Airline Industry Overview

Scheduled passenger traffic grew by 3.7% to 4.5 billion people.

Global airline industry

According to IATA's estimates, global passenger turnover was up 4.2% year-on-year in 2019. Scheduled passenger traffic grew by 3.7% to 4.5 billion people.

Passenger turnover growth slowed down compared to 2018. Industry development was affected by slowing economic growth, weaker global trade activity amid trade wars, and geopolitical tensions in a number of regions. Another significant negative factor was the Boeing 737 MAX grounding.

Asia Pacific and European airlines were the main driver of its growth.

Global capacity expanded by 3.5%, slower than demand. As a result, passenger load factor rose to a record high of 82.4%.

According to CAPA (Centre for Aviation) estimates, the percentage of global LCC capacity measured in seats rose to 32.9% in 2019, up 0.4 p. p. year-on-year. Europe has the largest share of LCC seats, at 41.7% of total passengers carried by the region's airlines. It is followed by Latin America with 39.6%, North America with 30.4% and Asia Pacific with 29.7%.

Consolidation and further optimisation processes continued in the global airline industry. A total of 23 carriers went out of business in 2019.

+4.2%

Global passenger turnover continued to grow, although at a slower pace ...

+4.9%

... with Asia Pacific airlines leading the regional growth ...

+7.4%

... the fastest-growing national markets – Russia

+7.8%

and China.

+3.5%

Capacity expanded slower than demand ...

82.4%

... resulting in a record-high global passenger load factor ...

85.2%

... led by European carriers.

Overall industry's revenue was USD 838 billion according to IATA's estimates, up 3.2% year-on-year. Passenger flights accounted for the bulk of the industry's revenue, their share standing at 67.6%.

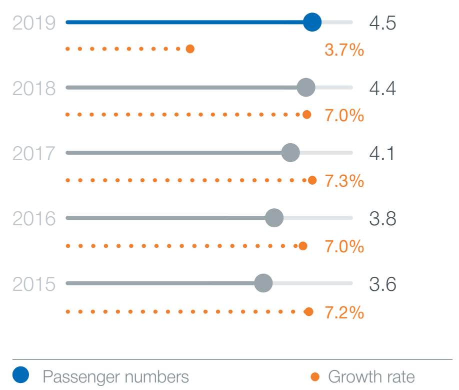
The industry's operating expenses climbed 3.8% year-on-year to USD 796 billion, driven by higher traffic and slower growth of fuel costs. The fuel costs were 23.7% of the total industry's operating expenses (vs 23.5% in 2018).

Average global jet fuel price in USD per barrel was down 10.6% in 2019, however the EBIT margin continued to decline to 5.1% (vs 5.7% in 2018). Profitability levels still vary by region, with the highest level of 9.6% in North America, 4.7% in Europe, 3.5% in Asia Pacific, 3.6% in Latin America and 1.0% in Africa.

The 2019 global airline industry's net profit was estimated by IATA at USD 25.9 billion, down 5.1% year-on-year. North America contributed more than half of the global net profit, while in Latin America, Africa and the Middle East the airline industry was loss-making in 2019.

Global scheduled passenger traffic

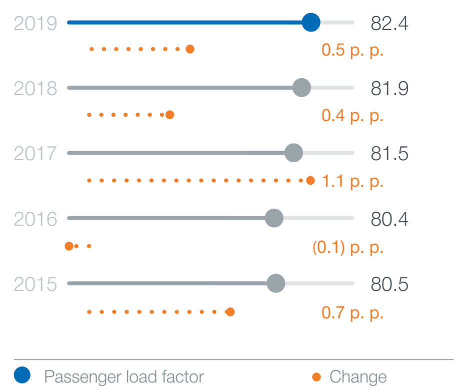
4.5 billion PAX



Source: IATA.

Global passenger load factor

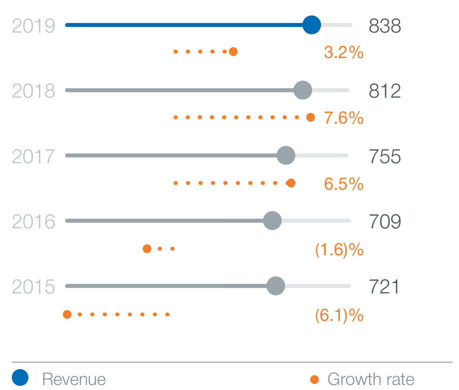
82.4%



Source: IATA.

Global revenue

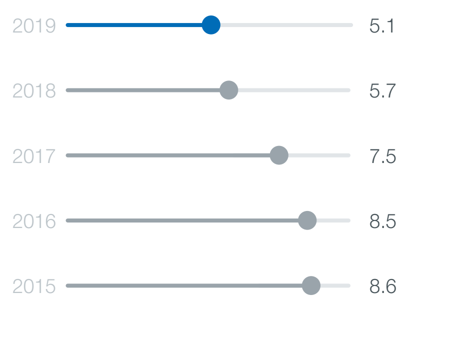
USD **838** billion



Source: IATA.

Global EBIT margin

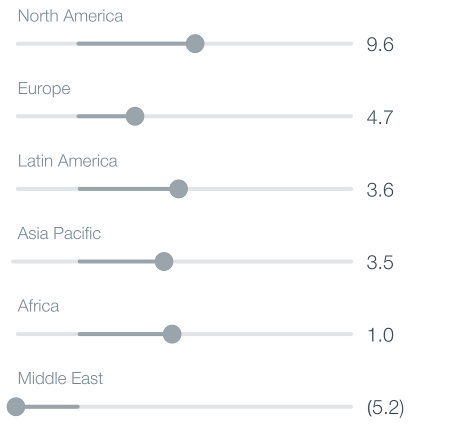
5.1%



Source: IATA.

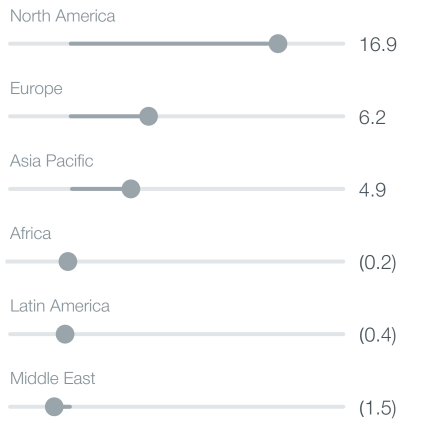
Russian airline industry

Global EBIT margin in 2019 by region, %



Source: IATA.

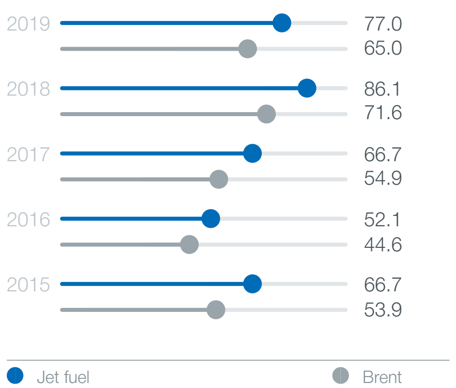
Global net profit in 2019 by region, %



Source: IATA.

Jet fuel and crude oil prices

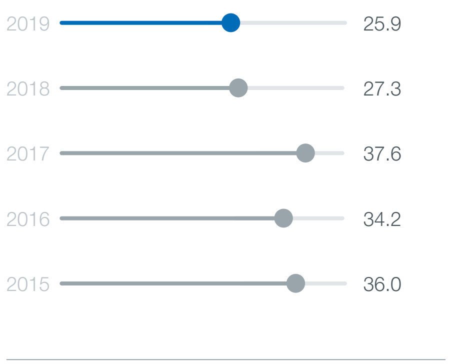
77.0/65.0 USD per barrel



Source: IATA.

Global net profit

USD **25.9** billion



Source: IATA.

The total size of the Russian market, including air transportation by foreign carriers to and from Russian airports, totalled 147.2 million passengers, up 7.5% year-on-year.

Russian airlines carried 128.1 million passengers, up 10.3% year-on-year, with their total passenger turnover up 12.6% to 323.0 billion RPK. Passenger load factor remained broadly flat at 83.9% (up 0.1 p. p. year-on-year).

The Russian market growth in 2019 was driven by development of low-cost products and initiatives by legacy carriers, such as non-refundable and baggage-free fares, no in-flight catering, paid seat selection, etc. Besides, continued digitalisation and simplification of the interface between passengers and airlines promote social mobility.

The suspension of Boeing 737 MAX deliveries gave Russian carriers an opportunity to balance their excess capacity and hold back its growth in the second half of 2019.

In 2019, airlines carried 73.1 million passengers on domestic flights, which was 49.6% of the total passenger traffic. Average passenger load factor was 82.6%, down 0.2 p. p. year-on-year.

A key growth driver in the domestic flights segment is the market stimulation effect from Pobeda low-cost carrier, as well as government-sponsored regional flights.

The international flights segment continued to demonstrate accelerated growth. Russian airlines carried 55.1 million passengers on international routes in 2019, up 16.3% year-on-year. Average passenger load factor for Russian airlines on international routes was 84.9%, up 0.3 p. p. year-on-year.

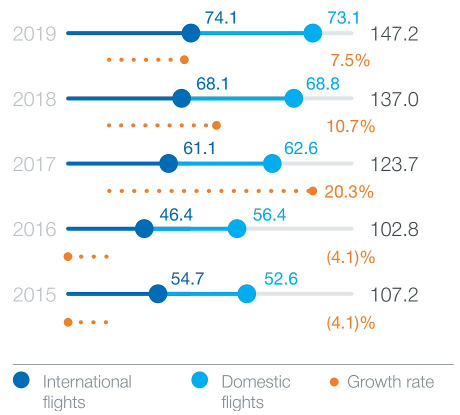
Higher international traffic was driven by demand stimulation and increased air travel accessibility as a result of active new capacity expansion by the main players in the first half of the year, as well as international transfer development.

Foreign carrier traffic was down 8.2% year-on-year in 2019, mainly due to flight schedule adjustments after higher capacities had been allocated for the Russia-hosted 2018 World Cup, as well as competition from Russian airlines which had increased their capacities while having a lower cost base.

Including foreign airlines, 74.1 million passengers were carried on international routes in 2019, up 8.8% year-on-year.

Passenger traffic in Russia (including foreign carriers)

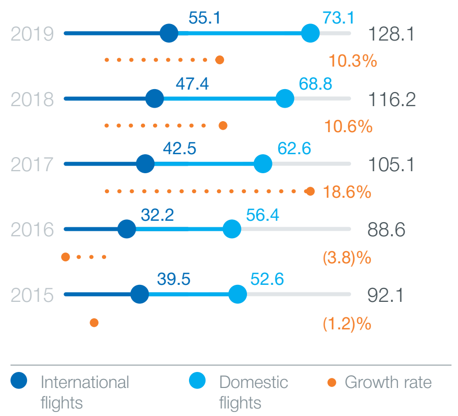
147.2 million PAX



Sources: Transport Clearing House, Federal Air Transport Agency.

Passenger traffic in Russia (excluding foreign carriers)

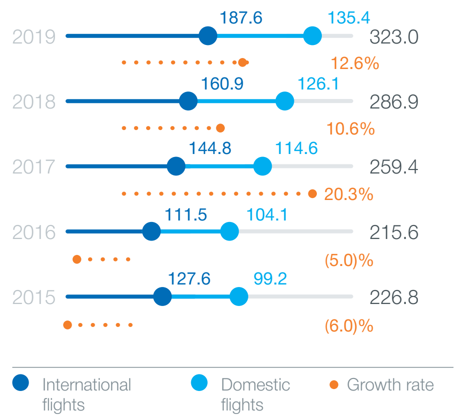
128.1 million PAX



Source: Federal Air Transport Agency.

Passenger turnover in Russia (excluding foreign carriers)

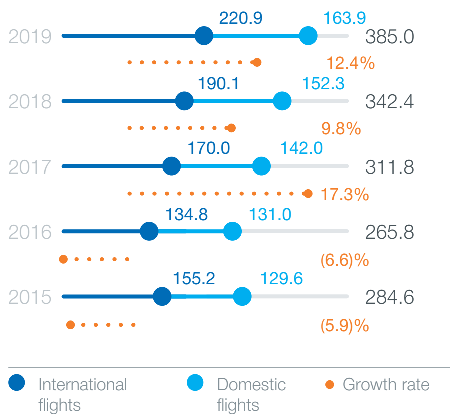
323.0 billion RPK



Source: Federal Air Transport Agency.

Available seat-kilometres in Russia (excluding foreign carriers)

385.0 billion ASK



Source: Federal Air Transport Agency.

Airline Industry Overview
continued

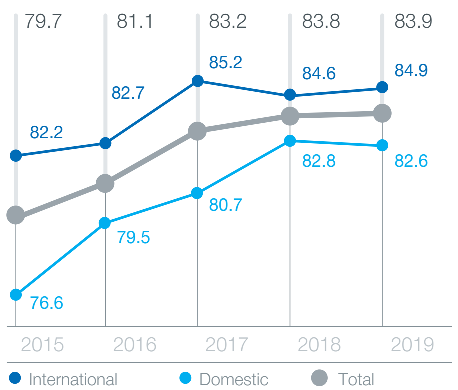
Four largest players accounted for 65.5% of the total passenger traffic in the Russian market in 2019. The structure of the market remained virtually unchanged year-on-year.

Aeroflot Group's 2019 market share amounted to 41.3% of the Russian market measured by passenger traffic (vs 40.7% in 2018). Aeroflot Group's 2019 "net" market[1] share was 39.0%.

Aeroflot Group's closest competitors are S7 Group (12.2%), Ural Airlines (6.5%) and UTair Group (5.5%). The market share of other Russian airlines was 21.6%. The market share of foreign carriers went down to 13.0% (vs 15.2% in 2018) due to the factors discussed above.

Passenger load factor in Russia (excluding foreign carriers)

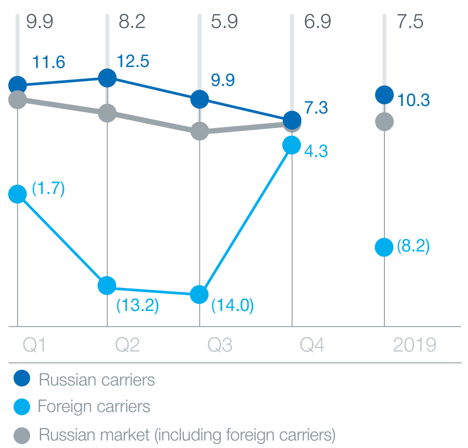
84.9%



Source: Federal Air Transport Agency.

Passenger traffic growth* in 2019: Russian vs foreign carriers

7.5%



* Year-on-year change.

Sources: Transport Clearing House, Federal Air Transport Agency.

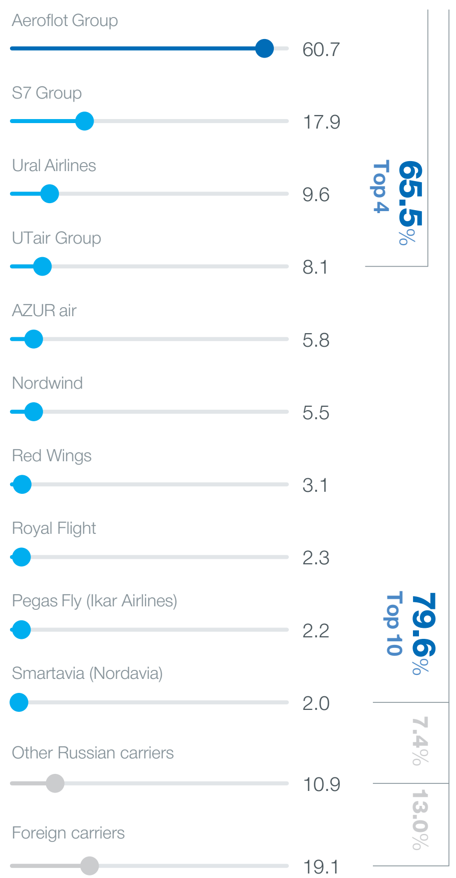
Aeroflot Group's market share evolution (by passenger traffic, including foreign carriers), %

	Total passenger traffic					"Net" market[1]				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
International flights	29.3	39.4	36.9	36.3	**36.6**	24.1	33.9	31.7	31.2	**31.5**
Domestic flights	44.6	44.6	44.1	45.0	**46.0**	44.6	44.6	44.1	45.0	**46.0**
Total	**36.8**	**42.3**	**40.5**	**40.7**	**41.3**	**34.5**	**40.0**	**38.2**	**38.4**	**39.0**

1. "Net" market means passenger traffic including foreign carriers, but excluding transfer passengers on international flights connecting in Russian airports, as these passengers are not relevant for the Russian O&D market.

Russian airline industry players by total passenger traffic in 2019

147.2 million PAX

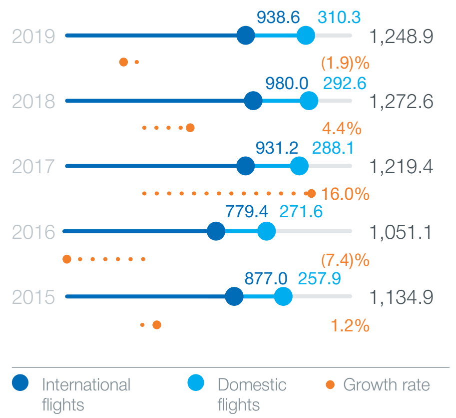


Sources: Transport Clearing House, Federal Air Transport Agency.

Air cargo market

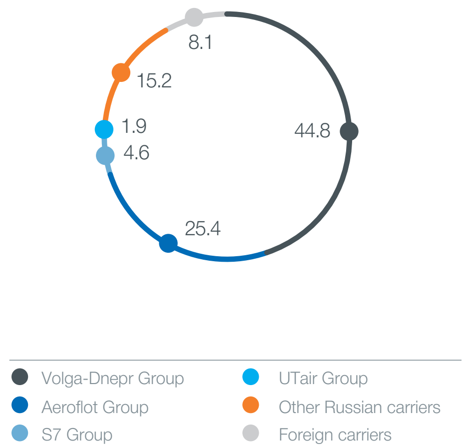
Russian air cargo market volume (including foreign carriers)

1,248.9 thousand tonnes



Sources: Transport Clearing House, Federal Air Transport Agency.

Russian air cargo market by volume in 2019, %



Sources: Transport Clearing House, Federal Air Transport Agency.

According to IATA, the global air cargo market totalled 61.2 million tonnes in 2019, up 3.3% year-on-year. The industry's cargo revenue was down 8.1% to USD 102.3 billion.

The share of Russian airlines in the global air cargo market was about 1.8%. Russian airlines carried about 1.1 million tonnes of cargo in 2019, down 2.4% year-on-year. Russian carriers' cargo turnover was 7.4 billion tonne-kilometres, down 5.4% year-on-year.

International cargo traffic was down 5.1% to 836.9 thousand tonnes. This segment accounts for about 72.9% of the total Russian air cargo market. Domestic cargo traffic was up 5.5%.

Aeroflot Group ranked second in this market with a 25.4% share (vs 23.9% in 2018). The four largest players account for 76.7% of the total cargo traffic in the Russian market.