



Aeroflot announces 9M 2019 IFRS financial results

Moscow, 29 November 2019 – Aeroflot Group (“the Group”, Moscow Exchange ticker: AFLT) today publishes its condensed consolidated interim financial statements for the first nine months of 2019, in accordance with International Financial Reporting Standards. The results are published in accordance with the new IFRS 16 Leases standard.

Key financial highlights for 9M 2019:

- Revenue increased by 12.4% year-on-year to RUB 523,983 million;
- EBITDA amounted to RUB 141,675 million;
- Net profit totalled RUB 20,305 million.

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

“The results of the third quarter – the high summer season – were positive for Aeroflot Group. The Group posted a net profit of RUB 29.1 billion for the quarter, and as a result generated a positive result of RUB 20.3 billion for the first nine months of 2019.

“These results were achieved through the development of our revenue and expense management initiatives, launching new services to improve passenger comfort and maintaining strict cost control. Along with simple decisions on the budgeting and financial control front, we implemented a number of initiatives to increase internal efficiency, including negotiations with partners to agree on more favourable financial terms. In 9M and 3Q 2019, CASK saw a slight increase of 3.0% and 1.2%, respectively.

“The 9M results should be considered in the context of external factors, including market trends during the first half of the year. The year began with consistently high fuel prices and FX pressures on the non-RUB component of our expenses, which contributed for our moderate results in the first half of 2019.

“While there have been no sharp jumps during 2019, fuel costs remained significantly above the historical average. Given passengers’ limited purchasing power, this put additional pressure on the Company’s financial results. In addition, in the second quarter, the closure of Pakistan’s airspace led to additional fuel costs as flight times to destinations in Thailand, India and Vietnam increased.

“When comparing the results of the summer season with the same period last year, it is important to note that for June and July, the comparable period corresponds with the World Cup, which Russia hosted in 2018. Higher demand, primarily from overseas, and an increased load factor on the domestic route network, resulted in a high base effect in terms of yields that could not be further increased.

“Given excess capacity in the market and the continued growth of airport tariffs, management remains committed to strict cost control and the development of programmes to generate additional revenue streams.”

Key operating highlights

	3Q 2019	3Q 2018	Change	9M 2019	9M 2018	Change
Passengers carried, th PAX	18,533	17,393	6.6%	46,728	42,249	10.6%
- international	8,275	7,700	7.5%	20,957	18,759	11.7%
- domestic	10,258	9,693	5.8%	25,771	23,490	9.7%
Revenue Passenger Kilometres, mn	47,340	44,441	6.5%	120,265	108,428	10.9%
- international	26,678	24,793	7.6%	70,209	62,725	11.9%
- domestic	20,662	19,648	5.2%	50,056	45,703	9.5%
Available Seat Kilometres, mn	53,497	49,411	8.3%	145,381	129,393	12.4%
- international	30,762	28,219	9.0%	86,333	76,180	13.3%
- domestic	22,734	21,192	7.3%	59,048	53,213	11.0%
Passenger load factor, %	88.5%	89.9%	(1.5 p.p.)	82.7%	83.8%	(1.1 p.p.)
- international	86.7%	87.9%	(1.1 p.p.)	81.3%	82.3%	(1.0 p.p.)
- domestic	90.9%	92.7%	(1.8 p.p.)	84.8%	85.9%	(1.1 p.p.)

In 9M 2019, Aeroflot Group carried 46.7 million passengers, up 10.6% year-on-year.

Key financial highlights

Since 2019, as per the requirements of the new IFRS 16 Leases standard, the Group's results for the year-ago period are presented to reflect the impact of the new standard.

In accordance with the IFRS 16 standard, operating lease liabilities were recognised as part of the Company's assets and liabilities. Given that liabilities are denominated in foreign currencies, FX fluctuations lead to revaluations that must be reflected in the financial statements. To reduce volatility from lease revaluations, the Company has applied special accounting rules that reflect only FX differences relating to the reporting period, which is economically viable. These rules apply only from 2019. Therefore, when restating the statements for 9M 2018, FX differences attributable to the entire term of the leasing contracts were reflected in the Company's profit, as a result of which the net loss for 9M 2018 amounted to RUB 17,382 million. Had the accounting rule been applied since the start of 2018, the loss for the period would have been RUB 24,941 million.

<i>RUB million, unless stated otherwise</i>	3Q 2019	3Q 2018	Change	9M 2019	9M 2018	Change
Revenue	212,543	200,523	6.0%	523,983	466,345	12.4%
EBITDA	73,379	73,727	(0.5%)	141,675	132,741	6.7%
<i>EBITDA margin</i>	34.5%	36.8%	(2.3 p.p.)	27.0%	28.5%	(1.5 p.p.)
Operating profit	47,077	49,514	(4.9%)	61,695	66,967	(7.9%)
<i>Operating profit margin</i>	22.1%	24.7%	(2.6 p.p.)	11.8%	14.4%	(2.6 p.p.)
Profit / (loss) for the period	29,089	12,997	2.2x	20,305	(17,382)	–
FX revaluation related to lease liabilities	–	(14,825)	–	–	(42,323)	–
Adjusted profit	–	27,822	–	–	24,941	–

Revenue

<i>RUB million, unless stated otherwise</i>	3Q 2019	3Q 2018	Change	9M 2019	9M 2018	Change
Passenger traffic revenue	190,323	177,622	7.2%	462,034	409,974	12.7%
- scheduled passenger flights	176,460	163,439	8.0%	431,181	379,408	13.6%
- charter passenger flights	13,863	14,183	(2.3%)	30,853	30,566	0.9%
Cargo flight revenue	4,881	4,661	4.7%	13,613	12,839	6.0%
Other revenue	17,339	18,240	(4.9%)	48,336	43,532	11.0%
Total revenue	212,543	200,523	6.0%	523,983	466,345	12.4%

In 9M 2019, Aeroflot Group's revenue increased by 12.4% year-on-year to RUB 523,983 million.

Revenue from scheduled passenger flights increased by 13.6% year-on-year to RUB 431,181 million, due to an increase in passenger traffic and the additional impact of rising yields. Revenue from charter flights increased by 0.9% to RUB 30,853 million.

Cargo revenue rose by 6.0% to RUB 13,613 million year-on-year as cargo and mail volumes grew by 4.6%.

Other revenue increased by 11.0% year-on-year to RUB 48,336 million due to a rise in FX-denominated revenues from agreements with other airlines and a rise in revenues from the frequent flyer programme.

Introduction of the 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 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. Under this model, the Group recognises in its financial reporting all assets and liabilities for all leases longer than 12 months, except in cases when the underlying object is of low value, and accounts for the 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 is in US dollars. In connection with the recognition of lease obligations relating to operating lease agreements for aircraft during the transition to IFRS 16, the Group updated its approach to assessing the effectiveness of its hedging, 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>	3Q 2019	3Q 2018	Change	9M 2019	9M 2018	Change
Aircraft servicing and passenger services	35,728	31,648	12.9%	96,893	80,281	20.7%
Depreciation, amortisation and customs duties	26,302	24,213	8.6%	79,980	65,774	21.6%
Staff costs	22,065	19,548	12.9%	66,859	60,846	9.9%
Aircraft maintenance	9,955	6,457	54.2%	23,942	16,558	44.6%
Selling, general and administrative expenses	8,278	6,766	22.3%	22,481	19,858	13.2%
Lease expenses	2,449	1,508	62.4%	5,758	4,232	36.1%
Other net expenses	7,828	6,789	15.3%	20,806	19,864	4.7%
Operating costs less aircraft fuel	112,605	96,929	16.2%	316,719	267,413	18.4%
Aircraft fuel	52,861	54,080	(2.3%)	145,569	131,965	10.3%
Total operating costs	165,466	151,009	9.6%	462,288	399,378	15.8%

In 9M 2019, operating costs increased by 15.8% to RUB 462,288 million, primarily due to an increase in operations supported by a growth in capacities of 12.4% year-on-year.

Aircraft fuel costs increased by 10.3% year-on-year to RUB 145,569 million. This was mainly due to the Group's operational development and an increase in carrying capacity.

Excluding fuel costs, operating costs increased by 18.4% year-on-year to RUB 316,719 million.

Expenses related to aircraft servicing and passenger service amounted to RUB 96,893 million, a 20.7% increase year-on-year, due primarily to the growth of passenger traffic and increased airport fares in domestic airports.

Amortisation and customs tariffs increased by 21.6% year-on-year to RUB 79,980 million. This 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 have become more significant as they affect all aircraft on the Company's balance sheet.

Staff costs increased by 9.9% year-on-year to RUB 66,859 million, mainly due to an increase in the number of flight crew to support the Group's growth.

Expenses related to aircraft maintenance increased by 44.6% year-on-year to RUB 23,942 million. These expenses were affected by an increase in aircraft servicing, which in turn was due to an increase in flight hours and the depreciation of the ruble, as well as to maintaining product quality.

Selling, general and administrative expenses (SG&A) increased by 13.2% year-on-year to RUB 22,481 million due primarily to growth of the business. The Group continues to maintain strict control of non-operating expenses.

Lease expenses amounted to RUB 5,758 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 4.7% year-on-year and amounted to RUB 20,806 million.

As a result of these factors, EBITDA totalled RUB 141,675 million while EBITDA margin was 27.0 %.

Non-operating gains and losses

<i>RUB million, unless stated otherwise</i>	3Q 2019	3Q 2018	Change	9M 2019	9M 2018	Change
Operating profit	47,077	49,514	(4.9%)	61,695	66,967	(7.9%)
Profit from investments, net	211	(110)	–	358	(3)	–
Finance income	1,934	1,790	8.0%	5,180	4,917	5.3%
Finance costs	(14,295)	(32,362)	(55.8%)	(41,531)	(86,931)	(52.2%)
Realised hedging result	(965)	(1,941)	(50.3%)	(2,302)	(4,925)	(53.3%)
Share of results of associates	129	136	(5.1%)	225	179	25.7%

In 9M 2019, finance income increased by 5.3% year-on-year to RUB 5,180 million.

Finance costs decreased by 52.2% year-on-year to RUB 41,531 million. This was due to the fact that in 2018 special accounting rules to liabilities related to leases previously classified as operating leases were not applied. As a result, non-cash FX revaluation of total lease-related liabilities was reflected in finance costs following a 13.9% appreciation of USD from the beginning of 2018 to 30 September 2018.

Given the factors noted above, Aeroflot Group's net profit for 9M 2019 amounted to RUB 20,305 million.

Debt and liquidity

<i>RUB million, unless stated otherwise</i>	30.09.2019	31.12.2018	Change
Loans and borrowings	3,327	3,486	(4.6%)
Lease liabilities	593,447	655,931	(9.5%)
Pension liabilities	928	908	2.2%
Total debt	597,702	660,325	(9.5%)
Cash and short-term investments	30,314	30,148	0.6%
Net debt	567,388	630,177	(10.0%)

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 September 2019, total debt in accordance with IFRS 16 decreased by 9.5% compared to 31 December 2018, to RUB 597,702 million. The reduction was due to adjustments to the valuation of leases following the strengthening of the ruble against the dollar as of 30 September 2019 compared to 31 December 2018, and repayment of debt in accordance with the payment schedule.

Investor enquiries:

Aeroflot Investor Relations
+7 (495) 258-06-86
ir@aeroflot.ru

Media enquiries

Aeroflot Press Service
+7 (495) 752-90-71
+7 (499) 500-73-87
+7 (495) 753-86-39
presscentr@aeroflot.ru