

# Financial Review



IFRS financial highlights, RUB million

	2015	2016	2017	2018	2019
Revenue	415,173	495,880	532,934	611,570	<b>677,881</b>
Growth, %	29.8	19.4	7.5	14.8	10.8
EBITDAR	103,118	137,567	121,808	—	—
EBITDAR margin, %	24.8	27.7	22.9	—	—
EBITDA	58,703	78,004	56,015	151,517	<b>168,924</b>
EBITDA margin, %	14.1	15.7	10.5	24.8	24.9
Operating profit	44,107	63,254	40,411	60,736	<b>60,663</b>
Operating profit margin, %	10.6	12.8	7.6	9.9	8.9
Net profit / (loss)	(6,494)	38,826	23,060	(55,694)	<b>13,512</b>
Net profit margin, %	—	7.8	4.3	—	2.0
Adjusted net profit	(6,494)	38,826	23,060	8,669	<b>13,512</b>

Note. Numbers for 2018 have been restated to reflect the adoption of the new IFRS 16 Leases.  
EBITDAR = EBITDA + operating lease expenses. EBITDA = operating profit + depreciation and amortization + customs duties.

Aeroflot Group demonstrated growth across all headline operating and financial measures in 2019. Revenue was up 10.8% to RUB 677.9 billion driven by passenger traffic increase by 9.0% to 60.7 million passengers.

The results of the year experienced pressure from a number of external factors, such as aviation fuel prices that remained high, exchange rate pressure on foreign currency-denominated cost items and additional fuel costs, lost revenue from the temporary closure of Pakistan's airspace in the second quarter (which increased flight time to destinations in Thailand, Vietnam and India and required commercial load limitations). Besides, the high demand for air travel during the 2018 World Cup resulted in a high base effect for comparison with summer 2019.

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Despite these factors, Aeroflot Group almost doubled its 2019 net income year-on-year, to RUB 13,512 billion. The positive financial performance was enabled by the Company's systematic efforts in pursuing its revenue and cost initiatives, such as active capacity management, launch of value-added services aimed at enhancing passenger experience, and tight cost control. Along with simpler decisions in budgeting and financial control the Company implemented a number of initiatives to increase internal efficiency, including negotiations with partners to obtain more favourable financial terms.

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With the transition to the new IFRS 16 Leases, the 2018 results had been restated and Aeroflot Group's income reflected an accounting ("paper") foreign exchange difference on debt, resulting in a 2018 net loss of RUB 55,694 million. Had these accounting rules applied from the beginning of 2018, income for the period would have been RUB 8,669 million. The updated approach to assessing the effectiveness of hedging, in place from 1 January 2019 and discussed below, will reduce the volatility of the Company's financial performance from the foreign exchange rate impact on the Company's debt.

### Transition to IFRS 16

From January 2019, Aeroflot Group's accounting policies were modified to comply with IFRS 16 Leases, which replaces IAS 17 Leases and interpretations related to leases.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. According to the standard, Aeroflot Group recognises in the financial statements assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and records depreciation of the recognised right-of-use assets and interest on lease liabilities in the profit or loss of the period.

When adopting the new standard, Aeroflot Group made a decision to apply the full retrospective approach which requires each prior reporting period presented to be restated. Right-of-use assets and corresponding liabilities and financial assets are measured at transition as if the new rules had always been applied.

Thus, prior reporting periods in the Consolidated Statement of Financial Position, Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, and Consolidated Statement of Cash Flows were restated in accordance with IFRS 16. A significant part of the Group's aircraft lease agreements are in US dollars. Due to recognition of lease liabilities related 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.

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## Traffic and other revenue

Aeroflot Group's revenue increased by 10.8% year-on-year to RUB 677,881 million in 2019.

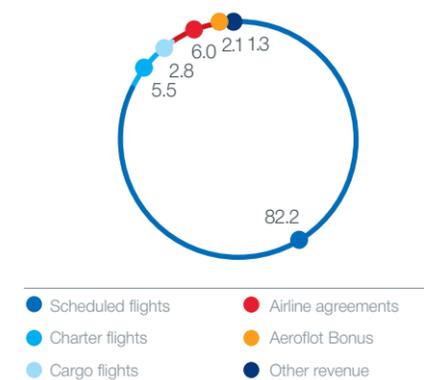
Revenue from scheduled passenger flights increased by 12.2% year-on-year to RUB 557,132 million, driven by an increase in passenger traffic and yields. Revenue from charter flights was down 1.1% to RUB 37,438 million. Cargo revenue grew by 2.0% year-on-year to RUB 19,282 million following a 4.3% increase in cargo and mail volumes.

Other revenue increased by 9.7% year-on-year to RUB 64,029 million driven by higher revenue from foreign currency-denominated airline agreements and frequent flyer programme revenue.

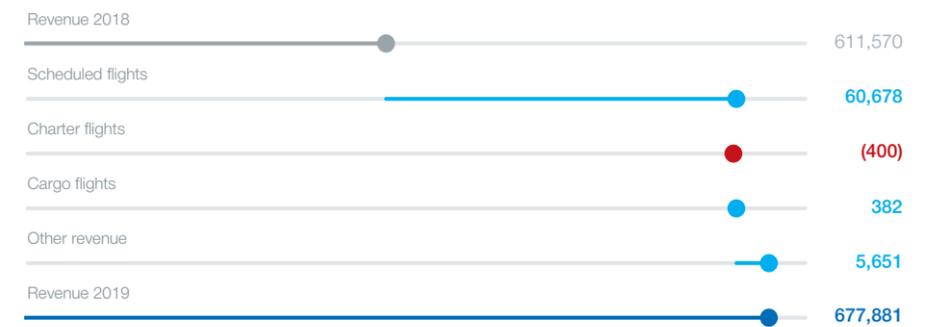
### Revenue, RUB million

	2018	2019	Change, %
Revenue from passenger flights, including	534,292	<b>594,570</b>	11.3
scheduled flights	496,454	<b>557,132</b>	12.2
charter flights	37,838	<b>37,438</b>	(1.1)
Revenue from cargo flights	18,900	<b>19,282</b>	2.0
<b>Total traffic revenue</b>	<b>553,192</b>	<b>613,852</b>	<b>11.0</b>
Airline agreements revenue	36,646	<b>40,883</b>	11.6
Revenue from partners under the frequent flyer programme	12,704	<b>14,453</b>	13.8
Other revenue	9,028	<b>8,693</b>	(3.7)
<b>Total other revenue</b>	<b>58,378</b>	<b>64,029</b>	<b>9.7</b>
<b>Total revenue</b>	<b>611,570</b>	<b>677,881</b>	<b>10.8</b>

### Revenue breakdown, 2019, %



### Revenue growth decomposition, RUB million



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### Yields

Scheduled flight yields increased by 2.0% year-on-year to RUB 3.89 per RPK in 2019. Yields on domestic destinations were up 7.3%, on international destinations – down 1.7%.

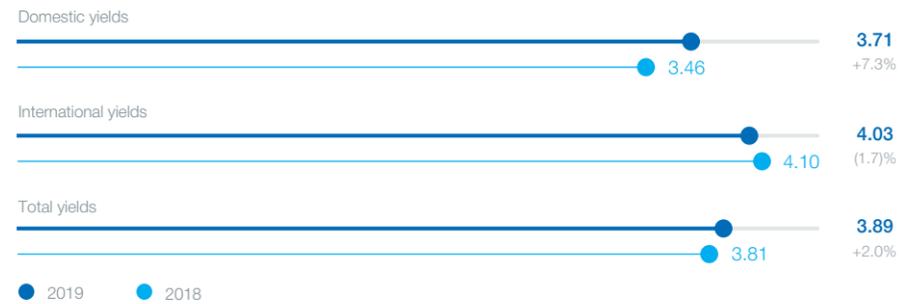
The upward trend in domestic yields was driven by steady demand for domestic travel, fuel surcharge adjustment and active ancillary revenue management.

International yields were lower due to excess market capacity and strengthening of the rouble against the euro by 2.0% year-on-year.

The yield performance was supported by the introduction of a fuel surcharge for CIS flights and fare adjustment for inflation.

The revenue per available seat-kilometre (RASK) was up 0.5% year-on-year to RUB 3.55.

#### Scheduled flights yields, RUB



#### Scheduled flights RASK, RUB



#### Total RASK (including other revenue), RUB



### Operating costs

Excluding aviation fuel costs, operating costs increased by 15.5% year-on-year to RUB 426,342 million.

Aircraft and passenger servicing costs totalled RUB 127,240 million, up 17.4% year-on-year, due primarily to the growth of passenger traffic and increased airport fees in Russian airports.

Depreciation, amortisation and customs duties were up 19.3% year-on-year to RUB 108,261 million. The growth was due to higher year-on-year Aeroflot Group's average fleet in 2019, as well as the changes in the fleet mix, i.e. phasing out of aircraft carried at historic exchange rates and phasing in of new aircraft in a weaker rouble environment. Following the transition to IFRS 16, depreciation and amortisation become one of the biggest operating cost items as they affect all aircraft on the Company's balance sheet.

Staff costs increased by 12.4% year-on-year to RUB 92,413 million, mainly due to higher flight crew numbers on the back of expanding operations.

Selling, general and administrative expenses increased by 7.1% year-on-year to RUB 31,407 million, mainly driven by business growth. Aeroflot Group continues to maintain strict overhead cost discipline.

Aircraft maintenance costs increased by 26.2% year-on-year to RUB 30,566 million, due to more maintenance as a result of more flight hours, weaker rouble and additional expenses associated with maintaining product quality.

#### Operating costs, RUB million

	2018	2019	Change, %
Aircraft, traffic and passenger servicing	108,371	127,240	17.4
% of revenue	17.7	18.8	1.1 p. p.
Depreciation, amortisation and customs duties	90,781	108,261	19.3
% of revenue	14.8	16.0	1.1 p. p.
Staff costs	82,186	92,413	12.4
% of revenue	13.4	13.6	0.2 p. p.
Selling, general and administrative expenses	29,328	31,407	7.1
% of revenue	4.8	4.6	(0.2) p. p.
Aircraft maintenance	24,229	30,566	26.2
% of revenue	4.0	4.5	0.5 p. p.
Lease	5,601	8,099	44.6
% of revenue	0.9	1.2	0.3 p. p.
Other expenses	28,474	28,356	(0.4)
% of revenue	4.7	4.2	(0.5) p. p.
<b>Operating costs, excluding aviation fuel</b>	<b>368,970</b>	<b>426,342</b>	<b>15.5</b>
% of revenue	60.3	62.9	2.6 p. p.
Aviation fuel	181,864	190,876	5.0
% of revenue	29.7	28.2	(1.6) p. p.
<b>Total operating costs</b>	<b>550,834</b>	<b>617,218</b>	<b>12.1</b>
% of revenue	90.1	91.1	1.0 p. p.

Lease costs were RUB 8,099 million and included short-term leases, variable lease payments and low-value leased assets, which are not included in Aeroflot Group's balance sheet liabilities and assets under IFRS 16.

Other costs were down by 0.4% year-on-year to RUB 28,356 million.

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### Cost per Available Seat-Kilometre

Total CASK was up 1.6% year-on-year to RUB 3.23, mainly driven by aircraft and passenger services as well as depreciation and amortisation. This was offset by lower CASK in selling, general and administrative expenses and aviation fuel costs.

#### CASK excluding specific fuel costs, RUB



#### Total CASK, RUB



### EBITDA

Following the impact of the above factors, earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to RUB 168,924 million in 2019, up 11.5% year-on-year. EBITDA margin was up 0.1 p. p. to 24.9%.

#### EBITDA, RUB million, and EBITDA margin, %



### Finance income and costs

Finance income was down 19.5% year-on-year to RUB 5,486 million in 2019, due to lower interest income on bank deposits.

Finance costs were down 59.5% year-on-year to RUB 52,050 million, mainly due to the fact that revenue hedging with foreign exchange-denominated liabilities in relation to leases previously classified as operating leases was not applied in 2018.

As a result, non-cash foreign exchange effect on revaluation of total operating lease-related liabilities was reflected in finance costs following a 20.6% appreciation of the US dollar in 2018.

As a result of the above factors, Aeroflot Group's net profit for 2019 was RUB 13,512 million.

#### Non-operating income and loss, RUB million

	2018	2019	Change, %
<b>Operating profit</b>	<b>60,736</b>	<b>60,663</b>	<b>(0.1)</b>
Income / (loss) from investments, net	(689)	357	-
Finance income	6,816	5,486	(19.5)
Finance costs	(128,394)	(52,050)	(59.5)
Hedging result	(6,788)	(2,368)	(65.1)
Share of results of associates	254	160	(37.0)
Results from disposal of companies	1,240	1,555	25.4

### Cash flows

#### Consolidated statement of cash flows, RUB million

	2018	2019	Change, %
Income before income tax	(66,825)	13,803	-
Depreciation and amortisation	90,129	107,477	19.2
Change in impairment provision	2,887	(2,556)	-
Gain / (loss) on foreign exchange, net	79,640	(598)	-
Hedging result	6,788	2,368	(65.1)
Interest expense	48,702	49,970	2.6
Interest income	(5,365)	(3,711)	(30.8)
Result from disposal of subsidiaries	(1,240)	(1,555)	25.4
Fair value changes of investments	689	(357)	-
Other adjustments	822	(2,067)	-
Working capital changes and income tax paid/refunded	(22,225)	(10,549)	(52.5)
<b>Net cash flows from operating activities</b>	<b>134,002</b>	<b>152,225</b>	<b>13.6</b>
Deposits return	23,926	16,791	(29.8)
Deposits placement	(21,152)	(23,969)	13.3
Proceeds from sale of property, plant and equipment and assets held for sale	4,296	10,079	134.6
Interest received	3,115	1,803	(42.1)
Purchases of property, plant and equipment, right-of-use assets, intangible assets and capitalised repair expenses	(34,656)	(26,781)	(22.7)
Prepayments / return of prepayments for aircraft, net	10,080	(22,200)	-
(Repayment) / return of operating lease security deposits, net	(2,428)	40	-
Payment for financial assets under lease contracts, net	(2,321)	(2,132)	(8.1)
Other	136	224	64.7
<b>Net cash flows used in investing activities</b>	<b>(19,004)</b>	<b>(46,145)</b>	<b>142.8</b>
<b>Free cash flow</b>	<b>114,998</b>	<b>106,080</b>	<b>(7.8)</b>
Receipt of loans and borrowings	350	36,161	-
Repayment of loans and borrowings	(131)	(23,674)	-
Purchase of treasury shares, net	97,040	-	-
Repayment of the lease liabilities principal	(73,795)	(78,694)	6.6
Interest paid	(44,028)	(45,993)	4.5
Dividends paid	(14,543)	(3,286)	(77.4)
<b>Net cash used in financing activities</b>	<b>(139,187)</b>	<b>(115,486)</b>	<b>(17.0)</b>
Effect of exchange rate fluctuations	1,922	(1,422)	-
<b>Net decrease in cash and cash equivalents</b>	<b>(22,267)</b>	<b>(10,828)</b>	<b>(51.4)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>45,978</b>	<b>23,711</b>	<b>(48.4)</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>23,711</b>	<b>12,883</b>	<b>(45.7)</b>

## Financial Review continued

### Cash flows from operating activities

Net cash flows from operating activities reached RUB 152,225 million in 2019, while income before income tax amounted to RUB 13,803 million.

The significant growth in income before income tax year-on-year in 2019 is attributable to hedge accounting of foreign exchange effect which, according to IFRS, can be applied only prospectively, starting from 1 January 2019. Significant foreign exchange loss was recorded in 2018 because this hedging was not applied to the foreign exchange effect on revaluation of aircraft finance lease liabilities prior to 1 January 2019.

Other significant non-cash adjustments to income before income tax to arrive at net cash flows from operating activities were: depreciation and amortisation; other adjustments line which mostly includes income from disposal of property, plant and equipment and assets held for sale as well as the positive effect from revaluation/modification under lease contracts in accordance with IFRS 16; a recovery of provision.

### Working capital

Working capital changes were RUB 11,676 million in 2019. The biggest effect was from increase in accounts receivable and prepayments. This item was down significantly year-on-year as a result of a decrease in accounts receivable, partly offset by VAT and other taxes recoverable.

Another effect on the cash flows from operating activities was from a decrease in accounts payable and accrued liabilities as a result of the change in accounts payable for aircraft and engine overhauls, as well as the change in unearned traffic revenue.

#### Cash flows, RUB million



### Free cash flow

Free cash flow was RUB 106,080 million in 2019. The decrease by 7.8% year-on-year was due to the increase in cash flows used in investing activities as a result of prepayments for aircraft in the amount of RUB 28,592 million (vs RUB 13,888 million in 2018) and the return of prepayments for aircraft in the amount of RUB 6,392 million (vs RUB 23,968 million in 2018).

Cash and cash equivalents decreased by 48.4% to RUB 23,711 million due to, among other factors, the effect of exchange rate fluctuations.

## Capital expenditure

Purchases of property, plant and equipment and intangible assets were RUB 9,256 million in 2019, down 21.3% year-on-year due to the high base effect caused by a number of one-off effects from purchases of plant and equipment in 2019. Purchases of right-of-use assets were RUB 2,236 million, down 77.8% year-on-year, mostly due to prepayments for right-of-use assets under IFRS 16 Leases. Such prepayments were approximately RUB 2.2 billion in 2019 (vs RUB 10.1 billion in 2018). Capitalised repair expenses increased by 20.5% to RUB 12,467 million, mostly due to higher maintenance volumes in 2019.

#### Capital expenditure (net), RUB million

	2018	2019	Change, %
Purchases of property, plant and equipment and intangible assets	(12,099)	(9,526)	(21.3)
Purchases of right-of-use assets	(10,090)	(2,236)	(77.8)
Capitalised repair expenses	(12,467)	(15,019)	20.5
Proceeds from sale of assets held for sale	4,203	6,192	47.3
Proceeds from sale of property, plant and equipment	93	3,887	–
<b>Total capital expenditure, net</b>	<b>(30,360)</b>	<b>(16,702)</b>	<b>(45.0)</b>
Total capital expenditure excluding purchases of right-of-use assets	(20,270)	(14,466)	(28.6)
Total capital expenditure excluding capitalised repair expenses	(17,893)	(1,683)	(90.6)

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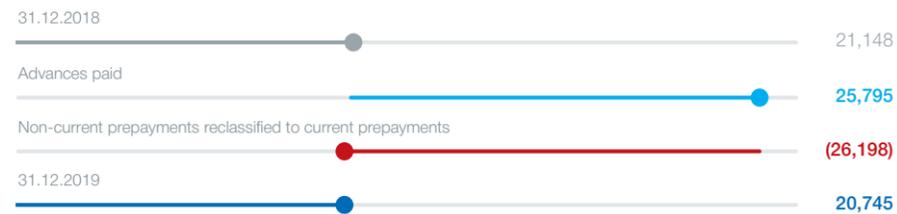
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### Non-current and current assets

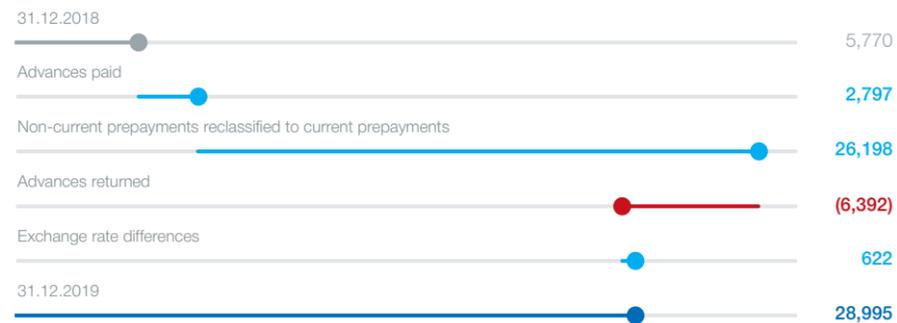
Non-current assets were down 5.3% year-on-year in 2019 to RUB 786,466 million. The change was due to a decrease in the amount of right-of-use assets.

Current assets were up 7.0% to RUB 146,852 million. The change came from an increase in accounts receivable and prepayments, mostly driven by prepayments for acquisition of aircraft.

Change in prepayments for aircraft (non-current portion), RUB million



Change in prepayments for aircraft (current portion), RUB million



### Equity

Equity, including non-controlling interest, increased to RUB 1,950 million in 2019 (from RUB 61 621 million negative in 2018). The key reason behind the change in equity was a RUB 54,033 million change in effect from the hedge reserve, which comprised revaluation of derivatives assessed as effective under IAS 39 and revaluation of finance lease liabilities.

### Current and non-current liabilities

Current liabilities remained almost flat year-on-year in 2019, up just 0.5%. The change was because short-term loans and borrowings and current portion of long-term loans and borrowings were higher by RUB 12,393 million and unearned traffic revenue was higher by RUB 3,525 million, while lease liabilities were lower by RUB 7,714 million and liabilities related to assets classified as held for sale were lower by RUB 6,254 million.

The main changes in non-current liabilities were because lease liabilities were lower by RUB 91,093 million, mainly due to the repayment of liabilities, and provisions for liabilities were lower by RUB 10,103 million, mainly due to the use of the provision for regular repairs and maintenance works.

### Debt and liquidity

Following the changes in the accounting policy related to 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 Aeroflot Group and its contractual obligations have not changed.

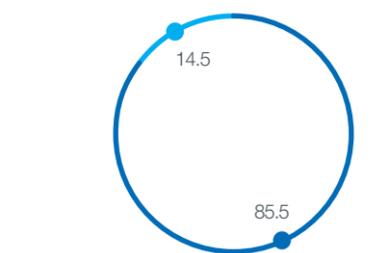
As of 31 December 2019, total Aeroflot Group's debt in accordance with IFRS 16 decreased by 13.1% compared to 31 December 2018, to RUB 573,700 million. The reduction was due to adjustments to the valuation of leases following the strengthening of the rouble against the US dollar as at 31 December 2019 compared to 31 December 2018, and repayment of debt in accordance with the repayment schedule.

Future interest payments under lease contracts as at 31 December 2019 were RUB 166,868 million.

Debt, RUB million

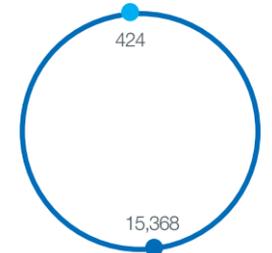
	2018	2019	Change, %
Loans and borrowings	3,486	15,792	4.5x
Lease liabilities	655,931	557,124	(15.1)
Pension liabilities	908	784	(13.7)
<b>Total debt</b>	<b>660,325</b>	<b>573,700</b>	<b>(13.1)</b>
Cash, cash equivalents and short-term investments	30,148	25,861	(14.2)
<b>Net debt</b>	<b>630,177</b>	<b>547,839</b>	<b>(13.1)</b>

Breakdown of total debt, %



● Non-current portion ● Current portion

Breakdown of loans and borrowings by currency as at 31 December 2019, RUB million



● Russian rouble ● US dollar

Lease repayment schedule as at 31 December 2019 (excluding future interest payments), RUB million



● Operating lease ● Finance lease