	128,161	13.3%	611,570	532,934	14.8%
EBITDAR	11,522	20,792	(44.6%)	122,479	121,808	0.6%
<i>EBITDAR margin</i>	7.9%	16.2%	(8.3) p.p.	20.0%	22.9%	(2.9) p.p.
EBITDA	(13,591)	2,709	-	33,598	56,015	(40.0%)
<i>EBITDA margin</i>	-	2.1%	-	5.5%	10.5%	(5.0) p.p.
(Loss) / profit for the period	(16,777)	(4,089)	-	5,713	23,060	(75.2%)

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

“In 2018 Aeroflot Group carried 55.7 million passengers, an 11.1% increase year-on-year. Growth of operational metrics resulting from the expansion of our route network and additions to the fleet were accompanied by significant developments in the Group’s strategy. Aeroflot, our flagship airline, moved domestic flights to a new, modern terminal at Sheremetyevo airport, leading to an increase in service quality on the ground. Rossiya moved its scheduled flights from Vnukovo to Sheremetyevo, leading to improved transit connectivity with Aeroflot’s core network. Pobeda significantly increased growth rates, expanding the availability of its low-cost product offering. Finally, another important landmark was the updating of the Group’s long-term targets for the next five years.

“The most significant factor affecting the Group’s financial results for 2018 was the unprecedentedly fast increase in the average cost of jet fuel, as well as depreciation of the ruble. Across the Group, jet fuel prices increased by 36%, which at the Group’s consumption volumes led to additional cost of RUB 48 billion. The depreciation of the ruble created additional pressure on the financial results, given that almost half of the Company’s costs are FX-denominated.

“In this situation, a special optimisation programme was launched in addition to existing measures to boost operational efficiency and reduce costs. The programme focused on active capacity and revenue management in addition to direct cost reduction, and has already delivered results: excluding fuel, CASK for the full year increased by just 0.8%, despite increasing currency pressures on FX-denominated cost lines. We were thus able to limit increases in total unit costs, including fuel, to 9.2%. In a climate in which domestic consumers are being conservative with their travel spending, we were able to generate RASK growth of 4.9% while maintaining load factor levels.

“High fuel prices and excess capacity in the market persisted during the low season in Q4. The correction in oil prices was reflected in jet fuel prices only in December, but had a limited effect, while average jet fuel prices remained above the levels of the previous year. Currency pressures on operating costs in Q4 did not weaken, but rather strengthened. These factors explain the increased loss for the final quarter of the year.

“However, despite the record increase in the price of jet fuel and the depreciation of the ruble, thanks to its extensive optimisation programme the Group was able to record a profit for the year of RUB 5,713 million.”

Key operating highlights

	4Q 2018	4Q 2017	Change	12M 2018	12M 2017	Change
Passengers carried, thousand PAX	13,462	11,789	14.2%	55,710	50,129	11.1%
- international	5,978	5,329	12.2%	24,737	22,550	9.7%
- domestic	7,483	6,460	15.8%	30,973	27,579	12.3%
Revenue Passenger Kilometres, million	34,723	30,841	12.6%	143,151	130,222	9.9%
- international	20,524	18,627	10.2%	83,249	77,034	8.1%
- domestic	14,199	12,214	16.3%	59,901	53,188	12.6%
Available Seat Kilometres, million	43,682	38,457	13.6%	173,075	157,211	10.1%
- international	26,663	23,610	12.9%	102,843	93,429	10.1%
- domestic	17,019	14,847	14.6%	70,231	63,781	10.1%
Passenger load factor, %	79.5%	80.2%	(0.7) p.p.	82.7%	82.8%	(0.1) p.p.
- international	77.0%	78.9%	(1.9) p.p.	80.9%	82.5%	(1.5) p.p.
- domestic	83.4%	82.3%	1.2 p.p.	85.3%	83.4%	1.9 p.p.

In 2018, Aeroflot Group carried 55.7 million passengers, up 11.1% year-on-year.

Revenue

<i>RUB million, unless stated otherwise</i>	4Q 2018	4Q 2017	Change	12M 2018	12M 2017	Change
Passenger traffic revenue	124,318	107,888	15.2%	534,292	458,390	16.6%
- scheduled passenger flights	117,046	99,803	17.3%	496,454	427,529	16.1%
- charter passenger flights	7,272	8,085	(10.1%)	37,838	30,861	22.6%
Cargo flight revenue	6,061	5,226	16.0%	18,900	16,526	14.4%
Other revenue	14,846	15,047	(1.3%)	58,378	58,018	0.6%
Total revenue	145,225	128,161	13.3%	611,570	532,934	14.8%

In 2018, Aeroflot Group's revenue increased by 14.8% year-on-year to RUB 611,570 million.

Revenue from scheduled passenger flights increased by 16.1% year-on-year to RUB 496,454 million, driven by an increase in passenger traffic. Revenue growth was affected by an increase in yields, primarily on international routes, due to the weakening of the ruble against the euro and the consequent effect of this on FX-denominated revenue.

Revenue from charter flights increased by 22.6% year-on-year to RUB 37,838 million, due among other factors to an increase in unit yields on charter flights and the expansion of Rossiya's charter programme

Cargo revenue rose by 14.4% year-on-year, to RUB 18,900 million as cargo and mail volumes grew by 11.2%.

Other revenue increased by 0.6% year-on-year to RUB 58,378 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>	4Q 2018	4Q 2017	Change	12M 2018	12M 2017	Change
Aircraft servicing and passenger services	28,321	21,712	30.4%	108,589	96,418	12.6%
Staff costs	21,502	22,292	(3.5%)	82,817	82,801	0.0%
Operating lease expenses	25,113	18,083	38.9%	88,881	65,793	35.1%
Aircraft maintenance	13,518	10,186	32.7%	45,527	36,433	25.0%
Sales and marketing, administration and general expenses	9,265	12,293	(24.6%)	31,743	36,139	(12.2%)
Depreciation, amortisation and customs duties	3,598	4,160	(13.5%)	13,941	15,604	(10.7%)
Other net expenses	11,198	8,145	37.5%	38,551	36,650	5.2%
Operating costs less aircraft fuel	112,515	96,871	16.1%	410,049	369,838	10.9%
Aircraft fuel	49,899	32,741	52.4%	181,864	122,685	48.2%
Total operating costs	162,414	129,612	25.3%	591,913	492,523	20.2%

In 2018, aircraft fuel costs increased by 48.2% year-on-year to RUB 181,864 million. This was due to a 36% year-on-year increase in the average price of aircraft fuel in rubles amid changes in the price of oil, as well as an increase in flight numbers and flying time.

Operating costs, excluding aircraft fuel costs, increased by 10.9% year-on-year to RUB 410,049 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 108,589 million, a 12.6% increase year-on-year, due primarily to the growth of passenger traffic and increased airport fares. Optimisation of service costs helped to reduce the rate of increase of these expenses.

Staff costs remained at RUB 82,817 million. Despite 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 Group was able to reduce the rate of growth of these expenses by decreasing remuneration paid to senior management as well as through revaluation of the reserve for future payments.

Operating lease expenses rose to RUB 88,881 million, a 35.1% increase year-on-year, due to significant expansion of the fleet (net increase of 47 aircraft, or 16.8% year-on-year), as well as due to a year-on-year increase in LIBOR (average three-month LIBOR increased by 1.05 p.p. to 2.31%).

Aircraft maintenance costs grew by 25.0% year-on-year to RUB 45,527 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 FX effects.

Selling, general and administrative expenses (SG&A) decreased by 12.2% year-on-year to RUB 31,743 million, following the launch of the programme to optimise costs, including marketing and advertising spend.

Amortisation and customs tariffs decreased by 10.7% year-on-year to RUB 13,941 million, due among other factors to the ongoing reduction in the number of aircraft on financial leases.

Other expenses increased by 5.2% year-on-year to RUB 38,551 million amid an increase in commissions charged by banks and costs for services associated with communication and the booking system.

As a result of these factors, EBITDAR totaled RUB 122,479 million. The EBITDAR margin was 20.0%.

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	4Q 2018	4Q 2017	Change	12M 2018	12M 2017	Change
Operating (loss) / profit	(17,189)	(1,451)	11.8x	19,657	40,411	(51.4%)
Loss from investments, net	(686)	(36)	19.1x	(689)	(144)	4.8x
Finance income	853	778	9.6%	4,164	7,127	(41.6%)
Finance costs	(2,539)	(1,894)	34.1%	(7,904)	(8,225)	(3.9%)
Realised hedging result	(1,863)	(1,387)	34.3%	(6,788)	(5,613)	20.9%
Share of results of associates	75	30	2.5x	254	170	49.4%
Results from disposal of companies	1,240	-	-	1,240	-	-
(Loss) / profit before tax	(20,109)	(3,960)	5.1x	9,934	33,726	(70.5%)
Income tax	3,332	(129)	-	(4,221)	(10,666)	(60.4%)
(Loss) / profit for the period	(16,777)	(4,089)	4.1x	5,713	23,060	(75.2%)

In 2018, finance income decreased by 41.6% year-on-year to RUB 4,164 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 3.9% year-on-year to RUB 7,904 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 6,788 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 2018 amounted to RUB 5,713 million, down 75.2% year-on-year.

Debt and liquidity

<i>RUB million, unless stated otherwise</i>	31.12.2018	31.12.2017	Change
Loans and borrowings	3,486	3,181	9.6%
Finance lease liabilities	93,224	100,689	(7.4%)
Pension liabilities	908	922	(1.5%)
Total debt	97,618	104,792	(6.8%)
Cash and short-term investments	30,148	54,909	(45.1%)
Net debt	67,470	49,883	35.3%
Net debt / EBITDA	2.0x	0.9x	-

Total debt as of 31 December 2018 decreased by 6.8% compared to 31 December 2017 to RUB 97,618 million. The reduction was due to a decrease in finance lease liabilities following the decommissioning of 11 aircraft and reclassification of several aircraft to assets held for sale.

As of 31 December 2018, undrawn lines available to Aeroflot Group from major Russian and international banks amounted to RUB 84.2 billion.

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