



Aeroflot announces 6M 2019 IFRS financial results

Moscow, 29 August 2019 – Aeroflot Group (“the Group”, Moscow Exchange ticker: AFLT) today publishes its condensed consolidated interim financial statements for the six months ended 30 June 2019, in accordance with International Financial Reporting Standards. Results are published in accordance with the new IFRS 16 Leases standard.

Key financial highlights for 6M 2019:

- Revenue increased by 17.2% year-on-year to RUB 311,440 million;
- EBITDA amounted to RUB 68,296 million;
- The net loss totalled RUB 8,784 million.

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

“2019 began for us with high fuel prices and currency pressure on FX-denominated cost items. This led to relatively modest results for the first quarter. At the same time, despite the continued strengthening of competitors in the Group's core markets, we were able to deliver steady improvement in our yields.

“In the second quarter, a number of trends from the beginning of the year shifted slightly. Although fuel prices remained high when compared with historic averages, we saw the first signs of stabilisation: in June 2019, prices declined on a year-on-year basis for the first time in nearly two years. While the depreciation of the ruble against the dollar slowed from 16.2% in the first quarter to 4.5% in the second quarter, a slight strengthening of the ruble against the Euro, alongside weak yields on European routes, led to a further shortfall in revenues. The temporary closure of Pakistan's airspace – which increased flight time to destinations in Thailand, Vietnam and India, resulting in higher fuel expenses throughout the second quarter – put additional pressure on the Company's financial results.

“When comparing the results of the second quarter with results from the same period last year, it must be noted that the World Cup group stage was held in Russia in June 2018, the last month of the reporting period. Higher demand, primarily from overseas, and an increased load factor on the domestic route network, resulted in a high base effect for yields, which could not be further increased. The high base effect will also to some degree impact the beginning of the third quarter.

“The year's key results will be determined by the high season, the results of which are impacted on the one hand by excess capacity across the industry and the continued growth of airport tariffs, and on the other hand, by stabilisation in fuel prices. The management team remains committed to strict cost control and developing the programme to generate additional revenue streams.”

Key operating highlights

	2Q 2019	2Q 2018	Change	6M 2019	6M 2018	Change
Passengers carried, th PAX	15,431	13,871	11.2%	28,195	24,856	13.4%
- international	6,952	6,171	12.6%	12,683	11,059	14.7%
- domestic	8,479	7,699	10.1%	15,513	13,797	12.4%
Revenue Passenger Kilometres, mn	39,383	35,244	11.7%	72,925	63,987	14.0%
- international	22,966	20,364	12.8%	43,531	37,932	14.8%
- domestic	16,417	14,880	10.3%	29,393	26,055	12.8%
Available Seat Kilometres, mn	48,842	43,358	12.6%	91,885	79,982	14.9%
- international	29,024	25,457	14.0%	55,571	47,961	15.9%
- domestic	19,818	17,901	10.7%	36,314	32,020	13.4%
Passenger load factor, %	80.6%	81.3%	(0.7 p.p.)	79.4%	80.0%	(0.6 p.p.)
- international	79.1%	80.0%	(0.9 p.p.)	78.3%	79.1%	(0.8 p.p.)
- domestic	82.8%	83.1%	(0.3 p.p.)	80.9%	81.4%	(0.4 p.p.)

In 6M 2019, Aeroflot Group carried 28.2 million passengers, up 13.4% year-on-year.

Key financial highlights

As per the requirements of the new IFRS 16 standard and full retrospective approach to the standard transition we recalculated comparative 6M 2018 results.

In accordance with the IFRS 16 standard, operating lease liabilities were recognised as parts of the Company's assets and liabilities. Given that liabilities are denominated in foreign currencies, FX-fluctuations lead to their revaluations which must be reflected in the financial statements. In order to reduce volatility from lease revaluations, the Company applied special accounting rules (so-called hedge accounting) that allow to account for exchange differences in equity and reflect only foreign exchange differences in the statements of profit and loss relating to the reporting period, which is economically viable. These rules apply only from 2019, therefore, when restating the statements for the first half of 2018, FX-differences attributable to the entire term of the leasing contracts were reflected in the Company's profit, and therefore the net loss for the first half of 2018 amounted to RUB 30,379 million. The loss for the period would have been RUB 2,881 million if the accounting rule had been applied at the start of 2018.

<i>RUB million, unless stated otherwise</i>	2Q 2019	2Q 2018	Change	6M 2019	6M 2018	Change
Revenue	173,399	153,880	12.7%	311,440	265,822	17.2%
EBITDA	46,963	41,431	13.4%	68,296	59,014	15.7%
<i>EBITDA margin</i>	<i>27.1%</i>	<i>26.9%</i>	<i>(0.2 p.p.)</i>	<i>21.9%</i>	<i>22.2%</i>	<i>(0.3 p.p.)</i>
Operating profit	20,517	20,649	(0.6%)	14,618	17,453	(16.2%)
<i>Operating profit margin</i>	<i>11.8%</i>	<i>13.4%</i>	<i>(1.6 p.p.)</i>	<i>4.7%</i>	<i>6.6%</i>	<i>(1.9 p.p.)</i>
Profit / (loss) for the period	6,933	(19,963)	–	(8,784)	(30,379)	–
FX revaluation related to lease liabilities	–	(28,944)	–	–	(27,498)	–
Adjusted profit / (loss)	6,933	8,980	(22.8%)	(8,784)	(2,881)	–

Revenue

<i>RUB million, unless stated otherwise</i>	2Q 2019	2Q 2018	Change	6M 2019	6M 2018	Change
Passenger traffic revenue	152,456	135,456	12.6%	271,711	232,352	16.9%
- scheduled passenger flights	141,330	124,862	13.2%	254,721	215,969	17.9%
- charter passenger flights	11,126	10,594	5.0%	16,990	16,383	3.7%
Cargo flight revenue	4,559	4,400	3.6%	8,732	8,178	6.8%
Other revenue	16,384	14,024	16.8%	30,997	25,292	22.6%
Total revenue	173,399	153,880	12.7%	311,440	265,822	17.2%

In 6M 2019, Aeroflot Group's revenue increased by 17.2% year-on-year to RUB 311,440 million.

Revenue from scheduled passenger flights increased by 17.9% year-on-year to RUB 254,721 million, due to an increase in passenger traffic. Revenue growth was affected by an increase in yields primarily on domestic flights. Revenue from charter flights increased by 3.7% to RUB 16,990 million.

Cargo revenue rose by 6.8% to RUB 8,732 million year-on-year as cargo and mail volumes grew by 5.0%.

Other revenue increased by 22.6% year-on-year to RUB 30,997 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.

A significant part of the Group's aircraft lease agreements are in US dollars. In connection with the recognition of lease obligations in relation to operating lease agreements for aircraft at transition to IFRS 16, the Group updated the approach to assessing the effectiveness of hedge and defined as a hedge object the future highly probable revenue equal to the amount of cash flows under lease agreements on a discounted basis. This change has a perspective effect from 1 January 2019.

Operating costs

<i>RUB million, unless stated otherwise</i>	2Q 2019	2Q 2018	Change	6M 2019	6M 2018	Change
Aircraft servicing and passenger services	32,294	26,725	20.8%	61,165	48,633	25.8%
Depreciation, amortisation and customs duties	26,446	20,782	27.3%	53,678	41,561	29.2%
Staff costs	22,215	20,080	10.6%	44,794	41,298	8.5%
Selling, general and administrative expenses	7,534	6,932	8.7%	14,203	13,092	8.5%
Aircraft maintenance	7,813	5,992	30.4%	13,987	10,101	38.5%
Lease expenses	2,135	1,953	9.3%	3,309	2,724	21.5%
Other net expenses	5,437	6,924	(21.5%)	12,978	13,075	(0.7%)
Operating costs less aircraft fuel	103,874	89,388	16.2%	204,114	170,484	19.7%
Aircraft fuel	49,008	43,843	11.8%	92,708	77,885	19.0%
Total operating costs	152,882	133,231	14.7%	296,822	248,369	19.5%

In 6M 2019, Operating costs increased by 19.5% to RUB 296,822 million, primarily due to an increase in operations – capacities increased by 14.9% year-on-year.

Aircraft fuel costs increased by 19.0% year-on-year to RUB 92,708 million. This was due to a 4.5% 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 volumes and flying time.

Excluding fuel costs, operating costs increased by 19.7% year-on-year to RUB 204,114 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 61,165 million, a 25.8% increase year-on-year, due primarily to the growth of passenger traffic and increased airport fares in domestic airports. 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 29.2% year-on-year to RUB 53,678 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 8.5% year-on-year to RUB 44,794 million, due to a year-on-year increase in the number of flight crew to support the Group's growth.

Selling, general and administrative expenses (SG&A) increased by 8.5% year-on-year to RUB 14,203 million. The Group continues to maintain strict control of non-operating expenses.

Expenses related to aircraft servicing and passenger service increased by 38.5% year-on-year to RUB 13,987 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 3,309 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 remained flat year-on-year amounted to RUB 12,978 million.

As a result of these factors, EBITDA totalled RUB 68,296 million, EBITDA margin – 21.9%.

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	2Q 2019	2Q 2018	Change	6M 2019	6M 2018	Change
Operating profit	20,517	20,649	(0.6%)	14,618	17,453	(16.2%)
Profit from investments, net	(80)	(108)	(25.9%)	147	107	37.4%
Finance income	2,378	2,020	17.7%	3,246	3 127	3.8%
Finance costs	(13,356)	(45,466)	(70.6%)	(27,236)	(54,569)	(50.1%)
Realised hedging result	(320)	(1,691)	(81.1%)	(1,337)	(2,984)	(55.2%)
Share of results of associates	56	45	24.4%	96	43	2.2x

In 6M 2019, finance income increased by 3.8% year-on-year to RUB 3,246 million. Finance costs decreased by 50.1% year-on-year to RUB 27 236 million, due to the fact that in 2018 we didn't apply special accounting rules to liabilities related to lease, previously classified as operating lease. As a result, non-cash forex revaluation related to 9% RUB devaluation during H1 2018 was reflected un finance costs.

The realised loss from hedging of RUB 1,337 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 6M 2019.

Aeroflot Group's net loss for 6M 2019 amounted to RUB 8,784 million.

Debt and liquidity

<i>RUB million, unless stated otherwise</i>	30.06.2019	31.12.2018	Change
Loans and borrowings	3,359	3,486	(3.6%)
Lease liabilities	596,084	655,931	(9.1%)
Pension liabilities	916	908	0.9%
Total debt	600,359	660,325	(9.1%)
Cash and short-term investments	48,031	30,148	59.3%
Net debt	552,328	630,177	(12.4%)

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 30 June 2019, total debt in accordance with IFRS 16 decreased by 9.1% compared to 31 December 2018, to RUB 600,359 million. The reduction was due to adjustments to the valuation of leases following the strengthening of the ruble against the dollar as of 30 June 2019 compared to 31 December 2018.

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