Good day and welcome to the Aeroflot Group Six Months 2015 IFRS Financial Results Conference Call. Today’s conference is being recorded. At this time I would like to turn the conference over to Andrey Napolnov, Head of IR. Please go ahead.

Andrey Napolnov: Good morning and good afternoon ladies and gentlemen, this is Andrey Napolnov speaking. Thank you for joining us on the Six Months 2015 IFRS Financial Results call. Today we have two speakers, Aeroflot Deputy CEO for Strategy and Alliances, Giorgio Callegari; and Aeroflot Deputy CEO for Finance, Network and Revenue Management, Shamil Kurmashov. I’d like to remind you that the press release, IFRS statements, and conference call presentation are available on our website in the Investor Relations section.

And 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 and implied in the statements made during this conference call due to known and unknown risks and uncertainties. For more information, please refer to the disclaimer statement on the second page of our presentation.
Now I’d like to pass the floor to Giorgio Callegari, who will take you through the company’s key operational achievements.

**Giorgio Callegari:**

Good morning, good afternoon, to everybody on the call. Thank you, Andrey, for the introduction and thanks to everybody on the call for making themselves available and putting up with our change of day and time.

As always, we would like to share with the audience our assessment of market performance in which Aeroflot continues to deliver impressive results. Obviously, as you had extra time to look at our results, the economic, the financial result is negative, RUB 3.5 billion, but we will explain why, notwithstanding that result, our operating performance is improving and is – in absolute terms – impressive. One of the reasons is our growth in terms of passenger traffic, 14.0% more than last year; growth in terms of revenue, 30.0% more than last year. And these two factors translated into an increase in market share from 31.2% in the first six months of 2014 to 37.0% in the first six months of 2015. Market share figures include foreign carriers.

What has the market been doing over this period? The market decreased for the first six months. Obviously last year Russia has hosted Winter Olympics (resulting in the one-off effect on the traffic), and that has resulted in a limited decrease in the market, which, by the way, if you look at the seven months including July, has fully recovered. So it is a very resilient market, certainly a resilient market also on the back of some aggressive pricing from our competitors. That’s why the fact that the overall revenue of the Group – I talked about the passenger side but the overall revenue – grew by 25.8% and the fact that we were able to improve the margins at EBITDAR and EBITDA level by 6.9 and 3.9 points respectively is the indication of an impressive operating performance, as I said at the beginning.

More information on market performance. The market in the last five years continued to grow. The growth, as I said, partially stopped in the first six months but we see indications of an upward trend – at least in July and possibly in August. So the market, especially if we compare it to car registrations or food consumption or clothes purchasing – is performing very well, and that confirms what we’ve always been
saying, i.e. that the Russian aviation market is a market full of potential. In this aviation market, as you can see, Aeroflot continues its growth trend with 14.0% at Group level for the first six months. I will explain later on how that 14.0% has been achieved by effectively focusing on the various market segments.

In terms of market share and in terms of growth for the main players on the Russian market, Aeroflot carried 2.2 million more passengers than last year as a Group: a total of close to 18 million. Transaero has basically the same PAX numbers as last year, a slight increase in S7 and significant decrease in UTair that has continued the trend of adjusting capacity according to its financial sustainability. If you consider that the foreign carriers have decreased the number of passengers they carried by 1.7 million, you see that the players on the market have carried a total of about 4.3 million less passengers than last year, and Aeroflot Group has carried 2.2. Therefore Aeroflot is significantly increasing market share but we are not chasing opportunities just for the sake of doing it, being very selective in our target markets.

In terms of market growth, we have indicated – because we believe it’s interesting information – the growth of the market net of the Sochi effect. You see the figure in the blue box in the higher part of the slide on the right, 17.8% (in February 2015 –o–y). Once again, the Russian market is a very resilient market. And in that market, we are increasing our market share, in a way taking away by both Russian carriers and foreign carriers and not only because they are reducing capacity as you see in the following slide.

For the sake of the efficient use of our time, I would suggest that we move to the following slide, where you will see again a detailed explanation of why we believe in the resilience of the market, which has obviously been proven by our results. The very important part is the lower part of the slide where you see that long-haul rail traffic continues to decrease and conversely, domestic passenger traffic continues to show an amazing growth rate, both in terms of overall market with +13.5% for the first six months of 2015 compared to the first six months of 2014, but in particular for Aeroflot, thanks to the combination of the performance of let me call it the traditional group, and also the additional Pobeda, which is operating at this stage only domestically, resulting in a 33.4% increase in domestic traffic.
Now, what is very interesting in light of the comments that we made is the distribution of our traffic among the various operators of the Group, confirming our successful multi-brand strategy.

Aeroflot, the premium product, has transported a total of 12 million passengers out of the 17.9, translating into a 67% share of the total. It’s a larger proportion of premium passengers compared to what is normally the share in other well-established groups, both in Europe and in other parts of the world, and is the result of, we believe, the aggressive policy of investing into quality of services and competitive pricing. We’ll talk a little bit later about our pricing policy.

As far as our regional companies are concerned, in particular Rossiya, Donavia and Aurora, we have had a very satisfactory performance in St Petersburg where the restructuring of Rossiya has enabled us to grow market share, number of passengers, and sales while reducing number of destinations. So, a combination of more attractive and strong operations has paid back handsomely in the very important St Petersburg market. Donavia is stable. We have completed the transition to an all-Airbus fleet, and therefore some reduction in capacity has resulted in a marginal decrease in passengers, but increased efficiencies due to pick up in the load factor. Aurora in the Far East continues its path towards combining commercial services effectively, we have cut some routes that were underperforming. Orenair is also the focus of some specific restructuring actions that we have been undertaking in the last six months. The company has returned 9 narrow bodies, has moved to Domodedovo and Vnukovo to operate scheduled flights, therefore the number of passengers that Orenair has carried is less than last year but in a much more efficient way. Orenair continues to be the focus of our strategic adjustment but we believe that we have completed most of the restructuring so far in terms of rightsizing the fleet.

I think you’ve all seen our announcement as far as Pobeda’s results are concerned. The company carried its one millionth passenger earlier in the year. It is now stably within the top 10 operators in Russia – currently number 9 – and in first six months carried 1.1 million passengers, and therefore it already represents 6.2% of the total number of passengers carried. Talking about Pobeda, what are the key indicators
with performance in the first six months? As you see load factor, an amazing ramp-up, so load factor in June was already 82%, with close to 300,000 passengers carried. We have said several times that the target for Pobeda is 3 million passengers by the end of 2015 and we are on track for that. We also see an evolution of the network, because you see Pobeda not only offers point-to-point flights from Moscow but (consistently with the vision of a successful point-to-point low-cost operation) there are services from points in the south to points in the eastern part of the country, the Urals in particular. That’s why, by the way, Donavia passenger number have not grown as aggressively as in the rest of the Group. We therefore confirm the targets for 2018, i.e. 10 million passengers for a fleet of around 40 aircraft, for a total number of 47 routes. If there ever was a moment to say that this was the right decision to launch Pobeda last year in truly the heart of the crisis, this is the time to underline that. The response from the market has been amazing.

What have we done as far as Aeroflot is concerned in terms of network adjustments to cope with the crisis? Well, as you see, we have remained very consistent in our network development philosophy, with 142 unique destinations in 53 countries. We have reduced some destinations that were underperforming and we have added destinations in Russia and CIS. Therefore, the capacity that we have added is capacity aimed at an increase in efficiency, so average unit capacity has grown, and at growing frequencies. So we continue the path of developing a high-quality network in which you see results in increased frequencies, scheduled international frequencies, some domestic adjustment, and let me say increase of frequencies – more medium-haul and long-haul.

We've touched in the past on the topic of connecting flows. As you see on the following slide, our percentage of connecting traffic has increased over time from 33% to 43%. The increase from 2014 to 2015 has been 4 percentage points. So we do take advantage of opportunities that we are presented with, but we keep a strong focus on leveraging the market opportunities that the Russian traffic is offering us. Therefore, yes, benefits from connecting traffic but without giving up the point-to-point opportunities. In the lower part of the slide, you see the absolute numbers in terms of passengers that we carry.
Operating performance, I think I have previously highlighted most of the data already but let me underline what I believe is an important additional piece of information. The passenger traffic growth of Aeroflot (9.3%) is the result of a 7.4% increase in traffic on international and 11.5% on domestic routes. There is certainly a macroeconomic challenge in the Russian market but the premium product that Aeroflot is offering has resulted in very positive growth in both market segments. The same cannot be said about the Group, but that is because of two main restructuring actions that we took: one with reference to Orenair – obviously the decrease in leisure traffic has been very large; the second being the restructuring of Rossiya where again, focusing the company on more profitable and better-performing domestic routes has resulted in a decrease in international traffic. In terms of load factor, we have an increase in Aeroflot, a marginal increase but still an increase and again, achieving that in the first six months of a very turbulent year we believe is an impressive result. And we have a stable figure in terms of the Group – again, the Group figure is the combination of very low load factor in Pobeda at the beginning of the year, as you saw in that slide, and is the result of a decrease in load factor, obviously, in Orenair because we've moved away from charter flights into scheduled flights; and the result of very good performance of the other Group companies.

In terms of traffic dynamics, I think if I explain what the logic for that evolution is, Russia remains the focus of our development, with some interesting opportunities in the CIS. Some adjustments in Asia were mostly driven by opportunities on point-to-point traffic and connecting traffic, but also some interesting developments in terms of traffic to and from Europe.

In terms of revenue analysis, which I believe is also a very important indicator of our performance, again what I believe is an impressive performance in absolute terms and even more so in the current challenging market conditions: we have now basically a carrier with full focus on scheduled traffic as revenue from scheduled passengers is now 96% of our revenue. We have successfully completed the migration to cargo revenue as a tactical opportunity rather than the focus of dedicated operations, and charter is now a marginal part of our operations, reducing our exposure to the leisure segment.
By regions, Europe represents 25.5% of the total, Asia 17%, America 6%, CIS 6%, Middle East 6% and 40% Russia. So once again, a message that you’ve heard me repeat over and over again – this is the balanced distribution of revenue, which enables Aeroflot to be less exposed to geopolitical risks.

In terms of point of sale, which is also very interesting, I think it’s an impressive achievement, especially if you look back at some of the figures in the past, to have almost 24% of our sales coming from online sales. In terms of direct sales, we are close to 30% of the total. In overall point of sale structure 42% of sales come from Russia and 31% come from foreign markets.

Now let’s look at the yield and RASK. Domestic yields Group-wide are up by 3.7% and excluding Pobeda the growth in the domestic yields amounted to 7% y-o-y. We face the market that is obviously still earning its wages in roubles and those wages, as you know, in real terms have decreased. Therefore, being able to increase domestic yield by 7% means that we are not trading market share for profitability. We are focusing on the domestic market: we are increasing fares in a way that we believe is sustainable on the market. The increase in sales plus all the actions that have been taken in terms of increasing efficiency have resulted in the increased EBITDAR and EBITDA margins that I referred to at the beginning. Obviously yields on international markets (+18.7%) are affected by currencies, but increasing fares in the Russian market in the current macroeconomic situation has not been easy. Overall, as you see, we are delivering positive results in terms of yield per RPK; also in terms of RASK, both total revenue and PAX revenue.

In conclusion of this initial part: we continue to grow. This growth is not at the expense of profitability. The multibrand strategy is enabling us to protect the strong positioning of Aeroflot while leveraging the regional focus of our total companies and the low-cost, low price positioning of Pobeda. The global network, so the 142 destinations, even though not as aggressive as the network of other carriers, enables us to combine efficiently point-to-point and connecting traffic. And the very efficient fleet strategy that Aeroflot has been pursuing in the last few years is the backbone of a number of efficiency-increasing measures that enable us to have a very competitive cost structure.
Therefore, we believe that Aeroflot is uniquely positioned, even in this difficult macroeconomic environment, to continue to deliver good results. Thank you so much. Shamil?

**Shamil Kurmashov:** Thank you, Giorgio. Let’s now turn to the fleet structure and developments. Our fleet management strategy is focused on renewal of the fleet and Aeroflot Group fleet average is 6.5 years, which is also a decent age when compared not only to domestic but also international peers, and Aeroflot’s standalone fleet is still one of the youngest in the industry. Its average age works out as 4.3 years. 76% of our fleet is under operating lease contracts. The overall size of the Group’s fleet is 258 aircraft including 161 in Aeroflot airline.

If we analyse the fleet order and phase-out schedule on page 23, we can see that we’ve been intelligently expanding our capacity with only 16 aircraft joining our fleet in the first half 2015 – and 14 aircraft being phased out, resulting in a net increase of 2 aircraft. We spoke several times about our flexibility when we adjust the amount of fleet to the changing environment, and if there is slowdown in the market, we adjust the fleet by sliding our deliveries or decreasing the amount of aircraft ordered. By this schedule, we demonstrate clearly that we’re really in compliance with what we have said before – that only the net addition of 2 aircraft, that’s the amount of fleet that is coming into business.

As of 31 December 2014, we planned to receive 37 aircraft in 2015 and 50 aircraft in 2016. As of the end of the first half of this year, the order book has been restructured and 14 aircraft are pending delivery in 2015. In particular, deliveries of 737NG were restructured and nine aircraft deliveries postponed from 2016-2017 to 2018 and two 777s were shifted from May-June 2016 to November 2016 and June 2017. Our approach is to work with all the aircraft in the fleet we think and we assess as excessive for our business.

Next slide please, financial performance. Here we can see key fundamentals of our financial performance. First of all, we should focus our attention on revenue growth of
almost 26% as a result of expanding passenger traffic, active revenue management and the currency effect. Further on we will look at these factors separately.

The cost base was most influenced by expanding operations and a significant rouble depreciation, and we’ll also analyze line by line the cost base on the forthcoming slide. As a result of superior revenue growth and strict cost control, our EBITDAR and EBITDA margins have increased by 6.9 and 3.9 basis points respectively in the first half of the year. And if we look at the absolute EBITDAR number it grew more than twice and EBITDA almost doubled, which clearly demonstrates that even in the tough economic conditions, we managed to more roughly control our cost base and not to pursue softer pricing as was the case before that.

On slide 26, we have the factor analysis of our revenue. Revenue growth of c26% was driven by growing traffic volume and RUB depreciation, total impact of these factors exceeded RUB 40 billion translating into 29% growth. Revenue growth was supported by revenue from international sales and other revenue including code-sharing and other agreements which are denominated in foreign currencies. Positive factors were partially offset by softer pricing on the back of the economic conditions, because we should make more affordable our tickets for our customers. But nevertheless, the pricing effect is only RUB 4.4 billion, which is a marginal amount as compared to the downward trends which were dominant on this market over this period. Due to effective revenue management, we have been able to minimise the pricing effect as much as possible and we also increased our yields in the first half. Yield increases of 12% on average, out of which 18.7% on international routes and 3.7% on domestic flights. And during the 2015 summer season we’ve made substantial progress in bringing our previously adjusted fares to normalised levels (you can see that the negative pricing effect in 6 months 2015 was much less compared to 12 months 2014).

On slide 27 we look at our cost base and the last column which we traditionally focus your attention on is the impact and the increase in the cost base excluding foreign currency – foreign currency differences and nonrecurring expenses. Nonrecurring expenses, I mean that includes VAT on the code-sharing agreements with Rossiya airlines and also some one-off effects which took place in this period – but they are
nonrecurring because they will not be consistent in the forthcoming periods. And if we look at the nominal change in our cost base, on average 20.4%, if we exclude from that foreign exchange effect and one-offs, we have a decrease in costs of approximately 2% on average.

Group unit costs and our cost analysis of CASK on slide 28, we see this 10.8% increase in the CASK level. Also, we extract from this figure the influence of foreign exchange and nonrecurring expenses on a unit basis. There is nothing to comment on about this slide because it evidently demonstrates the influence of all these factors.

Slide 29 is effective cost management and productivity gains. We clearly see here higher fuel efficiency and lower fuel consumption. Fuel consumption per ASK and per ton kilometre is favourable and demonstrates our efforts to decrease our fuel consumption, and our fleet renewal efforts. Fuel consumption per ASK decreased by 2% during six months thanks to continuous fleet optimisation process.

During the first half of 2015, we have also been optimising our headcount. We made headcount reduction in companies such as Orenair by 700 employees and Rossiya Airlines by 560 employees, which translated into the following figures. Despite the growth, we managed to achieve labour operational productivity gains this year. Such metrics as PAX traffic and PAX traffic revenue divided by average headcount increased by 9% and 18% respectively, a significant upside and improvement in labor efficiency.

EBITDA evolution on slide 30, revenue growth was driven by higher passenger volumes in the amount of RUB 9.7 billion. Active revenue management and currency effects – which are on both sides, currency benefit and currency drag, currency benefit on our revenue side and currency drag on our cost side – almost compensated each other, which is good news because significant portion of our cost base is represented by dollars and there was a sharp increase in the dollar exchange rate. Despite that fact, we managed to compensate it by our revenues, which are only partially denominated in FX. As you know, part of our revenue is denominated in euro and is collected in euro, and part of our revenue base is denominated in euro, but is
collected in roubles. Therefore, it’s only partially naturally hedged and it cannot be said that it works automatically. We already spoke about our pricing and the pricing negative effect is already RUB 4.4 billion compared with almost RUB 9 billion of negative influence for the respective period of the previous year. And foreign exchange gains from the rouble denomination almost fully matched foreign exchange losses. But that does not only demonstrate the influence of international markets but also demonstrates the effective cost control approach to our operations as the influence of fuel price reduction (approximately RUB 8 billion) compensated the negative influence of the remaining expenses like staff, aircraft, traffic and passenger expenses, operating leases and administrative and sales and marketing expenses. Also I wanted to highlight that, despite the 40% decrease in jet fuel price, this was adversely compensated by the increase of dollar exchange rate which translated into marginally lower pricing in kerosene for Aeroflot (in RUB terms), in comparison with other airline companies abroad which enjoy only favourable influence of decreasing oil prices and kero prices, which are 90%, 80% correlated to crude oil prices.

On slide 31, we show the operating income evolution but on this slide, key factors that determine the change of operating income in six months 2015 versus six months 2014 which are predominantly the same as we have mentioned for EBITDA on the previous slide.

Adjusted operating and net income analysis on slide 32, I think that it’s useful for analysts to understand the effect of one-off expenses on the actual operating income. Operating income for the first half was almost RUB 6 billion. If we make the adjustment for pre-term return of aircraft at Orenair and Rossiya Airlines, and also the write-off of fixed assets at Vladavia, adjusted operating amounts to more than RUB 8 billion. The same analysis is presented on the slide for net loss of RUB 3.5 billion which was influenced by derivatives effect in the amount of RUB 10.1 billion. We also make the correction for pre-term return of aircraft and fixed assets, this was the case in operating income, we do that, but we also make the adjustment for foreign exchange difference as a negative adjustment. So the net income in this case would have been 3.4 bn RUB if we had not had all these effects on our bottom line.
So if we talk about the one-offs which influenced the results, provisions related to return of aircraft, RUB 1.6 billion, refer to Orenair and Rossiya Airlines and the fixed asset write-off by Vladavia, relates to Vladivostok Air which was also a daughter company of Aeroflot. These were one-off corrections, one-off adjustments which made a positive contribution to our financials.

Capital structure and liquidity on slide 34. The overall debt as of the end of the first half of this year decreased by 2.6% on the back of decrease in finance lease liabilities by 7.7% mainly due to the paper revaluation in an environment of appreciating rouble. The net debt amount for the first half was almost RUB 120 billion, which is almost 19% less than the level of the previous, of the past year. We believe that our business is well-capitalised and there are no near-term funding needs as our portfolio is balanced. In terms of maturities, if you look at finance lease repayment schedule, the majority of repayments are made beyond 2019. So that means this amount of RUB 80 billion is paid down or is paid beyond 2019. We have a strong liquidity position with over RUB 73 billion available via cash and cash balances, short-term investments and undrawn credit lines.

But also one important factor that on the upper right corner of that slide, the net debt to EBITDA evolution, we have the sharp shortfall on these metrics for the first half of this year, descending from 5.9 to 3.6, which can be explained not only by foreign currency revaluation of our finance lease liabilities but also by the sharp increase in EBITDA level which we’ve already spoken about at the previous slide.

Operating free cash flow on slide 35, significant contribution to our operating cash flow is explained by working capital change, which is here marked in green, in the amount of RUB 26.6 billion. This change is driven by change in accounts by accrued liabilities and trade accounts payable. And our free cash flow position in the amount of over RUB 36 billion in comparison to the RUB 26 billion for the respective period of 2014 is quite robust. That makes our position more comfortable in even tougher financial conditions. And the growth in accounts payable was partially offset by increase in accounts receivable.
That’s all about our capital structure, we see positive changes in our financial position. The key operating fundamentals for the first half of this year demonstrate that we didn’t dilute our margins, we didn’t lower our tariffs like we had to do in 2014, which is one of our key achievements in the reporting period. Our finance profile and our debt profile is much better than it used to be before that, not only because of automatic adjustment to the foreign exchange differences but also because of significant increase in our EBITDAR and EBITDA level, which we are rather proud of, and we clearly demonstrate in this presentation that we are really able to manage our fleet without any sanctions or penalties when shifting our deliveries or phasing our aircraft in order to adjust it to new market requirements.

Thank you for your attention. I think now it’s time to switch to Q&A. It might be more useful for everyone.

Operator: If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

Our first question comes from Alex Kazbegi from Renaissance Capital. Please go ahead.

Alex Kazbegi: Yes, good afternoon. Can I ask firstly on your plans on the aircraft deliveries, as you said, you’ve scaled it back quite significantly. Is there any chance to scale back? Are you planning to do that for ’15 or ’16 or let’s say net additional in ’16, I think you are expecting about 23 new aircraft. Is it still something which you are comfortable with? And with that regard, where do you plan to deploy the new coming aircraft? Is it going to be domestic? If you can just split roughly where do you see them being deployed, international, domestic, domestic Aeroflot or domestic Pobeda? My second question would be on, again I don’t know, it’s usually difficult of course for us – I guess for me personally, I don’t know for others – to get the true cost of the fuel including the hedges, again given your policy of splitting it between the P&L and between the
balance sheet. But if you were to kind of look at the fuel costs including all the hedges, out of the RUB 10 billion which were effectively the cost of the derivatives, how much you would attribute purely to the fuel, so how would be the all-in fuel costs currently if you were to look, so to say, in more the ways how let’s say some of the other airlines report. I mean I’m not trying to compare, so to say, those notes, but at least to give us a bit of a better flavour. And looking forward in terms of the hedges, what are the levels of the hedges currently and what you could expect for the next six months in terms of the average fuel price – effective fuel price which you will be looking at. Thank you.

Shamil Kurmashov: Thank you for the question, Alex. So beginning with the fleet, in general we have drawn the fleet to a level which is comfortable according to our market expectations. Whether we are going to do it in 2015-2016, yes, we are going to do that and that’s not all one-off achievement. We’ll see it on the table. This is a permanent work with lease reductions with Airbus, we have direct contact, as well as leasing contracts. We think we are going to further cut our fleet either by shifting deliveries or driving it in accordance with the figures in our strategy. If we talk about exact amounts which we are going to cut, I cannot tell you about that because we haven’t approved the budget yet and the budgeted figures for the forthcoming year are not ready yet. After we are through with that, so we are going to make our fleet procurement in accordance with that.

With regard to derivatives nothing has changed here and that’s why we cannot tell you any news apart from what we have already reported. We show in our financials the realised payments for the first half of 2015 in the amount of RUB 10.3 billion. So they are reflected in our financials approximately 7.7 is reflected in our hedge costs and 2.6 is reflected in our finance costs. So it’s all reflected in our financials for the first half of 2015.

For the other costs, we’ve reserved in our capital another RUB 20.4 billion, on our capital side, and it’s going to be reflected in our P&L as well as realised in payment later. So we haven’t added any new derivative contracts because the hedging policy has now been modified and it’s going to be approved by the Board of Directors. As of now, no changes to this policy have been approved and we are waiting for the
decision of the Board. That’s why we are in the former contracts as we have been during our last call.

Giorgio Callegari: Yes Alex, Giorgio speaking. Just to complement the answer on the fleet, if you look at the fleet size – the fleet slide – you will see that we have a fleet of around 260 aircraft, therefore we believe that an additional 23 aircraft, as we show on the slide, a net addition of 23 aircraft, which is less than 10%, can be adjusted along the way. As Shamil was saying, we have enough flexibility in our contracts to negotiate delivery timings of some of the aircraft and not only can we retime but also redistribute the aircraft among the companies of the Group.

In terms of where that growth will be, I think we have explained consistently that we are very, very conservative in adding new destinations. So fleet will continue to be used to increase frequencies rather than destinations. And considering that that has resulted in a significant improvement that was repeatedly stated in operating performance, that we believe is still the way to go. So don’t expect us to launch an amazing number of new destinations but rather selective new points in line obviously with what we can secure from a legality point of view. Thank you.

Alex Kazbegi: And on frequencies, is it domestic-oriented or is it a mix, roughly, if you could just give us an idea?

Giorgio Callegari: Premium, focus will be more on domestic but we have some interesting opportunities also international and we will pursue those. So obviously large majority will be domestic but with some selected opportunities in international.

Alex Kazbegi: Okay, thank you very much.

Operator: Our next question comes from Irina Stupachenko of Otkritie Capital. Please go ahead.

Irina Stupachenko: Good afternoon, thank you very much for the presentation. I have several questions. My first question is about other income and expenses, which we see as a positive item in the P&L statement. Shamil told us about some adjustments for one-off
nonrecurring expenses. As far as I understood, these should be negative things like fines for putting some aircraft on hold and something like this, but in the P&L we see a positive figure actually. And there should be something offsetting this. Actually my question is what are these offsetting items? And my second question is about Pobeda. Actually we see quite impressive operating performance but as far as I understand, the company should be still loss-making. Actually what was the loss for Pobeda in the first half of the year? And my third question if I may, just you announced the start of re-marketing survey for your aircraft and financial lease several months ago. Actually has this survey been completed, what are the results and are you going to do anything with these results?

Shamil Kurmashov: Thank you for the questions. Beginning with the first one, other operational expenses, it’s on slide 31 in the amount of RUB 3.5 billion; out of this legal case success stands for RUB 2.2 billion, VAT on code-sharing – and that was a legal case which was won by Aeroflot. So it gave us the benefit of RUB 2.2 billion. And RUB 1.3 billion out of this amount is fuel expenses, you know that there are significant changes in the regulation of the oil industry in the Russian Federation which comprises refining or subsidising from the government the fuel expenses, so compensation of the cost of fuel to airline companies. The effect is reflected also in this figure in the amount of RUB 1.3 billion.

As far as Pobeda Airlines, according to our management accounts, it’s already positive and became breakeven even earlier than we had planned. Therefore we think that it is very successful because of the load factor, and because the tariffs are in line with those ones which were planned for this operation. In terms of load factor, it's more than it was planned before. For the first half of the year, yields were higher than the yields which were projected for the same period of this year, and we think that this trend would be consistent during the second half of the year, therefore we expect this to be positive by the end of this year.

As for re-marketing, we want to support our fleet flexibility and therefore want to have several ways-out from the contracts in order that we can exit the contracts without any penalties or re-market our aircraft. Therefore, there are almost 43 aircraft on the re-marketing plan but that doesn’t mean that we are going to phase out all of them. That means we are working on all opportunities to re-market all these aircraft and we
are going to get rid of the exact amount which would be excessive for our development. That doesn't mean that all these 43 aircraft which are subject of the contracts with the aircraft brokers, would be the subject of this transaction. But nevertheless, they are in the scope of our focus and we are constantly analyzing different scenarios with regard to phase out.

The last question was about? Finance lease?

Irina Stupachenko: Thank you very much. Yes, thank you very much, Shamil. So the line is not very good. Could I repeat that I understood you correctly? So the positive gain is for legal cases are in there and the negative excise, right?

Shamil Kurmashov: Positive legal case for Rossiya Airlines, that's the code-sharing case, and the fuel expenses fund. Yes.

Irina Stupachenko: Sorry, you had a legal case for Orenair so it's not that case? It's something different?

Giorgio Callegari: No, no, no.

Shamil Kurmashov: No, that's not this case. There was a legal case on the VAT on code-sharing with Rossiya Airlines and we won RUB 2.2 billion. It doesn't have anything in common with Orenair. The Orenair case is still outstanding.

Irina Stupachenko: So for Orenair you did nothing? Because I saw some news that Orenair actually won this legal case in court and there may be some recovery of this amount. So is it true and do you expect this recovery in time?

Shamil Kurmashov: No, not yet. Not yet. That's an outstanding case.

Irina Stupachenko: Okay and for Pobeda actually I did not hear the answer for my question. I understood that it’s performing better than expected but still, have I heard correctly that it’s already breaking even this year?
Shamil Kurmashov: This year, yes, because if you look at six months financials, it's slightly negative because it was a planned result. If we're speaking about the management accounts for the whole year, for the full year, we expect to be breakeven.

Irina Stupachenko: Gross on the operating line or on net line, net income line?

Shamil Kurmashov: Sure, for operating line, yes. It’s for sure. And we expect to be profitable on the net income line.

Giorgio Callegari: Irina, when we launched the project, we always spoke – and I want to go on record with this because otherwise we run the risk of overshooting our own targets and that's not the case – we said that the company was expected to be delivering an operating profit by year two and a net profit by year three. The company, as I think I explained in terms of success of our multibrand strategy, is effectively targeting the right segment, it’s growing faster than originally planned, it's delivering better revenues than originally planned and therefore the performance is better to the point that, as Shamil was saying, we are looking at the possibility of having a positive result in the first year of operation. But I repeat and underline the target was much more conservative.

Irina Stupachenko: Yes, yes, I know the targets and that’s why I was asking this question, yes. Okay.

Andrey Napolnov: Thank you.

Irina Stupachenko: Thank you very much.

Operator: Our next question comes from Konstantin Yuminov of Raiffeisen Bank. Please go ahead.

Konstantin Yuminov: Hi gentlemen, thanks. A couple of questions from my side. Firstly on the debt position, could you please tell us what's the level of net debt including operating lease to EBITDA – sorry, to EBITDAR? And secondly, on your yield on domestic markets, it was like up 7% year-on-year. Assuming CPI of 8.5% for the same period, it’s like you translated CPI into yield for 80%, which is kind of in line with the general market. But
assuming that consensus expects at least 12% CPI for the full year, should we – do you – expect further yield inflation in the second half or like having a low season knocking the door, we should have a much more conservative figure in mind? And thirdly if I may, and somebody has to ask the question anyway, on royalties, could you please tell us what's the size of the royalties in your P&L in the first half? And what's the outflow from these royalties to the federal agency, and could you please comment on potential talks for cancellation or redistribution of these royalties? Thank you.

Shamil Kurmashov: Thank you. If we talk about the first question, the debt position, I mean adjusted debt to adjusted EBITDAR. This position is at the level of more than 6. This is a method which is used by our rating agencies. We don't calculate it for ourselves. So by memory, that's the figure.

If you think about the royalties, the second question would be addressed by Giorgio. So the royalties, there is no change in the position of the government. It's not going to be extracted from Aeroflot or distributed between any other companies or any other budget divisions or any other lines of expenses. So we don't have any news about that.

Giorgio Callegari: Yes, as far as yield is concerned, Konstantin, I understand the point of your analysis that compresses the yield to the CPI but I think I have tried to underline that the yield is a result of a pricing policy and therefore has to measure itself with the consumer ability to spend more for the same level of service. So in an environment where CPI is increasing, yes, but where real wages are significantly decreasing, an increase in yield of 7% is an impressive result, and I speak out of experience in comparison to a situation for instance in the US where inflation is basically nothing and yields are decreasing 5%. As far as the remaining part of the year, obviously yields will be affected by seasonality and therefore in absolute terms they might change but in comparative terms we hope that the pricing policy of some of our competitors will be let's say less cash-driven and therefore we expect to be able to see stable yield performance. Thank you.
Konstantin Yuminov: Okay, thanks for your answers and can I just ask a quick follow-up? Giorgio, as you described that Pobeda has cannibalised a few, let's say, traffic from Donavia, do you expect a further cannibalisation as Pobeda is ramping up?

Giorgio Callegari: Well, thanks Konstantin. I don’t think I spoke about cannibalisation; I spoke about different growth rates between the two in the sense that Donavia has increased load factor as a result of flying a fleet of only 319s compared to a fleet of 737s and 319s. That has resulted in a marginal change – marginal, we are talking about tens of thousands of passengers – less than last year. Not comparable with the one million passengers that Pobeda has carried. Certainly in markets which are more price-sensitive like the south of Russia, we see Pobeda as the natural choice. But on those same markets, Aeroflot has seen a significant increase in its performance. So we’ll continue to try and distribute the capacity among the operators of the Group in a way that maximises overall results. We’ve always said that we accept a degree of cannibalisation but that it is in the lower single-digit percentage point and that remains the case. Thank you.

Konstantin Yuminov: Okay, great. Thank you very much.

Operator: As a reminder, to ask a question please press *1. We have a question from Mitch Mitchell, BCS. Please go ahead.

Mitch Mitchell: Hello gentlemen, and thank you for the presentation. I’m wondering if you could just, and I know none of us have a crystal ball, but I wonder if you could speak a little bit about the competitive environment, the market for the second half of this year, particularly given that the rouble weakened at the beginning of this year and then it stabilised and now it seems to be weakening again, and just what do you see happening with your competitors, what do you see happening with demand in light of that? Is the rouble weakening going to materially impact demand do you think or are we still at a level where people’s tolerance is reasonably resilient? Thanks.

Giorgio Callegari: Okay Mitch, thanks for the question. Let me say that part of the answer – again, nobody has a crystal ball but if we look at more recent data, we see that in July, as I think I highlighted, the market has grown again and therefore in terms of propensity to
travel of the Russian market, it seems to be unaffected by the rouble devaluation. Again, it seems to be unaffected. So choice of words is not casual. It’s also confirmed by the fact that in the same period of time, car registrations has decreased compared to last year by 30% which means that people continue to use their discretionary spending on travel rather than other goods. Additionally, as we believe that we have shown, people are moving away when they travel from long-distance trains to more competitive air transportation solutions. Finally, we see more stability in terms of at least position in the market in terms of offer. So we believe that what in particular the foreign carriers have done in terms of reducing capacity is more or less what we’re going to see also in the second part of the year. So we don’t see any carrier all of a sudden coming back into the market. So as much as rouble fluctuates the in and the out, the competitive environment is more stable than it was in the comparable season of last year. So let me say overall, we don’t see reasons to foresee sudden or dramatic changes. Thank you.

Mitch Mitchell: And I have a follow-up question if I may. Just recently there was news that the President had signed an agreement on the consolidation of all of the assets around Sheremetyevo. I wonder if you have any comment on that. I know you have a small stake still out there. Thanks.

Shamil Kurmashov: According to our knowledge, we don’t know about any plans or any official documents which were signed by the President. We were not on the scope of that consolidation, as a minority shareholder, the Board wouldn’t have heard about this news. We can’t comment about that.

Mitch Mitchell: Okay, thank you.

Operator: We will now take a follow-up question from Alex Kazbegi. Please go ahead.

Alex Kazbegi: Yes, hi. Again, two follow-ups please, one on the financial lease. As you said, it declined in rouble terms on the balance sheet but because it’s denominated in dollars. What’s the reason so for that decrease? Has that been, say, restructured? I didn’t quite understand that one. Secondly on the RUB 24 billion on the balance sheet which still sits on the hedges, is there a special price, like a strike price, vis-à-vis
which this number can change or is it going to be basically amortised slowly once the contracts come due, and will hit the P&L over the next half a year? And the last one is just wondering how forward bookings are looking in general, I mean how far you see them, first of all, and secondly how strong they are for September/October, what do you see there please? Thank you.

**Shamil Kurmashov:** The change in assessment of finance leases reflected in our P&L was a positive revaluation. There is nothing specific about that, besides the fact that we reflected it at one exchange rate as at the end of 2014 and the beginning of 2015 and now there is certainly a decrease in rouble/dollar.

**Alex Kazbegi:** Ah yes, of course. Of course, it's the period end. Yes.

**Shamil Kurmashov:** The rate as of then was 56.25 and 55.52, that's the technical correction.

As for forward booking – the forward booking period is three months and for the three months ahead we have rather positive figures. But we can't actually comment about that, because in the financial figures, we have never disclosed that. But nevertheless it's better than as it was in the previous period of the previous year.

I’m sorry, what was the third question? The third question was about what?

**Alex Kazbegi:** It was on the hedges on the balance sheet, the ones which are sitting not on P&L but on the balance sheet, and I was wondering if they will be amortised as we see them or could there be some adjustments to them?

**Shamil Kurmashov:** So total net liabilities on derivatives contracts really amount to that RUB 24 billion, major share to be paid in 2015 and only RUB 3 billion are going to be realised in the first quarter of 2016. We don’t expect them to be corrected in any way because this is the maximum exposure according to the stop loss levels which have already been passed, and we don’t expect the maximum level to go up. That's why in our assessment, it's close to the figures which we expect by the end of the year. It's not going to be amortised or changed.
Alex Kazbegi: Okay, thank you. If I understood correctly, so RUB 3 billion only in Q1 ’16 and the rest basically for the end of the year.

Shamil Kurmashov: Yes.

Alex Kazbegi: Thank you, thank you very much.

Shamil Kurmashov: Thank you.

Operator: There are no further questions at the moment. I would like to turn the call back to the host today.

Andrey Napolnov: Well, thank you very much for participating in our conference call. If you have any follow-up questions, we’ll be happy to provide additional details and explanations. Thank you very much.

Operator: That will conclude today’s conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.