AEROFLOT ANNOUNCES 9M 2015 IFRS FINANCIAL RESULTS

News / Finance

Aeroflot Group («the Group», Moscow Exchange ticker: AFLT) today published its consolidated interim **financial statements** for the nine months ended 30 September 2015, in accordance with International Financial Reporting Standards.

9M 2015 Operating and Financial Highlights for Aeroflot Group:

• Group passenger traffic increased by 13.3% year-on-year, with 34.2% year-on-year growth in the domestic segment;

• Aeroflot Group increased its market share1 by 5.0 percentage points (p.p.) year-on-year to 35.2%;

• Revenue reached RUB 309,510 million, up 30.8% year-on-year;

• EBITDAR2 margin was up 8.6 p.p. year-on-year to 25.6%;

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• EBITDA2 margin was up 5.5 p.p. year-on-year to 15.5%;

• Operating profit more than doubled year-on-year to RUB 36,808 million;

• Net profit amounted to RUB 1,826 million as compared to net loss of RUB 3,563 million in 9M 2014.

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

«Aeroflot Group's 9M 2015 results reflect the successful implementation of our initiatives to increase efficiency in challenging economic conditions. Against the backdrop of a general decline in passenger traffic in Russia, Aeroflot Group carried 13.3% more passengers year-on-year during the first nine months of 2015 and increased its market share.

«The Group's revenue grew by 30.8% year-on-year in 9M 2015, driven by strong operational results. At the same time, our fleet optimisation and cost-cutting initiatives have enabled us to limit the growth of operating costs, despite significant exchange rate fluctuations. As a result, EBITDA and EBITDAR margins increased by 5.5 and 8.6 percentage points to 15.5% and 25.6%, respectively. Furthermore, in the third quarter and nine months of 2015, the Group earned net profit of RUB 5.4 billion and RUB 1.8 billion, respectively.

«Between September and November 2015, the Group successfully implemented the task set out by the Russian Government of transporting Transaero passengers, thus preventing a major disruption in the air transportation market. The successful execution of this crisis management project will support passenger traffic dynamics, expansion of our network, and the Group's profitability doing forward.» ?

1/Including foreign carriers traffic.

2/EBITDAR = EBITDA before operating lease expenses. EBITDA = operating income + depreciation & amortization + customs duties.

roup in 9M 2015 was 30.1 million, up 13.3% year-on-year.

Revenue

Revenue from charter flights decreased by 71.1% to RUB 3,861 million, due to the Group's strategy to decrease its presence in this market segment, as well as overall leisure market performance.In 9M 2015, Aeroflot Group's revenue increased by 30.8% year-on-year to RUB 309,510 million, primarily as a result of increases in revenue from scheduled passenger flights and other revenue. Revenue from scheduled passenger flights in 9M 2015 increased by 36.7% year-on-year to RUB 258,219 million due to 13.3% year-on-year growth in passenger traffic.

Despite a 4.6% year-on-year decrease in the volume of cargo and mail carried in 9M 2015, cargo revenue increased by 8.6% year-on-year on the back of stronger yields in the segment.

Other revenue increased by 43.4% year-on-year to RUB 40,948 million, mainly driven by an increase in FX-denominated revenue from airline agreements following changes in the exchange rate.

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Operating costs

Operating costs less aircraft fuel grew by 27.4% year-on-year to RUB 201,701 million.In 9M 2015, aircraft fuel costs increased by 9.7% year-on-year to RUB 71,001 million, due to the ruble weakening and increased traffic volume. Excluding the FX rate effect, aircraft fuel costs decreased by 19.3% due to a decline in oil price and the Group's initiatives to improve fuel efficiency.

Aircraft servicing and passenger services costs amounted to RUB 56,333 million, up 24.2% 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 7.1%, primarily due to expanded scale of operations and traffic volume, as well as changes in service rates.

Staff costs increased by 6.3% year-on-year to RUB 40,643 million, mainly due to increases in the ruble equivalent of salaries for employees based outside Russia and additional motivational compensation for cabin crew.

Operating lease expenses amounted to RUB 31,341 million, up by 88.6% year-on-year, mostly due to the change in the ruble exchange rate (nearly all of these expenses are denominated in foreign currencies). Other growth factors included expansion of the Group's fleet (net increase of 17 aircraft under operating lease, up by 9.3% compared to 30 September 2014), and an increase in the LIBOR rate during the reporting period.

Aircraft maintenance costs increased by 32.7% year-on-year to RUB 21,809 million, mainly due to the change in the ruble exchange rate. Excluding the FX rate effect, these costs were up by just 10.4% year-on-year.

Sales and marketing, administration and general expenses increased by 24.4% year-on-year to RUB 17,790 million. This growth was due to an increase in sales and marketing expenses denominated in foreign currencies.

Depreciation, amortisation and custom duties increased by 11.5% year-on-year to RUB 11,038 million, which was driven by the addition of six new Boeing 777-300ER aircraft under finance lease contracts during 2014.

Other net expenses increased by 30.3% year-on-year to RUB 22,747 million, primarily due to increased costs for GDS, as well as costs associated with inflight duty free sales. Refunds of fuel excise duties as a result of changes in the Russian legislation had a positive impact on other net expenses.

As a result of the above-mentioned factors, the Group's operating profit in 9M 2015 amounted to RUB 36,808 million (11.9% of revenue). EBITDAR reached RUB 79,187 million and EBITDAR margin increased by 8.6 p.p. to 25.6%. EBITDA reached RUB 47,846 million and EBITDAR margin increased by 5.5 p.p. to 15.5%.

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Non-operating gains and losses

The increase in finance costs to RUB 21,116 million for 9M 2015 was mainly due the impairment of the Group's loan to Transaero, as well as to an increase in interest expenses and realised losses on derivative financial instruments not subject to hedge accounting.Finance income for 9M 2015 more than quadrupled year-on-year to RUB 7,987 million, mainly due to foreign exchange gains from PDP refunds, interest income earned on bank deposits, as well as the positive effect from revaluation of derivative financial instruments not subject to hedge accounting.

The realised loss from hedging of RUB 15,731 million is attributable to settlements under derivative instruments recognized in equity, as well as to the effect of revenue hedging with liabilities in foreign currency (finance lease).

As a result of the above-mentioned factors, the Group's net profit for 9M 2015 amounted to RUB 1,826 million.

Debt

As of 30 September 2015 undrawn lines available to Aeroflot Group from major Russian and international banks amounted to RUB 22.8 billion.Total debt as of 30 September 2015 increased by 12.5% year-to-date to RUB 196,031 million, mainly driven by the increase in loans and borrowing, as well as by the revaluation of the Group's finance lease liabilities.

30 NOVEMBER 2015

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