Operator: Good day and welcome to the Aeroflot Group 9M 2017 IFRS Financial Results conference call. Today’s conference is being recorded. At this time, I would like to turn the conference over to Mr Andrey Napolnov, head of investor relations. Please go ahead, sir.

Andrey Napolnov: Good afternoon, ladies and gentlemen. Thank you for joining our call today where we will discuss our 9M 2017 financial results. We have two speakers, Deputy CEO for Strategy and Alliances, Giorgio Callegari, and Deputy CEO for Commerce and Finance, Shamil Kurmashov. I would like to remind you that the press release and IFRS statements as well as presentation are available at our website in the IR section. Before we start, I would like to draw your attention to the fact that some information on the call may contain forward-looking statements regarding future events or performance, and actual results may differ materially from those expressed or implied in the statements made during the conference call due to known and unknown risks and uncertainties. For more information, please refer to the disclaimer statement on the second slide of the presentation. And now, I would like to pass the floor to Giorgio Callegari, who will take you through the Company’s operational achievements. Giorgio?

Giorgio Callegari: Thanks a lot, Andrey, good afternoon, everybody. As usual, we will start the presentation from overview of the market and the description of our performance in the market. We have added one slide which I will spend some time later on, because we believe it is important to better understand where the company is going.

Let us start again from highlights. The company carried 5.5 mn more PAX than in 9M 2016 that is equivalent to an increase in traffic of almost 17%. We achieved that by increasing the capacity, by using that capacity more efficiently as a result of load sector that increased 1.3 p.p. to 83.7% that means a total revenue is
What is happening on the market? The market has shown an impressive pace of growth with 21.5% increase in 9M 2017 y-o-y, but as I will explain later on, it is more of a revival rather than an outright growth. It is obvious that such pace of growth is the result of a number of factors which we will illustrate later on. That growth is diversified in the sense that domestic traffic has grown 10.4% while international traffic has grown 35.2% mainly attributable to the opening (reopening) of Turkey leisure destination. Six more mn PAX are travelling to Turkey as we will explain later on. In that market, the capacity increases of Russian carriers will be detailed later on, but I would like to underline the fact that foreign carriers have increased capacity 21.8%, i.e. in line with growth in terms of ASKs with the growth of the market. As I said, the slide that you have not seen before, so I would believe that these results are in line with the long-term strategy of the Company and with the goal of long-term profitability of the Group.

First of all, we have maintained a selective approach to this very dynamic market in the sense that as you see both in absolute, in overall terms, international and domestic segments of the Aeroflot Group have grown less than the market. Yes, impressive growth rates, because international flights gained 26.4% but mostly these are the results of the good performance of Rossiya, domestic grew 10%, so we maintain a selective approach to market opportunities. In selecting the market opportunities, we are also rather conservative in the destinations that we add to our network, so we added the three destinations in 9M 2016, we added a total of five destinations (excluding the dynamics of Pobeda) in 9M 2017. We keep on building a competitive advantage in terms of number of frequencies per destination and we keep the percentage of international connecting traffic at a stable 13% of the total traffic that we carry. The message here is yes, we take advantage of market opportunities because again, we grew almost 17%, but while being consistent in our approach to that growth.

In doing that, we invest, we leverage our investment in the international market and that is repaid more than proportionally by the growth that you see in highlight of the 3rd point in the Middle East, where, in particular, there is the combination of growth in Israel and Turkey, the significant growth in Europe with addition of couple of destinations, but mostly frequencies to the destinations that we serve, and then in the rest of the market. We have been confirmed as the result of a very detailed and extensive audit process as a four-star carrier by Skytrax and we have confirmed the strength of our brand both by Brand Finance and by a number of the commissions received by our customers. Therefore, the premium positioning that we are pursuing for Aeroflot is recognised by the market.

I would also like to mention here that there is an arithmetic effect that has weighed on our results, which is the temporary evolution of capacity distribution between wide bodies and narrow bodies. It is the result of the developing fleet plan which means that the capacity carried (offered) by wide bodies has gone from 48% of the total in 2015 to 45% of the capacity in 2017. Conversely, the capacity of the narrow bodies has gone from 50% to 53%. This means that as the result of pure arithmetic that is the increasing CASK resulting from an overall lower unit capacity for Aeroflot.

Let us look more in detail at the comparison of dynamics that was hinted at in the introduction to my presentation. As you see on slide 6, the 5.5 mn PAX that we carried additionally are by far larger than anybody else. We have outgrown domestically our nearest competitor, and you see the result of that in the number of passengers that we carried domestically from 19.2 to 21.1. Nevertheless, as I already said a couple of times being selective means accepting a reduction in the market share therefore focusing on retaining our competitive position. Again, it is more than 40%, we are but not pursuing it at any cost in
terms of more aggressive growth of international carriers, that comes from Turkish Airlines because of the opening of Turkey, and Chinese airlines as the result of the high degree of interest shown by Chinese passengers in the Russian market. We see on the following slide, which in our opinion serves the purpose, stabilisation of the market. Still, the positive thing is that the passenger load factor continues to increase compared to the previous years, but at a lower rate. The demand is tapering out and capacities are not being added as aggressively either, and therefore there is a stabilisation of the load factor.

What are the performances of the values operators of the Group? On slide 9, we show the relative results of the companies as part of the Group, so Aeroflot with still 65% of the total PAX carried by the group – an increase of 14.2%. I would like to underline the very positive performance of Rossiya that has carried 9 mn PAX in the 9M 2017, that is more than the total of PAX that they carried last year. It is the result of successful domestic operation in the Far East and to some destinations in the south, but also of the successful cooperation in the leisure segment. Numbers are small as far as Aurora is concerned, but it continues to be a success story, so a way of developing local services for a community which is important for us as a group carrier and for the company.

For Pobeda – let me move on to specific slide on their performance and therefore not spend time here. As far as the Aeroflot network is concerned, on slide 10 you see in more detail what I already mentioned in terms of focus on developing frequencies rather than destinations. The five destinations that I mentioned that we have in the 9M 2017 are two international – Lisbon and Kostanay, and three domestic destinations. The important thing that I would like to underline here is the growth of our frequencies to London, where next year we will be operating five daily services in Moscow and London therefore positioning our services to that market in line with what we have for the main capitals in Europe, and a significant increase in unit capacity to Tel-Aviv. As far as the domestic market is concerned, we have successfully adjusted our capacity to leisure markets, which have seen a decrease in traffic as a result of passengers choosing Turkey over Russian destinations.

The next slide. What I would like to highlight is the fact that the transit, the distribution of transit passengers is more or less stable. Domestic to international destinations account for most of the growth, which is very important, as it means that we retain the ability to connect the country to our international destinations. As you see, even though there has been a significant increase in absolute terms from 2.8 to 3.3 mn PAX, the percentage of international to international traffic has remained stable at 13%.

Pobeda, I mentioned that I would deal with it in more detailed terms, as you see on slide 12, has an amazing performance in terms of load factor with a 94.5% load factor in 9M 2017 – the result of a very, very efficient use of capacity. The load factor will obviously decrease as a result of the addition of four aircraft in Q4, eight more will be added in 2018. This will enable Pobeda to focus more on the development of traffic between regions while growing the percentage of destination traffic up to 30% of the total capacity. That is an important part of our strategy as it allows the Group to leverage the growth opportunities of the Russian market.

In terms of operating performance, on slide 14, a balanced distribution of growth in terms of international/domestic, as far as Aeroflot is concerned, and higher percentage of international traffic, as far as the Group is concerned as a result of Rossiya’s performance as I mentioned, a load factor which increases notwithstanding the very high base of last year both at Aeroflot level and at the Group level. All this was just the combination of the good performance of Pobeda and Rossiya. Once again, the number of passengers is growing more than the flight hours, so capacity is used effectively.
In terms of revenue and yield management, on slide 16 the distribution of revenue between the various markets. I mentioned that Russia accounts for the most part of our revenue, but shows lower growth rate than the rest of the market where we are leveraging our investment in capacity and obviously in terms of visibility on those markets.

The yields which are a point of great interest for the Company but also for the financial analysis. Yields have continued to decrease but also to perform in line with a long-term trend that is to be expected. On the market growth at 30% it is clear that some of that growth is driven by stimulation which is clearly too aggressive. When I say too aggressive everybody has to have in mind the demise of VIM Avia which was very aggressive stimulating growth by discounting prices and to the point of going bankrupt. There is pressure on yield resulting from that competition, but we retain in the environment the ability to select the traffic load that we want to serve. There is also an effect of FX in the yield, because, again, we want to continue developing our presence in points of sale outside of Russia. It is a part of our strategy to become a global carrier. Also, it results from investment in communication marketing on foreign markets, and we have to accept that there are temporary negative effects on the yield from the rouble appreciation. The rouble strength, obviously, has an impact also on US dollar denominated sales, and the combination of these factors results in the yield performance that you see on the slide. Still, on slide 18 we are showing that the trend is positive. Despite the decrease in yields, they are moving to the positive territory.

Thank you so much for the attention, I will now hand over the floor to Shamil Kurmashov.

Shamil Kurmashov: Good afternoon I will tell you about our fleet. As of the end of this period, we had 314 aircraft in the fleet, 68% of which are narrow-bodies for medium-haul flights, and 68% of the Group’s fleet is exploited by Aeroflot itself, the parent company. The majority of the fleet – 83% – is under operating lease contracts. Hence, there is no major change in the financing structure of our fleet.

On the next slide, you can see the structure of our fleet in 9M 2017. The Group has been intelligently expanding its capacity with 35 aircraft joining the fleet and 12 aircraft being phased out resulting in the net increase of 23 aircraft. The key additions are 3 wide-bodies, 29 narrow-bodies with 12 phased out, and we also added 3 narrow-bodies for regional aircraft.

Financial performance – on slide 23 you can see the key financial indicators of our company and bottom line net income. Revenue growth of 6.2% was driven by the expansion of passenger traffic and currency impact on other revenue. Despite the fact that OPEX was supported by FX factors, namely, rouble appreciation, it was growing ahead of revenue: 15.4% against 6.2%. As a result of that fact, in 9M 2017 EBITDAR and EBITDA margins have decreased to 25% and 13%, respectively. We will discuss the reasons in more detail later on during the call and on further slides.

Next slide is financial highlights. In 2017, we witnessed normalisation of financial metrics on the back of exceptional 2016 figures. We clearly disclosed in the previous calls that in 2016 there were a lot of one-off effects which were non-recurring and not lasting for the forthcoming years. Last year’s results were backed by a number of positive factors, including extraordinary imbalance in supply and demand. The market’s second biggest airline ceased operations at the end of 2015, so we clearly saw the improvement of the market in the previous year. The second factor was a considerable capacity optimisation of the market through the first three quarters. A lot of international companies stepped out from the market as they clearly saw the dilution of margins. That contributed to the consequential yield inflation. The third factor was the operating leverage effect, so the passenger load factor significantly increased in 2016 resulting in additional revenue without incremental fixed costs. In the current year, the pressure from the fuel prices
and the increased competition on the market, as well as absence of a number of positive factors which influenced 2016 results triggered normalisation of Aeroflot Group financials. Despite this fact, historically we see quite an attractive picture. EBITDA is 1.5x higher than the 5-year average, which is explained on the chart. Net income is 1.7x higher than the 5-year average. We see that actual results are much more robust than the historical average. The management's aim is to deliver profitable growth, however we cannot ignore macro headwinds, which we witness going into 2018.

Let us begin with revenue growth decomposition on the next slide. The Group's revenue grew by 6.2% and amounted to RUB 405 bn, mainly driven by the growth of business and traffic revenue – about RUB 15 bn from scheduled flights and RUB 10 bn from charter flights. The key factors are traffic growth and rouble appreciation (approximately +15% y-o-y in US dollar and euro terms) that resulted in negative effect on revenue. However, as the pace of rouble appreciation slowed down in Q3 2017, the magnitude of currency effects also decreased. Rouble yield is down by 6.6% (2.6% domestically and 9.7% internationally). Despite the fact that the international yield is down by 9.7%, in euro terms it increased by 6%, which proves the effectiveness of our approach to revenue management. What we clearly see here is that the picture is not in line with the previous years, but we can explain the factors which stand behind it.

On the next slide, we analyse the operating cost structure. This was also significantly influenced by FX, but oppositely to what we have seen in the previous years. Rouble appreciation offset growth related to volume, price and other factors. If the FX rate had stayed flat, we could have seen an increase in operating expenditures of 23%, however with the help of the exchange rate, the growth was only 15%. Most of the lines increased on the back of the volume growth. The only lines that deserve extra attention is fuel, SG&A and staff costs. Fuel costs were up by more than 20%. The dynamics of the fuel costs was driven by an increase in the rouble fuel price by 6% and a growing scale of operations. There was an increase of ASK (additional ASK of over 16%). In terms of SG&A, which was up by 18.7%, it is mainly on the back of 29% growth in Q3 2017 specifically. This increase is primarily explained by the commercial and marketing expenses, increase of our advertising activities to promote international transfer products in the key markets. Frequent fliers might have noticed our banners and advertisements in many international airports in European and Asian capital cities. The third effect is staff costs (+26%) due to salary increase of 5% according to mandatory collective agreement, recruitment costs with Aeroflot expansion and growing volumes, total increase in headcount of 5.5%. Also, as we explained in our previous disclosure in 1H 2017, there was an increase in variable compensation of employees linked to the corporate KPIs under the long-term motivation programme, which related to the previous year, but was paid out this year. There was also the reserve created by our auditors and called the unused vacation provision, in the amount of RUB 2.6 bn. It is also required by the standard and previously had not been in place. In the absolute amount, by example, fuel costs were up by RUB 16 bn, but only by RUB 15 bn by price. We will touch upon this in the coming slides.

We tried to touch the same topic, but based on unit costs. Just to draw your attention to the fact, in 9M 2017, cost per ASK in rouble terms, on a per unit basis, decreased by 0.6% to the absolute level RUB 3.06. This was the result of a decline in maintenance costs, operating lease and other expenses, mainly Global Distribution System (GDS) expenses, which represent almost the entire CASK decrease. Rouble appreciation saved the Group RUB 0.24 per ASK, and in Q3 2017, as expected, we saw supportive fuel prices environment. Fuel CASK was 0.7% down, staff CASK net of non-recurring items that I have mentioned was flat, and the provisions for unused vacations pushed staff costs from 0 to 11%. This is how we can explain the structure of cost evolution.

The next slide is about fuel cost management. Here we traditionally show three metrics linked to fuel consumption. We continued a long-term trend of increasing our efficiency in fuel consumption despite the fact that the pace is already very low. You can see certain continuous improvement in this metrics over the
period of some five or six years. During 9M 2017, fuel consumption per ASK decreased by 0.4%, and the fuel price increased on average by 6.2% in y-o-y terms to RUB 32,500/tonne. An increase in the average fuel price for this period was largely impacted by the growth of the rouble equivalent of the Brent price. The USD Brent was up by 22%, but in rouble terms only by 5%. In Q3 2017, the jet fuel prices were supportive of our results as we had expected and forecast.

The next slide is the headcount overview. During this period, we have increased our labour productivity: PAX traffic per average headcount for the Group’s airlines increased by 6.8% reaching almost 1.5 mn PAX per one thousand employees. The traffic revenue per average headcount slightly decreased by 0.2%, which can be justified by accelerated expansion of flight cabin crews ahead of new aircraft deliveries concentrated in Q4 2017, because we have to prepare cabin crew personnel. Headcount grew by 5.5%, with most of the growth coming from expansion of operations.

Now we come closer to EBITDA evolution, which is the most interesting slide, because it accumulates all the aforementioned effects. The fundamental reason is that the expansion growth outpaced revenue growth. Let us look at why exactly this happened. EBITDA for 9M 2017 was significantly affected by foreign currency movements and other macroeconomic factors. Let us begin with the fuel price, which was up by RUB 16 bn, out of which RUB 14 bn was an increase driven by volume and RUB 15 bn were added to the price factor, then offset by RUB 11 bn in savings due to rouble appreciation. Staff CASK increased by 8.3% resulting in additional growth of RUB 4.6 bn compared to the result we could have delivered with the flat staff CASK. SG&A, we have already said, were mostly driven by a more aggressive marketing outreach in key priority markets of Aeroflot as part of the Best in Europe project. You know we are oriented towards this aggressive goal. We want be the first not just in Eastern Europe, but in the whole Europe. Other factors are also additional marketing on newly opened routes and expanded frequencies. All FX benefits on costs is less than FX drag on revenue. We managed to partially neutralise it by stronger yields in euro. One of the reasons that the FX effect on costs is lower than the one on revenue is that our Group other revenue (airline revenue agreements) was down. You are aware of the fact that airline revenue agreements are denominated in hard currencies and decreased by RUB 3.4 bn. That is the main factor.

On the next slide, we come to net income evolution, because all the key factors are the same as in relation to EBITDA, but what can be added to that? Traffic revenue growth lower than OPEX, is on the back of cost pressures and other revenue compression of RUB 3.8 bn which is shown on this chart, to a large extent driven by FX and other factors, resulting in pressure on net income. It can be explained by the fact that there were no one-off effects in the amount comparable with non-recurring expenses in the respective periods of the previous year (predominantly PDP refund revaluation, sale of aircraft and finance lease and so on). Positive contribution from hedging results, because compared to the previous year no realised loss of hedging derivative instruments is reflected in the financials. Second, the overall effect of revenue hedging with liability in foreign currency – we mean that finance lease bodies, the revaluation of these bodies in foreign currency differences for these bodies is reflected in the P&L. We should also mention saving on interest expense in 9M 2017 due to debt prepayment of RUB 1.1 bn.

On slide 32, we try to show the structure of the pro forma operating income and net income. 9M 2017 was affected by a number of one-off factors. First one is the release of legal reserve which was imbedded in our financials in the amount of RUB 1.3 bn, which was connected to a number of legal cases where probability of cash-out cost for the Group has significantly diminished and is currently close to zero, that is why we restored this reserve. The increase of reserve for social payments which is required by the Russian law and is triggered by DonAvia and OrenAir initiating bankruptcy procedures, it is already in our financials, and increase in already mentioned unused vacation reserve in the amount of RUB 2.6 bn in Q3 2017. Net income was additionally affected by the following factors: FX gain on pre-delivery payments (+RUB 2.6 bn), which is
related to return payments from the manufacturers, which was paid by Aeroflot under our aircraft purchase agreement earlier. Adjusted net income amounted to almost RUB 29 bn.

Capital structure and liquidity. Total debt as at the end of this period decreased by 23.4% on the back of two factors—decrease of borrowings and prepayments on certain credit lines and lower finance lease liabilities. Net decrease in borrowings amounted to RUB 17.2 bn, a significant amount, and our Group is currently left with one major loan outstanding. As a result of all that we saved RUB 1.2 bn on interest expenses and RUB 2.4 bn as an effect of financial lease repayments recognised in the P&L. On liquidity side, despite significant repayments, the Group secures very stable cash position—more than RUB 60 bn. In total, we have secured more than RUB 100 bn of undrawn credit lines, which is a very good cushion for an unstable situation. Amid a significant decrease in borrowings and finance lease obligations, Aeroflot secured very comfortable net debt / LTM EBITDA ratio of 0.9x at the end of 9M 2017.

Operating and free cash flow are described on slide 35. Free cash flow remained in a good shape, in the amount of RUB 64.3 bn, y-o-y declined due to cash flow from operating activities dynamics. Still, it is more than 2x higher than in 9M 2015. In this period, we have negligible results from working capital change, which is usually quite low due to seasonality effects. So, there is a difference between accounts receivables and accounts payable and changes in inventories. Key other adjustments before working capital changes include RUB 4.2 bn loss reclassification from hedging reserve to P&L and finance lease accounting, RUB 9.2 bn change in provisions, mostly contributed by RUB 8.5 bn of maintenance reserve and RUB 1.1 bn of legal reserve. Part of free cash flow was used to pay financial lease and for loan repayments. As a result, net change in cash amounts to +RUB 21 bn, so this is a significant liquidity cushion ahead of the low season in Q4 2017.

And what is usually of specific interest to investors is the guidance. We showed healthy numbers in 9M 2017, we are planning to continue operations growth on the back of stabilised macro environment, which will help us generate additional volumes in Q4 2017. We increased our expectations for all operating metrics for FY 2017. The figures are as follows: PAX growth of 14–15% up to 50 mn PAX, RPK growth at the level of 2016, ASK growth the same, load factor up to 82%, although previously it was set at the levels of slightly more than 80%. So, we slightly improved all figures in the guidance for the full year. Thank you very much. Now, we will be happy to answer your questions.

Mikhail Ganelin: Good day, gentlemen, thank you for the presentation. I have two questions. First, regarding the Q4 results. I want to understand how it may look like now that we see many news that fuel price is skyrocketing. Could you tell us by how much oil price increased since September and how difficult it could be for you in Q4? Can you post a net loss in Q4? It is important because it affects full year net income and your dividends for 2017, thank you.

Shamil Kurmashov: Do you mean fuel prices in the current quarter compared to September? You mean the increase in fuel prices currently in November?

The change in the current jet fuel price in comparison with September this year is 2.3%. We do not see any changes in this regard and do not expect any adverse impact on our financials.

Mikhail Ganelin: OK. My second question is regarding the next year. Given that the next conference call will be in 2018, could you provide any guidance in terms of RPK for 2018?

Shamil Kurmashov: We are going to have a Board of Directors meeting and submit our 2018 budget on 6 December. That is why now we are not in a position to provide any figures on operational data. We can
provide them for the whole 2017. As to 2018, not all the figures have been clarified. We should discuss and approve them at the Board Meeting, which is going to happen on 6 December.

Mikhail Ganelin: OK, thank you, no more questions from me.

Operator: We will now take our next question from Mitch Mitchell, BCS. Please, go ahead. Your line is open.

Mitch Mitchell: Hello, gentlemen. Thank you for the call. Two questions from me – the simple one first and then the more complicated one. The simple one is if you can give us any view on how the management and the Company are thinking about your dividend payout for the next year. I know the dividend policy is 25%. We also know that the government and many other state-owned companies have been moving to a 50% payout. How does the Company think about the possibility to make a 50% payout next year? That is the first question. The second question is if you could go back to the operating costs and again walk us through the areas where cost growth is far exceeding the revenue and operating growth. We can understand that there are some drivers of your revenue that you can control and some – that you cannot. Yet the expectation on the side of the market is that you will do everything you can to restrain operating costs, which are more within your control. You discussed them a little, so could you just give a bit more colour on these big areas: what is going on, what can we expect going forward? That would be the staff costs, SG&A and other expenses sitting in OPEX. Thank you.

Shamil Kurmaskov: Thank you for your questions. I will begin with the dividends. If the government takes a decision to pay out 50% or any other amount, we are ready to do that. Our financial position clearly shows that any decision can be supported without deteriorating our financial position. Therefore, the Company is ready for the governmental decision and will support paying dividends on the level, which is different from the 25% threshold outlined in our dividend strategy.

As far as operating expenditure is concerned, we tried to draw your attention to the key factors presented on slides 26–27. You can clearly see that the three key factors such as fuel costs, SG&A and staff costs, are growing at a pace exceeding the pace of revenue growth. As to the fuel costs, you know there was an increase in Platts price and that the majority airline revenue agreements of our contracts are nominated in various currencies and linked to the formula pricing. What is the formula? There is a special coefficient multiplied by the Platts price index. So, if there is an increase in the Brent price, there is a correlated influence on our jet fuel price. We are in the market and if you need any further explanation, for example, on a month-to-month or year-to-year basis or for September this year to September last year, we can provide you with all the details. However, generally, fuel costs are up by 21.7%, and the dynamics of fuel costs were driven by a 6% increase in rouble fuel price. We have certain economies due to a positive – for us – movement in foreign currency. But the first factor is the growing scale of operations. There is a 16.2% addition of ASK. On the SG&A side, it is mainly due to the increase in Q3. The increase is driven by higher commercial and marketing expenses. You can see our increased footprint in all the airports and points of presence, because the depth of our network is rather significant now. I mean the amount of frequencies per day. Now we expand our operations to new destinations. It goes without saying that we should promote our services and products running image campaigns as well as product advertisements at the places where we begin to fly. It is more capital consuming to develop the width of our network than its depth. Therefore, there are many destinations, which are launched inside the Russian Federation. We are also going to a new market of the third priority in Europe and other countries. We can go to other secondary destinations and it goes without saying we should promote our services. The third factor is staff costs, including a 5% indexation on the basis of mandatory requirement of law. Our recruitment costs are linked to our growing volumes – 5.5%. The total amount of employees is on slide 29. If you want more details on certain
lines, we can provide them, but generally, these were the three key factors I wanted to outline. I would like also to draw your attention to slide 27, where we make the per unit analysis. The per unit cost analysis is maybe more attractive than the absolute figures analysis. Rouble appreciation has saved us RUB 0.24 per ASK. In 9M 2017, on a per unit basis, cost per ASK decreased by 0.6% to the absolute rouble amount of more than RUB 3 as a result of a decline in maintenance costs, operating lease and other expenses. Our functional currency is the rouble and, therefore, we try to drive all the metrics and indicators to this currency and make them comparable with the previous years. On a per unit basis, we have a much more attractive picture than the one you can see analysing line by line. I hope I have answered your question.

Mitch Mitchell: OK, thank you. Let me just clarify two things. On the SG&A, I understand what drove the increase in this particular period. How long do you see that trend going on? Is that something we should be looking at and watching how many new destinations you open? And then in periods, when there are a lot of new destinations, we should see acceleration, and in the periods, when there are no new destinations, it should slow down? Or is it some multi-year trend where we should see these lines growing faster than overall lines? On the staff items, again, I understand the drivers and the logic on the unit cost basis. However, on the unit cost basis, staff costs rose by 8.3%, which is huge when we look at what happened to yields. It is the right way to looking at taking out these one-off vacation accruals? Will that give a more realistic understanding of the underlying trends or not?

Giorgio Callegari: Thank you for the questions, Mitch. Let me address the first part in terms of what will happen next year. If you go back to the initial part of the presentation, where we were explaining our approach to growth, you will see that we have grown 26.4% internationally and 10% domestically. By growing 10% domestically, we have outgrown our nearest competitor, which has grown around 7%. What I am trying to say is that growth in Russia, our domestic market, will be mostly coming from Pobeda, while the growth of Aeroflot will certainly be at a lower pace. The growth of Aeroflot, where we leverage our premium position, is on the international market. We want to expand our penetration of international customers, points of sale. Therefore, the answer is our investments in the quality of service and in communicating that quality of service will continue in the next few years. Shamil made a reference to our internal objective to position Aeroflot as the best company in Europe according to Skytrax. That is important because it defends our premium yield. It also means continuing investments in product improvement and communicating that product improvement. Thank you.

Operator: We will now take our next question from Robert Bonte-Friedheim, BlueCrest. Please go ahead. Your line is open.

Robert Bonte-Friedheim: Good afternoon and thank you for taking my question. I am not sure I understood it correctly and it is a follow-up question from the last conference call. I just want to get a better sense of expense growth. Because when you spoke on the last conference, you mentioned that to make your guidance, you would have to have single-digit operating costs for the rest of the year and it seems you are higher than that. Can you help us? What kind of one-offs are in the cost growth numbers and, as a result, what is the underlying growth of costs and how should we think about the costs going forward? So what were the one-offs in operating costs? And what are the cost growth trends for this year and next year? In big pictures again, obviously.

Shamil Kurmashov: One of factors, which is going to generate or become the source of generation of operating expenses will be the Best in Europe project. You know that our competitor, which has always been in this place and is the benchmark for us – you know, which airline I am talking about – spent a significant amount of money to enter this place supporting it for maybe five consecutive years. Therefore,
we cannot say that this is a one-off. If we are focused, we are also going to spend money on that for the forthcoming two or three years. In terms of marketing expenses, I think there is nothing we are going to economise on. We are in a very tough environment. A lot of foreigners are coming back to our market. The ones who reduced their presence to zero and ceased their operations from St Petersburg, Moscow, other points in the Russian Federation, came back to the market in 2017 and they are overlapping with our routes. Therefore, marketing expenses will be dedicated not only to organic destinations but also to this additional project of Best in Europe. Hence the double-digit expenses we will see in the forthcoming years. As to other one-off expenses, we do not expect any of them. The picture will be much more favourable because all the reserves have been done. That unused vacation was something we did not predict. It was the position of our auditor. There are two methodologies applying to this reserve, one of which was applicable in the previous years and the other one has been approved by the auditor for the current period and would be reflected in the next period. So, answering your questions, there will be no one-off effect in the forthcoming years but there will be two projects generating expenses – Best in Europe and expansion of our destinations in the Russian Federation. I think it will be slightly above 10–12% next year. This is a big picture analysis. If you need more statistics or data, we can provide you with a table showing directions, which would be the recipients of the funds.

Robert Bonte-Friedheim: OK, thank you for that. I have one more question regarding just a big picture. At some point the IFRS changes are coming. Is that something that will come for you on 1 January 2019 or will it be later? This is question one. And two is how we should be thinking about that impact on your financials?

Shamil Kurmashov: They will become effective in January 2019.

Robert Bonte-Friedheim: January 2019 then. Have you run models? What can we assume the effect will be? Do you know how much the debt and EBITDA will increase by? Roughly the range of estimate that we could think about for modelling this.

Shamil Kurmashov: We are in the process of calculating the effect on the financial statements and we will communicate it later, maybe after the next disclosure.

Robert Bonte-Friedheim: OK, got you. Thank you very much for taking the questions.

Operator: We will now take our next question from Pietro Ajello, Kairos. Please go ahead. Your line is open.

Pietro Ajello: Good afternoon, gentlemen. Thank you for taking my question. Can you please comment on the performance of your subsidiaries in Q3 in terms of contribution to your profitability and relatively to your expectations? Thank you very much.

Giorgio Callegari: Thank you for your questions, Pietro. As you know, we do not disclose financial results of individual companies but we highlighted their traffic performance in the multibrand section. I highlighted the significant improvement of Rossiya, which has carried more than 9 mn PAX, which is more than the total for the entire last year, as a combination of an effective position in the charter market and in the domestic destinations that they serve. Pobeda has grown comparatively less (only 2.2%). That is because of limitations in capacity, which they addressed by increasing load factors to the world record. As aircraft are coming in operation in September–December, we expect to see this performance improve in terms of PAX but definitely not at the same level of financial performance because there are some investments involved. Aeroflot and Aurora are in line with the target. They are reflected in Aurora’s performance. Thank you.

Shamil Kurmashov: We can disclose our separate legal entities, which are not under our commercial management, which is Pobeda airline, our low-cost carrier. For 9M, net income stands at RUB 3.9 bn. We
think it will be approximately RUB 4 bn. Why is Rossiya airline or Aurora not disclosed? Because it is part of our business and these networks cannot be separated from each other. They are business units, not more than that. They are not businesses, they are part of our unique network.

*Pietro Ajello:* Thank you very much.

*Operator:* We will now take our next question from Osman Memisoglu, Bank of America. Please go ahead, your line is open.

*Osman Memisoglu:* Hello. Thank you for the presentation. I have two questions. On the yield front, I know you said there is no specific guidance, but how do you conceptually expect the yield environment to develop next year? If possible, separately for domestic and international. And the second question is on the airport expansion process. Where are we there? Maybe it is delayed a bit? Could you give us some colour on how it would, or could, impact your growth? I guess, maybe we could talk about the World Cup as well. Whether it would impact the traffic, depending on how it is going? Thank you.

*Giorgio Callegari:* Thanks for the questions. Let me start from the airport expansion. The terminal capacity that we expect to see in the North part of the airport is so far respecting the timeline, and therefore we expect that capacity to be available in time for the World Cup and to accommodate additional customers in Sheremetyevo. In terms of the yield, as you know, we do not make forward-looking statements, especially in the light of what Mr Kurmashov has just said a few moments ago about the budget for 2018 still waiting to be formally approved by the Board of Directors. What we can show, though, is that, as we have said many times, we are confident in the effective approach of the multi-brand strategy which combines an aggressive growth for Pobeda (and again we have repeated that several times – we have announced the fleet expansion for Pobeda in 2018) and the focus on developing regional flows in Russia, certainly at a lower yield. On the other hand, Rossiya is performing very well and, certainly, in the year of additional tourist flows resulting from the World Cup it is expected to perform potentially better than in 2017. Therefore, there is a number of factors that we are trying to balance as we have done in the past, but about which we are not ready to make a conclusion in terms of specifics about yield.

*Osman Memisoglu:* Thank you.

*Operator:* We will now take our next question from Denis Vorchik, Uralsib Bank. Please go ahead, your line is open.

*Denis Vorchik:* Good afternoon, gentlemen. Thank you for taking my question. I would like to ask you regarding the VIM Avia situation. After the landing of VIM Avia, the government started to contemplate the creation of an industry reserve fund, probably at the expense of TransSiberian royalties. Could you comment what status it has now and whether you expect this matter to have any impact on Aeroflot financials.

*Shamil Kurmashov:* Thank you very much for the question. The concept of creating this fund is, indeed, discussed in the industry. There is a number of schemes, as far as I understand, and the main sponsor for that is the Transport Ministry. It is clear that they should be responsible for what is going on in the industry and should assess the financial position of each company and take due actions. As this fund is for the market, we believe that all potential stakeholders should take part. It goes without saying that Aeroflot is not going to finance the problems of other companies or the industry. From our side, we will be ready to make a reasonable contribution, but let us see what the approved scheme will be like. Because now, it is not even under discussion that Aeroflot, like you mentioned, would be financing or injecting a certain amount from royalties to this fund, which will be distributed between all the players which are in a bankrupt
situation or in a difficult situation. This is not even under discussion. So, they think about creating the fund which would be financed by all the participants of the market (and, by the way, there are more than 130 carriers in the Russian Federation) and if they want to fly, want to be the part of the market, they should be part of this fund. There will be collective responsibility. This is the ideology of the Transport Ministry. We view it not as Aeroflot’s responsibility but as a certain hedging measure to stabilise the market. And it is not going to be financed by Aeroflot alone, only collectively with other market participants. But the scheme has not been elaborated yet.

Denis Vorchik: Thank you.

Operator: We will now take our next question from Olga Boltrukevich, VTB Capital. Please go ahead, your line is open.

Olga Boltrukevich: Good evening. Thank you for the presentation. I have a couple of questions. The first question is again regarding your one-off costs. Sorry if I have missed your answer, but there is still no full clarity on this RUB 5 bn vacation accrual and increase of reserve for social payments. Should we actually expect zero expenses in the future? Are they one-off items or maybe you expect any similar items going forward? This was the first question.

Shamil Kurmashov: Yes, Olga. This is Shamil. You are quite right. These two items are expected to be zero. Because a reserve for unused vacation has always been created by management and supported by the auditors and this was like a revaluation of this reserve, which was not predictable even for the auditor. I think that it is the ultimate and final correction and there will be no expenses on these lines.

Olga Boltrukevich: Thank you. The second question is regarding your fuel hedging policy. I understand that your hedging policy is not to hedge fuel because of a natural hedge of the Russian economy, but the recent decoupling of the rouble from oil prices provides for higher fuel prices for you in rouble terms. Are you considering any complex derivative structures like hedging fuel against the currency to capture the decoupling between the rouble and the oil price?

Shamil Kurmashov: In our portfolio, this is one of the risk factors that should be under scrutinised attention all the time. The policy had been submitted to the Board of Directors, was approved by the Board of Directors but no corresponding decision has been taken up to now. Therefore, if the Board of Directors makes a decision to implement the strategy, it would be in place, but no such kind of decision has been taken up yet. So, I do not expect any changes in this field in the forthcoming year.

Olga Boltrukevich: Thank you very much. And my last question is about the recent news on the closure of the old Platov airport in Rostov-on-Don, which would increase your airport expenses 2x. As far as I know, you have flights by Pobeda to Rostov-on-Don. Once the old airport is closed, you would actually have no chance to cancel flights to Rostov-on-Don, of course, because it is quite a big city, first of all, and secondly because of the World Cup next year. So, what is your strategy on trying to reduce these airport costs? Could it happen also in other regional airports?

Giorgio Callegari: Olga, thanks for your question. Let me just describe the size of the problem because there has been a number of articles in the Russian press about this. Rostov airport caters for up to 2.1 mn PAX. So, we are talking about over 2.1 of a total number of passengers in Russia which is 100 mn PAX. Yes, they might want to try and repay in an accelerated way the investments that they made, but this airport will not dramatically change the economics of our network. That applies to both Aeroflot and Rossiya that are doing scheduled flights to Rostov from Moscow and St Petersburg. And it applies as well to Pobeda. Pobeda can fly to Rostov, but it can also fly to a number of regional points alternative to Rostov again because it is not
such a large market that it has to be served at all cost. So, as it is happening in a number of airports around the world when a new terminal is opened, there is a healthy discussion between the airport operators and the airlines to identify the proper level of costs. Thank you.

*Olga Boltrukevich:* Thank you very much for the answers.

*Andrey Napolnov:* Thanks a lot for attending our call. If you have any follow-up questions, we will be happy to answer them. Thank you.