



Aeroflot announces 1Q 2019 IFRS financial results

Moscow, 30 May 2019 – Aeroflot Group (“the Group”, Moscow Exchange ticker: AFLT) today publishes its condensed consolidated interim financial statements for three months of 2019, in accordance with International Financial Reporting Standards. Results are published in accordance with the new IFRS 16 Leases standard.

Key financial highlights for 1Q 2019:

- Revenue increased by 23.3% year-on-year to RUB 138,041 million;
- EBITDA amounted to RUB 21,333 million;
- The net loss totalled RUB 15,746 million.

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

"In the first quarter of 2019 Aeroflot Group continued to develop in line with the approved strategy. The Group carried 12.8 million passengers, an increase of 16.2% year-on-year. Growth of passenger numbers and positive yield trends drove revenue higher by 23.3% to RUB 138.0 billion.

"Market factors including FX swings and fuel costs remained significant for our results in comparison with the year-ago period. As in previous quarters, the most substantial influence on costs in 1Q 2019 was higher fuel costs. The Group's total fuel costs increased by RUB 9.7 billion, or 28.4%, as prices rose by 10.2% in ruble terms compared to the first quarter of 2018. The higher cost of jet fuel in the reporting period, despite a 5.4% decrease in Brent crude prices, was due to a 16.3% depreciation of the ruble against the US dollar compared to the year-ago period. CASK increased by 6.4%, due to currency movements as well as fuel costs.

"As a result of the new IFRS 16 Leases standard coming into effect and replacing IAS 17, in 2019 a number of metrics in our consolidated financial statements are changing. In line with the new standard, the Group has recognised in its financial statements assets and liabilities relating to all aircraft leasing agreements, including those relating to aircraft that were previously classified as aircraft on operational leases. This accounting change affects our balance sheet, including total assets and liabilities, and also a number of items in the profit and loss account and the cash flow statement. Our decision to use fully retrospective method for the transition to the new standard, and the work we have done to introduce it, are designed to minimise the effect of the transition on profitability and the volatility of profitability measures in future.

"The winter season is traditionally the toughest time of year for the industry, as airlines continue to shoulder fixed costs while demand troughs as a result of the seasonality that can clearly be seen in passenger numbers. This seasonal effect, combined with the continued impact of fuel prices and stronger currency effects, were the reasons for the net loss for the reporting period of RUB 15,746 million.

"The bulk of the year is ahead, including the high season. Our results may be significantly affected by jet fuel prices, which remain high but are also showing signs of relative stabilisation compared to previous months. Aeroflot's management team remains committed to active revenue management and strict cost control throughout the year to minimise the impact of macroeconomic factors."

Key operating highlights

	1Q 2019	1Q 2018	Change
Passengers carried, thousand PAX	12,764	10,985	16.2%
- international	5,731	4,888	17.2%
- domestic	7,033	6,097	15.4%
Revenue Passenger Kilometres, million	33,542	28,743	16.7%
- international	20,565	17,568	17.1%
- domestic	12,976	11,175	16.1%
Available Seat Kilometres, million	43,043	36,624	17.5%
- international	26,547	22,504	18.0%
- domestic	16,496	14,120	16.8%
Passenger load factor, %	77.9	78.5	(0.6 p.p.)
- international	77.5	78.1	(0.6 p.p.)
- domestic	78.7	79.1	(0.5 p.p.)

In 1Q 2019, Aeroflot Group carried 12.8 million passengers, up 16.2% year-on-year.

Key financial highlights

<i>RUB million, unless stated otherwise</i>	1Q 2019	1Q 2018	Change
Revenue	138,041	111,942	23.3%
EBITDA	21,333	17,583	21.2%
Loss for the period	(15,746)	(10,415)	51.2%

Revenue

<i>RUB million, unless stated otherwise</i>	1Q 2019	1Q 2018	Change
Passenger traffic revenue	119,255	96,896	23.1%
- scheduled passenger flights	113,391	91,107	24.5%
- charter passenger flights	5,864	5,789	1.3%
Cargo flight revenue	4,173	3,778	10.5%
Other revenue	14,613	11,268	29.7%
Total revenue	138,041	111,942	23.3%

In 1Q 2019, Aeroflot Group's revenue increased by 23.3% year-on-year to RUB 138,041 million.

Revenue from scheduled passenger flights increased by 24.5% year-on-year to RUB 113,391 million, due to an increase in passenger traffic. Revenue growth was affected by an increase in yields on both international and domestic flights. Revenue from charter flights increased by 1.3% to RUB 5,864 million.

Cargo revenue rose by 10.5% to RUB 4,173 million year-on-year as cargo and mail volumes grew by 3.7%.

Other revenue increased by 29.7% year-on-year to RUB 14,613 million due to a rise in FX-denominated revenues from agreements with other airlines and a rise in revenues from frequent flyer programme.

Introduction of IFRS 16 standard

In January 2019, the Group made a number of changes to its accounting policies regarding leases. The changes bring the Group's policies into line with the new IFRS 16 Leases standard, which replaces the provisions of the IAS 17 and interpretations regarding leases.

The new standard defines the principles of recognition, evaluation, presentation and disclosure of information in financial statements regarding leases. All lease agreements grant lessees the right to use the asset from the moment the agreement comes into force, and to obtain financing if lease payments are made over a period of time. In line with this, IFRS 16 does away with the IAS 17 classification of leasing operations as either operating or financial, and instead introduces a single lessee accounting model. Under this model, the Group recognises in its financial reporting all assets and liabilities for all leases longer than 12 months, except for cases when the underlying object is of low value, and accounts for depreciation of recognised right-of-use assets separately from interest on the lease liability in the composition of the profit or loss for the period.

The Group has taken the decision to use fully retrospective restatement for the transition to the new standard when recalculating comparative measures for each accounting period. Right-of-use assets and their respective liabilities and financial assets were assessed for the purposes of the switch to IFRS 16 as though the new standards had always applied. The comparative results in the consolidated statement of financial position, the consolidated profit and loss accounts, and the total revenue and cash flow statements were calculated in accordance with the new IFRS 16 standard.

Operating costs

<i>RUB million, unless stated otherwise</i>	1Q 2019	1Q 2018	Change
Aircraft servicing and passenger services	28,871	21,908	31.8%
Depreciation, amortisation and customs duties	27,232	20,779	31.1%
Staff costs	22,579	21,218	6.4%
Sales and marketing, administration and general expenses	6,669	6,160	8.3%
Aircraft maintenance	6,174	4,109	50.3%
Lease expenses	1,179	771	52.9%
Other net expenses	7,537	6,151	22.5%
Operating costs less aircraft fuel	100,240	81,095	23.6%
Aircraft fuel	43,700	34,042	28.4%
Total operating costs	143,940	115,138	25.0%

Operating costs increased by 25.0% to RUB 143,940 million, primarily due to an increase in operations – capacities increased by 17.5% year-on-year.

In 1Q 2019, aircraft fuel costs increased by 28.4% year-on-year to RUB 43,700 million. This was due to a 10.2% 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. Excluding fuel costs, operating costs increased by 23.6% year-on-year to RUB 100,240 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 28,871 million, a 31.8% increase year-on-year, due primarily to the growth of passenger traffic and increased airport fares. These expenses were also affected by an increase in services provided to Aeroflot by other organisations at Sheremetyevo airport following the transfer of domestic flights to Terminal B.

Amortisation and customs tariffs increased by 31.1% year-on-year to RUB 27,232 million. The increase was due to the expansion of the Group's fleet over a 12-month period. Following the introduction of the IFRS 16 standard, depreciation expenses become more significant as they affect all aircraft on the Company's balance sheet.

Staff costs increased by 6.4% year-on-year to RUB 22,579 million, due to a year-on-year increase in the number of employees to support the Group's growth.

Selling, general and administrative expenses (SG&A) increased by 8.3% year-on-year to RUB 6,669 million. The Group continues to maintain strict control of non-operating expenses.

Expenses related to aircraft servicing and passenger service increased by 50.3% year-on-year to RUB 6,174 million. These expenses were affected by an increase in aircraft servicing, which in turn was due to an increase in flight numbers and flying time, as well as ruble depreciation.

Lease expenses amounted to RUB 1,179 million. These include expenses associated with short-term leases, variable lease payments and lease of low-value assets, which under the IFRS 16 standard are not recognised as the Group's liabilities and assets.

Other expenses increased by 22.5% year-on-year to RUB 7,537 million.

As a result of these factors, EBITDA totalled RUB 21,333 million.

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	1Q 2019	1Q 2018	Change
Operating loss	(5,899)	(3,196)	84.6%
Profit from investments, net	227	215	5.6%
Finance income	1,506	1,943	(22.5%)
Finance costs	(14,547)	(9,938)	46.4%
Realised hedging result	(1,017)	(1,293)	(21.3%)
Share of results of associates	40	(2)	-
Loss before tax	(19,690)	(12,271)	60.5%
Income tax	3,944	1,856	2.1x
Loss for the period	(15,746)	(10,415)	51.2%

In 1Q 2019, finance income decreased by 22.5% year-on-year to RUB 1,506 million due to lower earnings from exchange-rate differences. Finance costs increased by 46.4% year-on-year to RUB 14,547 million, due to the expansion of the fleet.

The realised loss from hedging of RUB 1,017 million was attributable to a realised result related to hedging of USD-denominated revenue through USD-denominated lease obligations. The decrease was due to FX swings in 1Q 2019.

Aeroflot Group's net profit for 1Q 2019 amounted to RUB 15,746 million.

Debt and liquidity

<i>RUB million, unless stated otherwise</i>	31.03.2019	31.12.2018	Change
Loans and borrowings	15,071	3,486	4.3x
Lease liabilities	630,388	661,182	(4.7%)
Pension liabilities	890	908	(2.0%)
Total debt	646,349	665,576	(2.9%)
Cash and short-term investments	47,265	30,148	56.8%
Net debt	599,084	635,428	(5.7%)



Following the introduction of the IFRS 16 standard, lease liabilities increased mainly by the stated amount of liabilities that existed under lease agreements previously classified as operating leases. Previously future payments under these agreements were not classified as liabilities and were not reflected in the balance sheet, while current payments under agreements relating to comparative reporting periods were reflected in the profit and loss account. Therefore, the change in debt under the IFRS 16 standard is an accounting (“paper”) change that is not associated with a real increase in the company's liabilities or a change in its financial position. The business model of the Group and its contractual obligations have not changed.

As of 31 March 2019, total debt in accordance with IFRS 16 decreased by 2.9% compared to 31 December 2018, to RUB 646,349 million. The reduction was due to adjustments to the valuation of leases following the strengthening of the ruble against the dollar as of 31 March 2019 compared to 31 December 2018.

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