



AEROFLOT ANNOUNCES 1H 2015 IFRS FINANCIAL RESULTS

News / Airlines, Finance



Aeroflot Group ("the Group", Moscow Exchange ticker: AFLT) today published its consolidated interim financial statements for the six months ended 30 June 2015, in accordance with International Financial Reporting Standards.

1H 2015 Operating and Financial Highlights for Aeroflot Group:

- Group passenger traffic increased by 14.0% year-on-year, with 33.4% year-on-year growth in the domestic segment;
- Aeroflot Group increased its market share[1] by 5.8 percentage points (p.p.) year-on-year to 37.0%;
- Revenue reached RUB 176,467 million, up 25.8% year-on-year;
- EBITDAR[2] nearly doubled year-on-year to RUB 33,252 million;
- EBITDA[2] increased by more than two-fold year-on-year to RUB 13,311 million;
- Operating profit amounted to RUB 5,866 million as compared to an operating loss of RUB 1,384 million in 1H 2014;
- Net loss amounted to RUB 3,541 million.

Shamil Kurmashov, PJSC Aeroflot Deputy CEO for Finance and Network and Revenue Management, commented:

"In the first half of 2015, Aeroflot Group strengthened its position as the leader in the Russian air transportation market with 14.0% year-on-year growth in passenger traffic and a 5.8 percentage point increase in market share. This was driven by strong operational performance at Aeroflot airline and the successful roll-out of Russia's first low-cost carrier, Pobeda, which has quickly become one of the top airlines in the country. The Group also benefited from changes in the competitive landscape, taking market share from foreign carriers that decreased frequencies on a number of routes as well as less efficient Russian peers.

"Our focus on the high-growth domestic market paid off with strong increases in Group traffic, which drove revenue up 25.8% year-on-year to RUB 176.5 billion, while strict cost control reined in growth of operational expenses despite exchange rate volatility. As a result, in the first half of 2015 Aeroflot Group posted an operating profit of RUB 5.9 billion; EBITDA and EBITDAR also rose, and the EBITDA and EBITDAR margins increased 3.9 and 6.9 percentage points to 7.5% and 18.8%, respectively.

"The Group focused on fleet optimisation, cost-cutting, boosting efficiency of business processes and financial management, and maintaining a robust financial position. We are confident our policy of expanding our presence on the growing Russian market, maintaining customer loyalty and increasing business efficiency will enable continued growth in the Group's profitability as the Russian economy recovers."

Key operating highlights

	6M 2015	6M 2014	Change
Passengers carried, thousand PAX	17,855	15,666	14.0%
international	7,558	7,948	(4.9%)
domestic	10,297	7,717	33.4%
Revenue Passenger Kilometres, mln	44,479	40,927	8.7%
international	25,019	25,787	(3.0%)
domestic	19,460	15,141	28.5%
Available Seat Kilometres, mln	58,789	54,066	8.7%
international	33,007	34,560	(4.5%)
domestic	25,782	19,507	32.2%
Passenger load factor, %	75.7%	75.7%	-
international	75.8%	74.6%	1.2 p.p.
domestic	75.5%	77.6%	(2.1 p.p.)

Overall passenger traffic for Aeroflot Group in 6M 2015 was 17.9 million, up 14.0% year-on-year.

Key financial highlights

RUB million, unless stated otherwise	6M 2015	6M 2014	Change
Revenue	176,467	140,281	25.8%

EBITDAR	33,252	16,657	99.6%
EBITDAR margin	18.8%	11.9%	6.9 p.p.
EBITDA	13,311	5,030	164.6%
EBITDA margin	7.5%	3.6%	3.9 p.p.
Operating profit / (loss)	5,866	(1,384)	-
Operating profit margin	3.3%	-	-
Loss for the period	(3,541)	(1,905)	85.9%

Revenue

RUB million, unless stated otherwise	6M 2015	6M 2014	Change
Passenger traffic revenue	146,162	117,977	23.9%
scheduled passenger flights	144,087	110,823	30.0%
charter passenger flights	2,075	7,154	(71.0%)
Cargo flight revenue	4,442	3,819	16.3%
Other revenue	25,863	18,485	39.9%
Total revenue	176,467	140,281	25.8%

In 1H 2015, Aeroflot Group's revenue increased by 25.8% year-on-year to RUB 176,467 million, primarily as a result of an increase in revenue from Scheduled passenger flights and Other revenues.

Revenue from scheduled passenger flights in 1H 2015 increased by 30.0% year-on-year to RUB 144,087 million, boosted by 14.0% growth in passenger traffic year-on-year. Revenue from charter flights decreased by 71.0% to RUB 2,075 million, due to the Group's strategy to decrease its presence in this market segment, as well as overall market dynamics in tourism traffic.

Despite a 1.0% decrease in the volume of cargo and mail carried in 1H 2015, cargo revenue increased 16.3% year-on-year on the back of stronger yields.

Other revenues increased by 39.9% year-on-year to 25,863 million, mainly driven by an increase in FX-denominated revenues from airline agreements following changes in the exchange rate.

Operating costs

RUB million, unless stated otherwise	6M 2015	6M 2014	Change
Aircraft servicing and passenger service	34,516	27,714	24.5%
Staff costs	27,235	24,304	12.1%
Operating lease expenses	19,941	11,627	71.5%
Aircraft maintenance	13,098	9,268	41.3%
Sales and marketing, administration and general expenses	11,479	8,974	27.9%
Depreciation, amortisation and custom duties	7,445	6,414	16.1%
Other costs and expenses	12,173	13,128	(7.3%)
Operating costs less aircraft fuel	125,887	101,429	24.1%
Aircraft fuel	44,714	40,236	11.1%
Total operating costs	170,601	141,665	20.4%

In 1H 2015, aircraft fuel costs increased by 11.1% year-on-year to RUB 44,714 million, due to the ruble weakening and increase in traffic volume. Excluding the FX rate effect, aircraft fuel costs decreased by 19.7% due to a decline in oil prices and the Group's initiatives to improve fuel efficiency.

Operating costs not including aircraft fuel grew by 24.1% year-on-year to RUB 125,887 million.

Aircraft servicing and passenger services costs amounted to RUB 34,516 million, up 24.5% year-on-year. This increase was mainly due to the changes in the ruble exchange rate versus foreign currencies. Excluding the FX rate effect, these costs increased by 8.0%, primarily due to expanded scale of operations and traffic volume, as well as changes in service rates.

Staff costs increased by 12.1% year-on-year to RUB 27,235 million, mainly due to additional motivational compensation for cabin crew (including bonuses for the sale of Sky Shop products on board), and increases in the rouble equivalent of salaries for employees based outside Russia.

Operating lease expenses amounted to RUB 19,941 million, up 71.5% year-on-year, mostly due to the change in the ruble exchange rate (given that these expenses are denominated in foreign currencies). Other growth factors included expansion of the Group's fleet (net increase of 15 aircraft under operating lease, up 8.2% versus 30 June 2014), and an increase in the 6 month LIBOR rate in 1H 2015.

Aircraft maintenance costs increased by 41.3% year-on-year to RUB 13,098 million, mainly due to the change in the ruble exchange rate. Excluding the FX rate effect, such costs were flat year-on-year.

Sales and marketing, administration and general expenses increased 27.9% year-on-year to RUB 11,479 million. This growth was due to an increase in sales and marketing expenses denominated in foreign currencies.

Depreciation, amortisation and custom duties increased by 16.1% year-on-year to RUB 7,445 million, which was driven by additions of six new Boeing 777-300ER aircraft under finance lease agreements in 1H 2014.

Other expenses decreased by 7.3% year-on-year to RUB 12,173 million, primarily due to a refund of fuel excise duties as a result of changes in legislation.

As a result of the above-mentioned factors, the Group's operating profit in 1H 2015 amounted to RUB 5,866 million (3.3% of revenue). EBITDAR reached RUB 33,252 million and EBITDAR margin increased 6.9 p.p. to 18.8%.

Non-operating gains and losses

RUB million, unless stated otherwise	6M 2015	6M 2014	Change
Operating profit / (loss)	5,866	(1,384)	-
Finance income	7,183	2,615	174.7%
Finance costs	(7,441)	(2,434)	205.7%
Hedging result	(8,848)	-	-
Share of results of associates	(56)	(2)	-
Loss before tax	(3,296)	(1,205)	173.5%
Income tax	(245)	(700)	(65.0%)
Loss for the period	(3,541)	(1,905)	85.9%

Finance income for 1H 2015 more than doubled year-on-year to RUB 7,183 million, mainly due to foreign exchange gains from refunds of down payments for aircraft.

The increase of finance costs to RUB 7,441 million for 1H 2015 was mainly due to an increase in interest expenses and losses on derivatives.

Realized loss from hedging of RUB 8,848 million is attributable to settlements under derivative instruments recognized in equity, as well as from realized result related to hedging of US dollar denominated revenue through lease obligations denominated in US dollars.

As a result of the above-mentioned factors, the Group's net loss for 1H 2015 amounted to RUB 3,541 million.

Debt

RUB million, unless stated otherwise	30 Jun 2015	31 Dec 2014	Change
Loans and borrowings	31,191	24,203	28.9%
Finance lease liabilities	137,817	149,278	(7.7%)
Pension liabilities	709	659	7.6%
Customs duties	-	169	-
Total debt	169,717	174,309	(2.6%)
Cash and short-term investments	50,067	27,508	82.0%
Net debt	119,650	146,801	(18.5%)
Net debt/EBITDA	3.6x	5.9x	

Total debt as of 30 June 2015 decreased by 2.6% versus 31 December 2014 to RUB 169,717 million.

As of 30 June 2015 undrawn lines available to Aeroflot Group from major Russian and international banks amounted to RUB 23.1 billion.

1. Including foreign carriers traffic.

2. EBITDAR = EBITDA before operating lease expenses. EBITDA

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