Operator: Good day, and welcome to the Aeroflot Group Q1 2018 IFRS Financial Results conference call. Today’s conference is being recorded. At this time, I would like to turn the conference over to Shamil Kurmaskhov, CFO. Please go ahead.

Shamil Kurmaskhov: Good afternoon, ladies and gentlemen. I would like to make a brief introduction of how I am going to structure this call. Before passing the floor to our Head of IR, Andrey Napolnov, who you are familiar with, I would like to say a few words about the new participants of the conference call. Besides the traditional participants, Andrey Chikhanchin, Head of Corporate Finance, myself, Head of IR, and Head of IFRS Reporting, I decided to invite Ivan Batanov, Head of Network Planning and Revenue Management Department. He will be very useful during the Q&A session, because he has a deep insight in the economics of our tariffs and margins. He is on the edge of the market competition, so it might be relevant for him to address certain issues.

Andrey Napolnov will outline certain trends, key messages, and overview of the business on the first slide. Over the course of the presentation, I will add some details that are relevant or might be interesting for you, some facts or focus on certain figures. At the end, before switching to the Q&A session, I will address my personal facts and say a few words about myself.

Now, I will pass the floor to Mr Andrey Napolnov. Please.
Andrey Napolnov: Good afternoon ladies and gentlemen. Please allow me to kick-off our presentation with some highlights of our financial and operational performance in Q1 2018. As you may know, this is the first Q1 disclosure, so we have endeavoured to give you a fair amount of colour for both the most recent quarter and also for the Q1 seasonality in general.

I am proud to report that Aeroflot Group continued operational development by means of capacity expansion on the back of the opportunities provided by the quality of the market environment. Capacity growth of 6.1% allowed Aeroflot to increase the number of passengers transported by 6.6% as well as boost revenues by 8.5% while keeping load factors in the positive territory.

Shamil Kurmashov: Just a few words. It is the first time we report Q1. The message here needs to be very clear: we are facing a tough environment now, so there are two key risk factors: dollar and euro rates and oil prices. We are exercising a disciplined cost control throughout the year. We take many measures. We continue measured expansion across the whole Group, we are improving efficiency, and we are very proud to say that our key metrics, like load factor and yields, are in the positive territory. But the point here is that Q1 is lowest in aviation, and sometimes it is not clear which trends are going to be there after Q1.

Andrey Napolnov: Thank you. Before we proceed to market analysis, it is important to briefly discuss seasonality trends. Let us look at Q1 2018 and Q4 2017 as the starting point for this analysis. As you see, Q1 is the lowest season of the year in terms of volumes. If we look at Q1 vs Q4, the latter is also low season, the volumes are 7% lower, not to mention the 30% difference with Q3, the high season of the year.

It is low season not only for Aeroflot Group but for the market as well. Seasonality for the market is even more pronounced as extra capacity is deployed by leisure airlines during the summer season. Lower demand and lower traffic imply lower fleet utilisation, lower yields, load factors, revenue generated. It also means higher share of fixed costs as the percentage of the total costs. These are the specifics of the Russian market that we and other Russian airlines have to deal with.

Now, let us move on to the market update slide. The market continued to grow in Q1 2018 even after the substantial growth of the previous year. The recovery reflects the improving economic situation in Russia. Real disposable income is up by 3%, real wages are up by almost 10%, the capacity of Russian and foreign air carriers is growing, too.

Aeroflot Group continues to consistently grow passenger numbers expanding in both international and domestic segments, but it grows below the market, as we focus on the most attractive routes both in the scheduled segment for Aeroflot and leisure markets for Rossiya airline. On the domestic side, the market saw 10.8% PAX growth in Q1, largely thanks to the positive macro environment and the increased demand on the local segment – 24% of the domestic market growth is the contribution of Pobeda. However, the growth of Aeroflot Group in Q1 in the domestic market amounted to 6.5% in terms of passengers. Meanwhile, growth rates of international traffic for both Aeroflot Group and the overall market were higher than those of domestic traffic. Market growth rate was at 15.3% y-o-y while Aeroflot delivered international PAX growth of 6.8%.

In the international segment, lower growth is explained by a leisure nature of the growth and lower exposure of the Group to the segment. Net of charter routes, the growth of the market is 11% vs 15% reported. As a result, we see some adjustments to the market share.

A few additional comments on the competition. When looking at the market data on the quarterly basis, we see that the pace of growth has been decelerating. However international players have sped up the rate of growth in Q1 2018. We also see additions to the fleet by Russian carriers and more ASK allocated to the
Russian market. For this reason, Aeroflot will continue to secure the presence in the key markets and its market share.

A few words about the multi-brand offering. Our multi-brand offering continues to demonstrate the ability to capture passengers across all market segments and generate additional traffic. The Group’s two key segments grow at a very high pace, especially in absolute numbers. For example, Aeroflot and Pobeda both increased traffic by approximately the same number of passengers – 400,000. This translates into 5.4% growth for Aeroflot and an outstanding 42% for Pobeda.

Aeroflot airline, our flagship carrier, grew traffic during the quarter despite a number of factors such as adverse weather conditions in the Moscow Region that led to a number of flight cancellations, especially in February. Pobeda continues to outperform with a jump of c50% y-o-y in traffic during the quarter, it would assume the growth of the LCC branch after adding four aircraft in Q4 2017 and two aircraft in Q1 2018.

Rossiya airline posted a slight decline of 6.7% despite 10.5% growth of the international traffic. The decline is explained by some capacity optimisations in order to boost efficiency.

Aurora continued to perform as expected with traffic growing by 7.8% during the period.

Shamil Kurmashov: There is nothing negative about Rossiya's decline. It operates in the medium segment, between low cost and premium segments. Rossiya is selective in choosing market opportunities, because it does not introduce capacity on the routes that are not relevant, where it does not earn money. Therefore, we grow not for the sake of growth but for profitability. In order to protect our profitability, we reduce some of the domestic lines. This decline is optimisation, it is a manageable instrument. We are going to pursue this approach in the coming quarters in order to protect our margins.

Andrey Napolnov: We move on to the traditional slide about Pobeda. As we mentioned before, Pobeda is growing, so does its contribution to the Group’s results. In Q1 2018, 13% of the Group's total passengers and 18% of Group's domestic passengers were attributable to Pobeda. Pobeda remains a domestic player predominantly, as 80% of its passengers travel within Russia. But it has also expanded international operations to secure presence in the inbound and outbound LCC segment in order to increase operational efficiency of the airline.

Passenger load factor increased by 1.5 p.p. y-o-y to a remarkable 93.1%, a record high PLF even for international LCCs and, the previous record of Pobeda was posted in Q1 2017. As of the end of March, Pobeda had 18 aircraft in its fleet, six aircraft added in the last six months, and fleet expansion allows us to add new destinations in Russia and abroad, including the routes originating in Russian regions.

Aeroflot Group has ambitious long-term goals and plans, and is on track to meet its 2025 goals ahead of the schedule. Execution is backed by expansion of hub airport Sheremetyevo. 2018 is the year when we see a long-awaited infrastructure additions, Terminal B and tunnels under the runways. On 3 May 2018, Aeroflot completed its first flight from the new Terminal B, which should add up to 20 mn passengers to the airport's annual capacity. We started transferring some of our domestic flights to the new terminal in May, and by now, we have transferred 46 flights. We will continue moving domestic flights to the new terminal in summer 2018.

Shamil Kurmashov: Now, we will switch to the part of the presentation that is related to network. I will skip certain slides you are familiar with, because there is not much new information in them. You saw them earlier. On slide 15, we show our network as of the beginning of the summer season 2018. As always, we have been
increasing frequencies, depth and width of our networks, in terms of number of frequencies, number of destinations, and the number of frequencies per day in order to make the connectivity increase, make it favourable for our passengers and transit flow, which is one of our competitive advantages.

On the following slide, as always, we show the connectivity ratios. They are increasing steadily.

The key message of the next slide: we are going to participate in the FIFA World Cup extensively. We cover all of its destinations, as expected. This should contribute to our financials, proceeds, load factors, so we assess it very positively. The map of our flights is shown in the diagram.

Fleet overview. As of the end of Q1 2018, the Group had 336 aircraft in the fleet deployed in the operations by the airlines of the Group. Fleet composition has not changed materially from the recent results, and in 2018 we expect that the share of operating lease aircraft will increase further. All new additions are planned under the operating lease terms and some aircraft in finance lease will be phased out. For now, operating lease still remains the cheapest instrument of financing our operations, and therefore its proportion in our operations should be high.

Fleet expansion strategy is on the next slide. In Q1 2018, the Group expanded its capacity with 16 aircraft joining the fleet and five aircraft phased out resulting in the net increase of 11 aircraft. We retain fleet commonality efficiency which is directly reflected in our CASK figures. There should be no more than two types in each segment.

Financial performance. These are the key segments and metrics. In Q1 2018, we continued operational expansion posting PAX grows by 6.6% and generating almost RUB 112 bn in revenue that represents another 8.5% growth. However, there are certain negative effects on the profitability side. Despite the top line growth, the quarter is loss-making. I would explain that briefly by four factors and then describe it in more detail.

The majority of the fleet comes to the Group in Q1. First of all, Pobeda accumulates the fleet in Q1. It makes the basis of the intense expansion in the forthcoming periods of the year. Therefore, it bears all the related expenses to accommodate the fleet in Q1, and the proceeds attributable to this fleet are related to the three coming quarters. That is why we think it should be looked at in compliance with the process and expenses that relate to this process. The second factor is the new terminal. We understand that it is associated with certain expenses to move our operations to the northern part of our home base airport, but these one-off expenses should be born in Q1–Q2 2018 to create benefits for our development in the future. It is evident. The third factor is that we were obliged to increase, make indexation of salaries for pilots to face the competition. Many pilots migrate to Europe and China, especially to China. We have a strong deficit of pilots. Therefore, we were obliged to increase their salaries. We will show specific figures on another slide.

Oil prices. We will have a more detailed discussion later, too. There is a certain increase in oil prices, i.e. Brent. There is a certain correlation between Brent and kerosene price. It is also reflected in our financials. And there were operational disruptions in February due to bad weather. We cancelled many flights due to bad weather conditions. It is always reflected in our financials.

Let us analyse figures in detail, starting with revenue, slide 23. The Group’s revenue grew by 8.5% in Q1 2018. Expansion of scheduled operations generated RUB 8.8 bn, mainly due to growth of Aeroflot and Pobeda. The leisure segment made a modest contribution this year, less than RUB 1 bn. This followed the charter market rebound on the back of Turkey reopening last year. Growth in this segment has been generally slowing down.
Revenue growth in Q1 2018 clearly shows signs of acceleration: 8.5% y-o-y in Q1 2018 vs 7.5% y-o-y in 12M 2017. We have seen positive contribution to revenue from all the factors: volume, currency and pricing. Expansion of our business generated RUB 5.3 bn, this is organic growth. Mixed RUB/EUR dynamics ultimately had positive implications for the currency factor, as we have more EUR and EUR-linked fares than USD and USD-linked ones. Yield growth, which resumed in Q4 2017 and continued through Q1 2018, supported the pricing factor and helped us generate extra RUB 0.7 bn. So, we consolidate it in our margins.

Next slide. We show the dynamics of yield and RASK here. Continuing the improvement trends of Q4 2017, the total yield of Aeroflot’s scheduled flights increased by 3.6% y-o-y, with international flights improving by 5% and domestic ones growing by 1.6%. But Pobeda has diluted the Group’s domestic yields, and if we exclude the effect of Pobeda’s domestic influence, domestic yield would increase by 5%, rather than by 1.6%.

We are pleased with the resumption of positive yield dynamics, we actively manage yields to neutralise the negative effects of cost growth on profitability, and we adjusted fuel surcharge starting from April. So, there is a certain increase in fares which is passed on to passengers. It means we increased ticket price by a certain surcharge which is embedded in the tariffs that we pass on to passengers. This is one of the compensation mechanisms used by all airlines.

Slide 24. What is important, we can clearly see the dynamics. We discussed the yield trends in Q1 2018. But how do yields look like on a monthly basis? Let us look at Aeroflot airline’s performance. Aeroflot airline showed a significant improvement in yield dynamics in 2017, neutralising the effect of appreciating rouble. In Q1 2018, Aeroflot’s yields steadily increased across all segments, most notably in international yields (up almost 10% y-o-y in March).

Both economy and business class yields were increasing in Q1 2018, with the most significant improvement seen in the CIS and Middle East markets. The most notable effect can be clearly perceived on the chart related to international yields. We come to a positive balance.

Operating costs dynamics on slide 26. Let us go line by line. Fuel costs were driven by the increase in rouble fuel price by 17% and the growing scale of operations. But 17% growth was above what we saw in the previous quarter and represents the results of the change in the correlation between oil and rouble. As we know, there is normally a direct correlation between the oil price and the strength of rouble, but we see the counterbalancing effect in this quarter. Staff costs were up by 15% mainly due to the already mentioned effect of pilot salaries indexation and the organic growth of headcount of line personnel, which is strictly in line with the pace of our operations. The total cost of pilot salaries indexation for 2018 will be around RUB 5 bn, which means that for Q1 2018 the effect is around RUB 1 bn. We expect that it will help us to retain qualified employees in the company because the pilots earn money for us. The third largest cost item is operating lease, which is up by 24%. The growth is primarily linked to growing fleet in operating lease. Do not forget about the fact that we increased the fleet by 46 aircraft in the last twelve months. Most of the additions are in operating lease, implying approximately a 20% increase in volume of operating lease. That is a healthy line in our financials. During our budgeting process, we took a strict stance on the costs to reduce the excessive SG&A in order to offset the increase in cost base. Most of the savings were planned after Q1 2018, but even for this reporting period, as we clearly see from this table, we show decent control of the cost line at -0.2%. According to the plan, we will continue the cost control of the key lines and will actively manage our revenues going forward.
Group unit costs. In Q1 2018, the cost per ASK in rouble terms on a per unit basis increased by 7.7% and non-fuel CASK amounted to RUB 2.44 which presents the increase of 4.7%. Fuel CASK increased by 17% and I have already explained it and touched upon this in the previous slide. If we deduct the fuel cost from the CASK and compare the CASK and RASK, they will be almost on the same level. RASK grew by 4.3% and non-fuel CASK by 4.7%, so they are comparable. We try to balance the growth of our revenue and the cost side.

Moving now to the fuel cost management, the most interesting slide for the analysts. The trend of increasing fuel prices continues in 2018 as a result of the Brent price increase and absence of rouble response to the overall market dynamics. While the Brent price in USD is up by 20%, rouble appreciation is only 3%. We saw strong correlation between them, and now we see the counterbalancing effect here. In the current environment, we would like the investment community to avoid the emotional perception of the results, as it is obvious that current price levels coupled with the weak rouble present the risk for Aeroflot’s financials but it is not clear not only for us but also for the commodity analysts how long these levels will stay. Let us talk about the possible ways to manage this growth and improve the situation in this area. At this stage, we continue to optimise the fuel procurement. As you know, we use formula-linked pricing for domestic and international airports. There is a certain discount ratio (deflator) that applies to the price, and there is a provision in the contracts with the oil companies enabling us to adjust the deflator embedded in the formula by up to 20% in case of drastic macroeconomic fluctuations. Therefore, our procurement department is negotiating with the oil companies to reinforce this provision of the contract in order to drag down the oil price. The second factor is fuel consumption. As you can see, the fuel cost management is rather effective, securing the improvement in fuel consumption per ASK and fuel consumption per RTK, and we are going to be efficient going forward. The third factor is the fuel surcharge, which we have already mentioned. In the periods of higher fuel price, we add the so-called fuel surcharge to the fares that is passed on to passengers. I think that all this will help us better manage the oil price fluctuations and deliver more solid results in the forthcoming periods.

EBITDA evolution, slide 29. In Q1 2018, we generated negative EBITDA of RUB 7.7 bn, which can be explained by the same factors that we have already mentioned. Staff costs were up by RUB 2.8 bn. Growing headcount related to the growth of the Group, including staff hiring related to the opening of the new terminal and the FIFA World Cup, as well as pilot salaries indexation. Operating lease costs were up by RUB 3.6 bn and were driven by stronger rouble in Q1 2018. The growth was due to adding more than 40 aircraft under operating lease contracts in the last twelve months. EUR/USD exchange rate was equally quite favourable for Aeroflot. In Q1 2018, the rate reached 1.23 vs 1.07 in the respective period of the previous year. It has resulted in the multidirectional dynamics of RUB vs. USD and EUR. This led to a rather positive FX effect on both revenue and costs as shown by the dotted rectangular on the slide. So, the net FX effect was RUB 4.484 bn, almost RUB 4.5 bn. I have already explained the key factors behind it.

Pobeda’s financials are described on the next slide. Pobeda was very successful in Q1 2018. First of all, it increased revenues by 55% driven by resumed operations expansion. Expansion always requires additional OPEX and a simple example is investment in personnel – we needed to hire and train cabin crew before they are staffed for the flights, but nevertheless Pobeda was able to increase EBITDAR. Pressure on EBITDA in actual terms is not significant and is explained by additional six aircraft in the last six months. These aircraft have been deployed in a very efficient way – the utilisation increased from 11.6 hours in Q1 2017 to 12.6 hours in the current year. That is a remarkable achievement made in low season, because Q1 is 40% lower than July, the highest season of the year, and 20% lower than Q4. Therefore, when disclosing the results, we should understand that organically the Q1 performance is the worst one.

Increased utilisation led to a lower leasing CASK, it has helped keep CASK flat y-o-y and increase RASK by 2.7% at the same time. We chose to introduce additional capacities in the low season, even if it meant increased
quarterly losses because we are greatly encouraged by the achieved performance. I think that it is a good base for further development.

Capital structure and liquidity. The total debt as at the end of the quarter decreased by 11.5% on the back of the decrease in finance lease liabilities. The finance lease liabilities decreased due to revaluation in the environment of appreciating rouble and the phase-out of four aircraft under finance lease contracts. We have no new major borrowings, the Group is currently left with one major loan outstanding in the amount of RUB 3.4 bn. The Group secured a very stable cash position – RUB 63 bn, up by 15%. On top of that, we secured approximately RUB 100 bn of undrawn credit lines. Aeroflot Group had a very comfortable net debt / EBITDA ratio at the level of 0.6x as at the end of the quarter. For your information, adjusted net debt / EBITDA as at 31 March 2018 immaterially increased to 4.3x. You are aware of the fact that starting from 2019 operating leases will be accumulated, capitalised and included in the body of the debt, so the metric net debt / EBITDA will increase.

Operating and free cash flow. The cash flow in Q1 2018 remained in good shape and the free cash flow was on the level of almost RUB 20 bn despite the lowest quarter of the year. The y-o-y decline is explained by the dynamics of the cash flow from operating activities. In Q1 2018, working capital increased by RUB 14.5 bn due to changes in accounts receivable and accounts payable and the income tax contribution, which are traditional factors that were also observed in the previous reporting period. Part of the free cash flow was used to pay out the finance lease of RUB 5.4 bn and as a result, net change in cash amounted to RUB 13.1 bn, a liquidity cushion ahead of the high season.

We have finished the main part of the presentation and before switching to our Q&A session, I would like to say a few words about my personal perspective. It might be of interest to the investment community. As you might be aware from the press release, which was published yesterday after the meeting of the Board of Directors, I have chosen to leave the company. After the ten years of service and having achieved, together with our team, impressive results in terms of net income, margins and capitalisation, which hit its historical record of more than USD 4 bn last year, and all the key metrics being at their all-time highs, I think now is the right time to challenge myself in different areas and industries and explore new opportunities. I have worked for Aeroflot for almost ten years and it was very important for me. I think that the team and I have done a lot of work helping the investors and analysts better understand our financial results. I did my best to explain to you the trends and internal procedures, which are in place at Aeroflot, and give you a better view of the company and its developments. Thank you very much for the mutual work and I think we will keep our good relationships going forward. I am always glad to answer your emails and collaborate with you in different other industries. Thank you very much. I would like to propose that we should commence the Q&A session.

Operator: Thank you. The first question comes from the line of Michael Ganelin from Aton. Please go ahead, your line is now open.

Michael Ganelin: Good day, gentlemen. Thank you for the presentation. I have a couple of questions. First of all, it is great that you decided to increase dividends for 2017. I think this is what many investors expected and also it is great that you have decided to publish quarterly results which is also interesting for analysis and very useful. My questions are about oil prices. We see that in April and May there was a spike in the rouble-based oil price. Am I right that you are negotiating with the oil companies to cut the price by 20% vs. that level? Am I right that you will be able to keep it in line with the January and February level? The follow-up question is what we should expect with this situation in terms of Q2 2018 results. Will they be worse than last year due to the high oil price or will you be able to bring them in line with what we saw last year? Thank you.

Shamil Kurmashov: One of the key advantages of formula pricing in our oil contracts is that it can be revised in cases of drastic macroeconomic changes. We have been negotiating the leverage under these contracts.
Of course, it is a bilateral process between the oil companies and Aeroflot, but there is a provision in place which was used historically when there was a low market for the oil companies, so there is a 20% headroom for renegotiating the prices. It is set forth by the contracts and can be used in negotiations. Of course, we hope that our partners in the oil companies would be persuaded by that and we would be able to revise the deflator in the formula pricing. We cannot guarantee it but we use our best efforts to do that. We think that in Q2 2018 you will see the financials in line with our previous forecast and previous guidance.

*Michael Ganelin:* OK, thank you. My second question is about your cash flow. I see that it was quite strong in Q1 2018 and this is partly due to getting back pre-delivery payments. Do you expect to get more of those back in the coming quarters and do you also plan to make prepayments for new aircraft too? How will that come out in the coming quarters?

*Shamil Kurmashov:* We still expect to have back the prepayment for the Boeing Dreamliner contract. As you understand it is approximately USD 45 mn. We expect this amount to come in Q2 or Q3 2018. We do not expect any new material prepayments for our fleet purchasing contracts.

*Michael Ganelin:* OK, thank you very much.

*Operator:* Thank you. Now, we will take our next question from the queue. Elena Jouronova from J.P. Morgan. Please, go ahead. Your line is now open.

*Elena Jouronova:* Hello, gentlemen. Thank you very much for a good presentation. I have two questions. First of all, can you please tell us what was happening with yields in April and May, and after that I will ask my second question.

*Ivan Batanov:* Hello, it is Ivan Batanov, Head of Network Planning and Revenue Management. In terms of yields for April and May, being under the pressure of the fuel costs, we made a decision to increase the fuel surcharge at the end of March. I believe this step will allow us to maintain the same positive trend as we had in Q1 2018. This is the main idea that I have.

*Shamil Kurmashov:* I think that the pattern of our yields will be better than in Q1, it goes without saying. Both in the domestic and international segments yields will be positive vs. the respective quarter of the previous year.

*Elena Jouronova:* But what about the uneven dynamics month by month in your Q1 2018? You started the year in January with very low yield growth, but then in March when, as you say, you increased the fuel surcharge, your yields, at least at Aeroflot Airline, went up 8%. I am wondering if your April and May look closer to 8% growth. I appreciate the change in the exchange rate, but, in principle, are we talking about the growth that is stronger than in Q1 overall and closer to the March result?

*Shamil Kurmashov:* We compare quarter with quarter. We do not compare Q2 to Q1, but we compare Q2 2018 to Q2 2017. I think there will be an indirect increase due to the fuel surcharge on different destinations. If you just want the interval between which the yields will be revised, it will be an upward revision of yields for 3–6% compared to the respective quarter of the previous year.

*Elena Jouronova:* 3–6%, OK, thank you. My second question is about that IFRS 16 standard which, as you mentioned, you are going to transition from next year. As we understand, this will negatively impact net income based on IFRS result. We wanted to clarify if that could impact your dividend payment at all or not, because it is based on Russian accounts.

*Artem Glaznev:* The Group is currently assessing the detailed impact of the interpretation on the consolidated financial statements, and the effect will be included in the financial statements at the year-end. If we
capitalise the operating lease now, our adjusted net debt / EBITDAR that at the end of March amounted to 4.3x, which is an immaterial increase. We do not expect any material influence on our reported debt together with capitalised leasing. The full effect will be included in the financial statements at the year-end.

_Elena Jouronova:_ I am sorry, I was referring to the net income, not net debt. Net income will definitely change after the introduction of the IFRS 16.

_Shamil Kurmashov:_ Yes, right. It is not going to change, and more importantly, it will not have any negative influence on our dividend flow.

_Elena Jouronova:_ OK, thank you. That was it.

_Operator:_ Thank you. Now, we will take our next question from the queue. Maxim Nekrasov from Goldman Sachs. Please, go ahead.

_MAXIM NEKRASOV:_ Thank you. We do appreciate that you started reporting on the Q1 separately. Some of the questions have actually been answered. Let me start with Pobeda and Rossiya. As Rossiya’s traffic was down in Q1 2018, do you see any risks of cannibalisation between Pobeda and Rossiya going forward, and do you think that some of this traffic loss for Rossiya was related to Pobeda’s ramp up. That is the first question.

_Shamil Kurmashov:_ Thank you for the question. There is a principle of sharing the same routes between Pobeda and Rossiya. The company with a better margin should operate this or that route. Therefore, you see the decline of Rossiya airline’s operations, because the cost base of Rossiya does not allow it to compete with Pobeda airline. Therefore, if they shared the flight from, for example, the St Petersburg base, which is the home base airport for Rossiya airline, if the margin earned by Pobeda is better – this route is reallocated from Rossiya. Therefore, we do not expect any cannibalisation using this simple principle. In case Rossiya does not need the actual number of aircraft, having decreased its number of operations, we are going to phase it out.

_MAXIM NEKRASOV:_ I got you, thanks a lot. I also have a couple of technical questions regarding your financials. Why did the carrying value of owned and leased aircraft on the balance sheet go down to RUB 66 bn from RUB 76 bn at the end of 2017 despite the increase of the fleet?

_ANDREY NAPOLNOV:_ Maxim, we carry only the finance lease aircraft on the balance sheet. That is the reason. We have phased out four aircraft from the finance lease, and the estimate went down.

_MAXIM NEKRASOV:_ Phased out four aircraft, right. Thank you. The last question is also a technical one. It is about the lease commitments. They went up to around RUB 870 bn from RUB 661 bn at the end of 2017. What is the portion of the currently used aircraft in these lease commitments? How much do you expect the current portion to increase by the end of 2018? We want to understand the impact of the new IFRS changes.

_ANDREY NAPOLNOV:_ Maxim, we understand that you are interested in whether we are going to capitalise all this estimate or not. I mean that is the estimate of all the obligations we have under leasing contracts, including the aircraft we have not received yet, which means that it is higher than the potential effect of the operating lease capitalisation. If you need the current portion, let us discuss it after the call, and we will have a look at what we can give you as a follow-up. OK?

_MAXIM NEKRASOV:_ OK. Thanks a lot.

_Operator:_ Thank you. The next question comes from Julia Gordeyeva from Sberbank. Please, go ahead. Your line is now open.
Julia Gordeyeva: Good afternoon. I’m just wondering what is the plan for the shares you might possibly buy in the summer?

Shamil Kurmashov: Do you mean the potential buy-back by the shareholders as they don’t vote for the transaction?

Julia Gordeyeva: Yes.

Shamil Kurmashov: We do not expect that there will be massive buy-back because investors always compare the average price for the half a year with the current price. Taking into account the consensus price for our shares, I think by the date based upon which the half-year period is calculated, their [average] price for the period and the current price at that moment would be on a level which would not entice them into selling their shares to Aeroflot. Therefore, from the point of view of figures, we do not expect it to be very material. We discussed it for assessment and we think that would not be beneficial for investors to execute such kind of a transaction.

Julia Gordeyeva: Ok, thank you for the answer.

Operator: Thank you. And now we take our next question from the queue. Olga Boltrukevich from VTB Capital. Please, go ahead. Your line is now open.

Olga Boltrukevich: Good afternoon. Thanks a lot for your presentation. Actually, my first question is similar to the one which was already asked before. It relates to these amendments to IFRS regarding the operating lease changes. I would like to get a better clarification on this topic, since this is among the most frequent questions. In particular, you mentioned that net debt / EBITDAR would be 4.3—4.4x, if I am not mistaken. So, considering the USD 15 bn of operating lease liabilities reported now off the balance sheet, what would be the number, if it is on your balance sheet. Specifically, what kind of discount rate should be used for the future payments, when the auditors would put operating lease liabilities on the balance sheet?

Artem Glaznev: The first question about P&L. The amortisation according to IFRS would be similar with the rent payment together with the interest. We do not expect significate effect on P&L after adopting IFRS 16. In terms of balance sheet, we now have some estimation of our liability together with operating lease capitalisation. We already noted it on the conference call, and there is some figure in our financial statements, it is the commitment of operating lease. It is not discounted. It is not subject to IFRS rules either. It should not be taken into account at the moment. The correct information is the ratio which we have already disclosed on the conference call.

Olga Boltrukevich: Ok, thank you. My last question relates to the yesterday’s press release on potential changes in the strategy. Could you please possibly comment on this and maybe on any potential implementation steps or dates?

Andrey Napolnov: Olga, as we stated in the press release published yesterday, it is just a revision to set more ambitious goals. But the process of the strategy review is currently in progress, so we will update the market when we have the new goals approved.

Olga Boltrukevich: Ok, thanks a lot. My best wishes to Shamil and good luck to his future endeavours. Thanks a lot for your work.

Shamil Kurmashov: Thank you very much, thank you, Olga.

Operator: Thank you. The next question comes from Osman Memisoglu from Bank of America Merrill Lynch. Please, go ahead. Your line is open.
Osman Memisoglu: Hello. Thank you very much for your time and presentation. I have two questions: one on the overall traffic yield and competitive environment. I see from your presentation, what looked like a decreasing capacity by both foreign and Russian airlines in Q4 2017, started to increase again. In April, particularly, for Aeroflot brand, you posted weak load factor performance, especially on the international side. So, I am trying to understand whether this was competitive environment related, or maybe surcharges that you are pushing through made a change. Could you also confirm, when exactly was it: the beginning of the March or end of March, because I am wondering if the 10% growth you posted on Aeroflot brand is surcharge related? That is the main revenue related question. Maybe later I will ask one on the cost side, if you do not mind. Thank you.

Shamil Kurmashov: We will try to decompose the question into components. The first question was “At which moment were the surcharges introduced?”. Last days of March, around twenties. As to the slight decline of the load factor...

Andrey Napolnov: Osman, you understand that in the sectors like retail or aviation, calendarisation it is always an important factor. We have national holidays, and every year at the beginning of the national holidays a lot of people travel on vacations. But sometimes there can be differences in dates, for example, whether 1 May is Sunday or Saturday or Monday, so we can have less or more holidays. This year we had less bookings for long holidays, so there were fewer departures at the end of April.

Osman Memisoglu: Can we say load factor is recovering in May and June? And how does the forward booking look like? It sounds like your yields will improve with the surcharge, but I am just wondering if that is going to have an adverse effect on your load factor.

Andrey Napolnov: If you look at the load factor, we started to see the deceleration at the end of April and at the beginning of May. But then, starting from the second half of May, the load factor dynamics is quite healthy. If we look at longer horizons, we definitely should keep in mind that Russia is hosting the World Cup. In June, for the World Cup, we see a positive trend on key destinations. Definitely, there are some peculiarities on some routes, because World Cup is a very complicated event that can affect the whole network and some destinations to different extents but in general for June the expectation is positive. Maybe Ivan can add some points on the issue.

Ivan Batanov: I also wanted to make another example for the calendar, because it affects not only the May bank holidays, but also Easter holidays. During the last year, Easter holidays were held on April, while this year the outbound traffic fell on March and in inbound traffic – on April, this April suffered compared to the last year.

And in terms of future trends, Andrey is absolutely right, we can see definitely positive trends for June. We even put the additional capacity on the market. If we are talking about July and August, there is still some decrease compared to the last year in terms of future bookings, but we are absolutely sure that it is the effect of postponed holidays for Russians, because as can see, Russians would like to stay during the World Cup in June. We are absolutely sure that they are shifting their holidays for July and August, so we expect that it will be the last minute additional demand on the market. We are absolutely positive about our results for the summer season.

Osman Memisoglu: Can we summarise that your competitors on the market are following you with the fuel surcharges? Would that be a fair statement?

Ivan Batanov: If we look at the domestic market, S7 is following us, it is our main competitor in the domestic market. If we look at the international sector, unfortunately, not all airlines have followed us. I can give you
some examples. In the European market, for example, KLM has adjusted its fuel surcharges and made them equal to ours. Unfortunately, I do not have any other examples for the time being. Again, it is an effect of April and May, which we consider the low season. I am sure that in June we will see a more and more airlines following us in terms of fuel surcharges.

Osman Memisoglu: Thank you. Just a follow-up on the cost side, I took up a lot of your time already. Are there any one-offs in Q1 2018 that you want to point out. Maybe I missed it in the presentation; sometimes the line was not very clear. Particularly, I am not so sure, if you provide a guidance on the fuel side. You have mentioned a possibility that maybe Q2 2018 will be as good as previously guided. I am not sure what was previously guided. So, in terms of costs, any further colour would be helpful, either for Q2 2018 or FY 2018. Fuel and staff are obviously on the upside, operating lease is a concern as well. Thank you.

Andrey Napolnov: Regarding one-offs, you are right mentioning that the traditional slide on the one-offs effects is omitted from the presentation. We have moved it to the appendix section of the presentation, because nothing material has happened, just some minor adjustments that compensate each other. You can have a look at the corresponding slide of the presentation, but nothing special to discuss, or, again, we can discuss it offline.

Osman Memisoglu: Sure, thank you.

Operator: Thank you. Now, we take the next person from the queue, who is Denis Vorchik from Bank Uralsib. Please, go ahead, your line is now open.

Denis Vorchik: Hi, gentlemen. Thank you for taking my question. It is related to the upcoming World Cup, which is actually a good brand recognition event for Aeroflot. However, as for the financial impact, you have introduced special tickets for the supporters of the national team for the symbolic price of RUB 5, which looks like a loss-making price for Aeroflot. So, my question is, if the national team, hopefully, gets to the final, what will be an impact on the Company from such a ticket fare?

Andrey Napolnov: Denis, we definitely hope that the Russian national team will do their best in the Championship, but our estimates are the following: we are planning to sell up to 70,000 tickets. This is our commitment based on the estimates of demand from the Russian supporters. That implies an effect of RUB 0.8 bn on revenue, but we are looking at this marketing expense of Aeroflot as a social obligation rather than drag on the results. Again, it is not that material.

Ivan Batanov: Let me add some words. We really believe that we will compensate that additional cost, because we did quite a lot of work shifting the capacity between different destinations of Aeroflot. For example, Bangkok market is suffering during the World Cup, because there is no available capacity on the European markets, which does not allow us to transfer traffic. Also, as I said before, Russians prefer to stay in Russia during the World Cup rather than travel. When we saw this, we decided to shift the capacity from the markets that are suffering to the markets that have additional demand. These markets include international destinations like Paris, London, Madrid, Frankfurt, Hamburg. We add additional capacity to such markets. On the domestic market it is Sochi, Ekaterinburg, Samara. Since we put this additional capacity on this market, we made available additional narrow body aircraft, which we put to additional flights to the cities hosting the World Cup. Overall, we did much work, which will provide us with additional traffic and an increase in load factors. It will significantly compensate for the losses that we will have from the RUB 5 fare.

Denis Vorchik: Ok, that is clear. So, there is no reason to short sell Aeroflot before the World Cup. Finally, let me wish every success and all the best to Shamil at his next career step.
Shamil Kurmashov: Thank you very much. It is very pleasant.

Operator: Thank you. Ladies and gentlemen, that concludes today's Q&A session. Now, I would like to hand the call back to our speakers for any additional or closing remarks.

Andrey Napolnov: Thank you everyone for joining the call. As usual, if you have follow-up questions, we will be ready to answer. Thank you very much.

Operator: Thank you. Ladies and gentlemen, that concludes today's Aeroflot Group Q1 2018 IFRS financial results conference call. Thank you for your participation. You may now disconnect.