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Andrey Napolnov: Good afternoon ladies and gentlemen. Thank you for joining the call. Today, we have two speakers, Deputy CEO for Strategy and Alliances, Giorgio Callegari, and Deputy CEO for Commerce and Finance, Shamil Kurmashov. I would like to remind you that press release and the press statements are available at our website, in the “Investor Relations” section. A webcast of the presentation will be available at our IR section after the call. Before we start, I’d like to draw your attention to the fact that some information on the call may contain forward-looking statements regarding future performance and actual results may differ materially from these expressed or implied by the statements made during the conference call due to known and unknown risks and uncertainties. For more information, please refer to the disclaimer statement in the presentation. And now I pass the floor to Giorgio Callegari, who will take you through the company’s key operational achievements. Giorgio?

Giorgio Callegari: Thanks a lot, Andrey. Good afternoon to everybody, ladies and gentlemen, and thanks for joining us in the call. As it has been a tradition that we’ve established in the last few years, I would like to draw your attention to what we believe are the key elements of our performance, so that it can be better understood when Shamil Kurmashov will describe in detail the financial part of our performance. We have highlighted the key elements of our operational performance on the first slide of our presentation and I would like to mention just a few elements, not repeating what is written but focusing on the key messages. The first one is that we have carried in the first six months close to 20 million passengers – 19.7 mln PAX, or +10.3% compared to last year. In doing so, we’ve increased our market share to 44.6% as measured by international standards, which means we are still rather far from the 50% ratio that is the implied barrier for our regulators. And by carrying about 20 million passengers we have

had total revenue – which has increased by 26.8% – reaching close to 224 billion rubles. The EBITDAR and EBITDA margins have been 26.1% and 13.4% respectively thanks to an increased strong yield performance and strict cost control. So yield increased by 14.6% and unit cost only by 8.6%. All of this despite a very challenging market, because the Russian aviation market decreased by 8.5%. So the market keeps on slowing down faster than even the second part of 2015, but that decrease is not even, in the sense that domestic market grew by 7.7% and the international market decreased by 23.1%. Some of the decrease in international traffic is obviously due to external factors – we'll discuss that a little bit later – but also is the result of foreign carriers pulling out capacity from the Russian market.

All in all, what are the key messages of the first slide? We believe that the company has proven to be able to continue its growth, even in a challenging market, growing not at the expense of profitability but delivering better financial results. This has been possible thanks to execution: once again, execution of the Aeroflot plan; execution of the restructuring of Rossiya; and execution of growth opportunities of Pobeda. Let me highlight here that when we talk about the execution of the restructuring of Rossiya it means that we have gone from three different companies plus a part of Transaero to a unified single company in less than one year. So, despite the market, the restructuring has been by all means extremely fast.

And in doing so, we have also been rewarded with recognition both from the customers and industry peers: Aeroflot received in April 2016 the four-star Skytrax rating and in March was recognised as the preferred airline by the readers of Air Transport News. So we have profitability, performance, execution, and customer satisfaction: the pillars of a successfully managed company.

Let's focus a little bit more on the market. Page 5 of the presentation. Again, you're familiar with this slide, so I will just focus on the key messages. The first one is that even in decreasing markets we still believe that the potential for growth once the economy stabilises is impressive, due to the comparatively low penetration of air transportation. That low penetration is partially due to the geography of the country but it is also very price sensitive. That's why, even though we don't talk about trend reversal, we see that for the first time in the last five years, long-distance rail transportation has recovered some ground compared to air transportation. Still, the strength of the Russian domestic market is shown in the bottom right part of the slide, where you will see that the domestic market has increased by 7.7%. So the sensitive part of the market, the part that is decreasing, is the international one, in particular the leisure part. That's why we feel confident with our strategy of reducing our exposure to that market segment.

On the following slide, you will see the details of the performance of Aeroflot compared to the market. You see that we've grown by 10.3%. We've grown in both domestic and international in, as I said, a market that is decreasing. That has led to our market share increasing from 37.0% to 44.6% and again, the market share that was previously Transaero in 2015 has been redistributed among other carriers, most notably S7, which has shown a significant increase. Still, we are comfortable with the market share that we have because we

grow in a selective way. Now, what does that mean – growing in a selective way? Well, on the following slide you'll see that while we have grown by 8.2%, whereas most other carriers have decreased. So you see that both low-cost carriers like EasyJet or even Germanwings have pulled out of the market as well as some full-service carriers like Cathay Pacific or Scandinavian Airlines. Some of those carriers are coming back: in particular Delta has restarted a seasonal operation from New York to Moscow and there are indications that Thai might want to come back to the market.

We don't see the return of these carriers as a competitive threat to Aeroflot, rather the opposite, in the sense that some of those carriers are flying to Sheremetyevo. This therefore increases the appeal of Sheremetyevo as a connecting hub thanks to the strength of our domestic operation and even those that are flying to other airports are stimulating international demand. As Aeroflot is the largest operator it stands to benefit from that.

As for the segmentation – the multi-brand strategy implementation on slide 9. As you see, Aeroflot has registered the largest increase, reaching 13.4 million passengers, which means 1.4 million additional passengers. That is an impressive performance, as I said, against a backdrop of challenging economic conditions. And that is a performance achieved across both domestic and international traffic and even in the face of a slightly decreasing percentage of connecting passengers. I'll talk about that a little bit later. Pobeda has been the second best performer of the group with a total of 2 million passengers carried, equal to 900,000 passengers more than last year, so they have doubled the number of passengers that they carried, also thanks to the fact that they've been operating the full six months with 12 aircraft.

Aurora is proving that our strategy of developing a combination of subsidised and commercial operations in the Far East is delivering results, because they've been able to increase their performance, notwithstanding the fragmentation of the market and the difficult conditions there, while Rossiya [on a consolidated basis] has seen a decrease in its performance. So they've carried 3.7 million passengers, which means they have carried 600,000 fewer passengers. That is the result of choices we have made: adjusting capacity in St. Petersburg; taking out the 767s that they had there; adjusting capacity in the South of Russia; reducing and then integrating the Donavia fleet into the Rossiya and doing the same with Orenair, where we've seen a decrease of scheduled operations. Again, that is an indication of the fact that we are selective in the growth that we pursue.

Talking about Rossiya, next slide, slide number 10. There were a number of question marks about the ability of Aeroflot to cope with the demise of Transaero. I think we've proven that we've been able to negotiate a balanced agreement with the counterparts and again we have been able to continue the selection of what we believe are profitable operations, compared to other less profitable ones. So of the 56 traffic routes that we received from Transaero, we chose to operate only 43. We have returned 13 to the regulator to be allocated to other carriers. We have also been very conservative in the kind of fleet that we have taken for Rossiya and that explains the reason for a smaller number of aircraft, which means that for the period we are looking at, the first six months, Rossiya was operating only three 747s and two 777s coming

from Transaero. That means that also, in terms of employees, instead of the total 6,000 people that we had consented to hire, we have hired 4,255: distributed between flight attendants, pilots, engineers, ground handling and security, and a small portion of administrative and support personnel. The 720 engineers are now the core of A-Technik, the maintenance company that we have established and positioned in Vnukovo to perform heavy maintenance and heavy checks for the wide-bodies that are coming from Transaero.

Pobeda is certainly a success story. We said when we launched the company that we were expecting to see a positive operating margin by year two and a positive net margin by year three. Pobeda is beating all the expectations. In doing so it is delivering low fare, efficient product for domestic traffic that we believe is essential in order to protect the growth opportunities of the group. It is also offering some selective international destinations with a total capacity deployed in international markets of less than 10%, well below the self-imposed 15% capacity limit. So again, let's focus on the strength of the Russian market, which you see clearly developed in slide 12, where we talk about the network of the group.

We continue to increase the quality of our network, increasing average frequencies per week, both domestic and international. In terms of criteria for growth of the group, we have added six destinations in Kazakhstan, again resulting from traffic rights which we were granted after the demise of Transaero and we have started international operations under the Aeroflot brand to Valencia, Alicante and Lyon. So we have limited growth in terms of destinations, while increasing frequencies to Tel Aviv, Rome, Milan, Malaga, Beijing, Tashkent and Tbilisi. Again we have balanced growth opportunities, which translates into improved connectivity as you see on the following slide. Connectivity in terms of percentage of traffic through Sheremetyevo decreased from about 43% to only 41% and, as I mentioned earlier, the reason is that we've been very selective in the kind of connecting flows that we chose to carry. There is no contradiction between what we show on the left-hand top side of the slide – where we show the improved quality of our connectivity – and the right side, where we show less connecting traffic. What does it mean? It means that by having better connectivity we can be more selective in the kind of connecting passengers that we carry, and that translates into better yields. This is quite different from the strategy that some carriers close to our geographical location have chosen, that is pursuing a strategy of adding destinations irrespective of their profitability.

In terms of operating results, you see on slide 15 that growth has been delivered throughout the first six months, obviously with more pronounced seasonality in terms of domestic traffic and less pronounced seasonality in terms of international traffic. Again, that's the result of being more selective in the connecting traffic and dedicating more capacity to the point-to-point traffic.

In terms of yield, it is no surprise in terms of traffic analysis and then yield that we retain a balanced distribution of revenue, because Russia still has – it is obvious based on what I said about the performance of both Aeroflot and Pobeda – the largest share of our revenue, with close to 40%. But Europe is increasing, with close to 27%, and has grown more than Russia; also Asia, which thanks to the increasing capacity even though not in the points shown, is now 17%. We also have a significant footprint in CIS and the Americas.

In terms of distribution channels, we are also looking at a very balanced distribution, with 36% of our sales in Russia, 32% of our sales abroad and close to 30% online. This means that we are strategically hedged in terms of sources of revenue from different geographical locations and through different channels, which means, as shown on the final slide of my portion that we can look at an impressive yield and RASK performance. Again, it should not be forgotten that all of this happens in a very challenging economic environment where, yes, we did increase our market share but, as I repeat and underline it is still around 45%. So we are the largest player but by no means a monopolistic player. So delivering increasing yields and RASK comes as a result of an effective commercial and customer-focused policy. Yield, 14.6% in total, and load factor have increased and therefore also RASK has increased. We show the RASK excluding Pobeda, though obviously Pobeda has increased, so 1 million more passengers carried at lower yield has an impact but again, the balanced distribution of revenue and channels ensures that the group delivers with positive RASK even in the face of an increasing share of Pobeda.

Thanks a lot for your attention. Shamil, it is now your turn. Thank you so much.

Shamil Kurmashov: Good afternoon everyone. Traditionally we show the Group's fleet structure on page 20. We are proud to have one of the youngest fleet in the world, 4.3 years for Aeroflot standalone and 6.4 years for the Group, which is also in line with the world's largest and most efficient airlines like Turkish Airlines, Gulf carriers and some LCCs.

The next slide shows the structure of the fleet and as of the end of the first half of the year the group had 267 aircraft in the fleet. Our fleet is well-balanced with 66% of narrow-bodies for mid-haul flights, 17% wide-bodies and 17% narrow-bodies, what we call regional jets, for regional operations. 64% of the Group's fleet are exploited by Aeroflot airline and 80% of the Group's fleet is under operating lease. So our strategy in terms of financing the fleet is to use operating lease contracts and to phase out aircraft under finance lease agreements, because finance lease instruments became more expensive in comparison to operating lease instruments.

In the first six months of 2016, Group has been intelligently expanding its capacity with 19 aircraft joining the fleet – slide 22 – and 13 aircraft being phased out, resulting in a net increase of six aircraft. The expectations for the second half of the year are 23 aircraft. Key additions and phase-outs of aircraft: an addition of six wide-bodies including five ex-Transaero aircraft (three Boeing 747 and two 777s), and a phase out of one Boeing 767; addition of eight narrow-bodies and a phase out of 12 narrow-bodies; and finally an addition of five narrow-bodies for regional transportation. As of now, we expect up to six 747s, three 777s and also six 321s from the order book in the second half of the year. Unfortunately, there is no additional need for long-haul aircraft in our current network development strategy (in addition to currently scheduled deliveries). We have some limitations on our throughput capacity at Sheremetyevo, so we need to maximise seats per plane in order to make the most of the airport capacity, taking account the limitations and the air-traffic regulation and the on-the-ground capability of this airport.

Financial performance, slide 24. Revenue growth of 26.8% was the result of expanding passenger traffic, active revenue management and currency impact. The cost base was mostly affected by expanding operations and rouble depreciation. However, despite FX cost inflation, effective yield management and cost management helped us to capitalise on market opportunities and generate strong margins. As we can see further, our EBITDA margin increased to 13.4% and EBITDAR margin of 26.1%. The bottom line reflects a number of one-off effects, but nevertheless, there is a strong improvement, and our bottom line returned to positive territory compared to negative result of the first half of the previous year. On the next slide we have composition of revenue growth. Here we show all the components which contribute to revenue growth. The traffic volume growth impact was close to RUB 11.4 billion on the back of 10.3% in PAX increase. The currency effect contributed almost RUB 26 billion to the top line due to significant portion of revenue from international sales and other revenue including code-sharing and other agreements with airlines; also yield management, which resulted in positive pricing effects of about RUB 7.6 billion. Thus we show that not only volumes, but also the yield management improvement, stands behind strong operational revenue results.

Operating costs. We can divide our operating expenses into two groups: expenses that increased more than revenue and the ones that increased less. Out of the first group, operating lease expenses went up by 42.2% on the back of foreign exchange rate change as almost 100% of our operating lease expenses are denominated in US dollars in line with market practice. Net of the FX effect operating lease growth amounts to 21% and this is less than the nominal pace of growth. Additional contribution comes from expansion of our fleet (as we added 16 aircraft in operating lease or plus 8% on a net basis). In addition to that, the contribution to the growth of operating lease was from the LIBOR rate, which doubled in the last 12 months and produced a negative effect on operating lease line. Maintenance expenses increased by 33.8%, which was mainly driven by rouble depreciation. Net of these currency differences this line was up by 13%.

Of items which increased less than revenue are fuel costs, which stayed broadly flat year-on-year (net of foreign exchange was down 12.6%) and the staff costs, which grew by almost 14% was mainly due to wage indexation for certain categories of employees and recruitment of 4.3 thousand employees from Transaero. These are the main factors that influenced our costs.

If we look at our unit cost evolution, the unit basis costs increased by 8.6%. I just remind you about the pace of unit revenue growth (RASK), which saw rapid increase of 18.7%, twice the growth of CASK, which generated better margin. Fuel CASK was down by 7.4%, which reflects not only fuel price decline in roubles but also efficiency of operations. So our unit fuel consumption (per ASK) decreased by 1.4% and this is the seventh year of consecutive decrease in these metrics which shows analysts or those who try to analyse it, that we manage our fuel consumption efficiently.

On slide 28, we demonstrate effective fuel cost management. We have achieved efficiency gains on our fuel costs and lower fuel consumption ratios as a result of replacing old aircraft with a new fuel-efficient fleet. Our fuel consumption amounts to 22.8 grams per available seat kilometre.

On the hedging policy. Updated hedging policy was reviewed and approved by the Board of Directors and Audit Committee. In order to improve the financial hedging process, procedural rules for financial hedging were also developed and agreed. However, we don't have the sign-off for entering into hedging transactions.

We continue with slide 29. We use two classical metrics in order to measure the effectiveness of HR: traffic revenue and PAX traffic divided by airlines' headcount. And for the third or fourth consecutive year we are seeing further improvement of this metric. So the headcount of the Group's airlines has increased by 4.2%, and the traffic revenue per average headcount of Group's airlines has increased by 22.3%. Efficiencies were achieved despite execution of massive ex-Transaero employees recruitment programme. We declared the opening of 6,060 positions, out of which we took 4,255 people, predominantly engaged with operating activities. Cabin crew, engineers, ground handling, security and administrative, and so on. But predominantly, the specialisation of these personnel was purely of operating nature. This allowed us to get the qualified personnel into the company without having to spend additional money for recruitment.

EBITDA evolution on next slide. For the first half, EBITDA amounted to RUB 30 billion, 2.3x higher year-on-year, resulting in a 5.9 percentage point increase in the margin, which reached 13.4%. The key driver of the EBITDA increase (in absolute terms, an increase of RUB 20 billion) was revenue growth of RUB 47.4 billion, which outpaced cost inflation, plus RUB 30.6 billion. And there were also foreign exchange gains from rouble devaluation, which exceeded foreign-exchange losses on operating expenses. So the difference was approximately RUB 8 billion, plus 26 billion on the revenue side, and RUB 17.7 billion on the cost side. One of the material contributions to this effect was fuel price decrease, which significantly offset increases in key operating costs.

Adjusted EBITDA net of one-offs, specifically pre-term return of aircraft, amounts to RUB 31.9 billion. We see the same evolution on the bottom line level: the net income is described on slide 31. We also show separately traffic revenue growth (+27.9%) and other revenue growth (+18.0%). Operating expenses also grew slower than revenue growth. So these are the effects which describe the key reasons for the significant improvement in net income. As usual, we decided to show pro-forma EBITDA and pro-forma operating income. We deduct those factors like one-off effects, or non-recurring items. So reported operating income for the first half is RUB 23.2 billion. If we correct it by the pre-term return of aircraft and BSP and other agents bad debt reserve which was created in this period, we have adjusted operating income of RUB 25 billion. And the same build up at the level of net income. Reported net income is approximately RUB 2.5 billion. We correct it for settlement of derivative contracts of more than RUB 4 billion, which was less this year in comparison with the Vladavia disposal. When we disposed of this

investment and the equity, we deducted all the turnovers, which are reflected within the Group before that. Impairment of investments in the airport. So there's a minority stake of 8%, which nominally is not going to be reflected like an equity investment on our balance sheet. So there is the current market valuation of this stake. And pre-term return of aircraft. This is predominantly Orenair aircraft, and the pro-forma net income for six months would have been RUB 16.8 billion. This is an interesting analysis, which we usually deliver to analysts in order to help them understand what happened within the company. So adjusted net income amounts to RUB 16.8 billion.

Capital structure and liquidity. We have significant improvement on our debt profile. That is a decrease of 17% in financial lease liabilities because, as we described above we substitute finance leases by operating leases, and this has resulted in a 22.6% decrease in total debt. If we take into account cash and short term investments, the net debt is at the level of RUB 122 billion, which is 38% less than it was at the end of 2015. We also decreased borrowings by 37%, as you can clearly see from the first line of this chart. That means we used the generated free cash flow in order to pay down the debt, credit lines, which are more expensive, and we thought it was reasonable just to replace them and use our free cash flow. Therefore, our net debt to EBITDA ratio is 1.6x. If you take the total debt to EBITDA ratio, that would be 2.4x, which is also a strong and attractive level for our industry. So if you look at the adjustments as I described to you, our debt profile is thus very attractive. The schedule of financial lease payments also extends beyond 2019, and is balanced for the next 2-3 years, as you can see on the lower right chart on this slide.

Operating free cash flow on slide 35. Free cash flow from operations amounts to RUB 64.4 billion, in comparison to RUB 36.1 billion for the same period of the previous year. Adjustments before working capital changes include RUB 4.7 billion loss reclassified from hedging reserve to P&L, RUB 4 billion realized loss on settlement of contracts: that was the remainder of the currency swap on our bond issue which terminated in the first quarter of 2016. Then RUB 9.2 billion loss on disposal of Vladavia and accrual of provision for impairment of investments in the airport, and a RUB 1.9 billion change in impairment provisions for accounts receivable and prepayments. So this means RUB 64.4 billion free cash flow from operations.

We have discussed results for the first half of the year, and now it's time to provide some updates for the full year. As we see from trading results we have achieved improvements in the international segment, while the domestic segment shows a deceleration of growth due to the base effect and optimisation of subsidiaries. Given that we have seen a delay in aircraft deliveries affecting our initial plans and our intention to focus on more profitable growth rather than just growth for the sake of growth we therefore are revising our guidance downwards. For the full year 2016 we expect up to 10% increase in passenger traffic, plus 9% in available seat kilometres, from 12% to 14% growth in revenue passenger kilometres, and a load factor stabilising at the level of 80%. We expect strong performance on both domestic and international routes. However, due to the strong demand of Aeroflot's target audience for international transportation and the launch of Rossiya's charter operations, the Group's international segment will outperform domestic in terms of passengers and RPK growth. This

contradicts the situation of the market where the international segment is declining, and the domestic segment grows by 8% based upon the figures of seven months of this year.

Given existing market uncertainty, we would like to limit our forecasts for 2016 only to operational expectations. And in terms of financials we recommend investors to be conservatively optimistic. That's our vision. That is all for the presentation. Thank you for your attention, and now we can speak about questions which would be of interest to you. Thank you.

Operator: Thank you. If you would like to ask a question at this time, please press *1 on your telephone key pad. Please ensure the mute function on your phone is switched off to allow the signal to reach our systems. Again, please press star one to ask a question. We will pause for a moment to allow everyone to signal. We will now take our first question from Alex Kazbegi from Renaissance Capital. Please go ahead, your line is open.

Alex Kazbegi: Yes, good afternoon, thank you. A couple of questions from me please. On the delivery of the aircraft. I look going forward into 2017 and it still seems to me that there are quite a large number of aircraft you plan to get delivered. I'm just wondering: what is the flexibility in terms of adjusting those numbers down this year? Your new guidance is clearly looking for under 10% growth in ASKs. Whereas if we took it exactly – I didn't do the math now, but I assume with 39 planes it is probably a bit stronger. What is the flexibility to either retire the aircraft earlier or postpone some of the deliveries? Maybe you can tell us a bit more on that and the nature of the contracts you plan to have – will you be again retiring the ones with a financial lease and getting new ones on operating lease. So please give a bit of colour on your view of capacity growth beyond 2016, from what you see at the moment.

Second question: on the fuel options as far as I understood, the Board came to the conclusion that you could enter the hedging contracts but you haven't started doing that. When do you expect to do this, and can you give us a bit of colour on the nature of those hedging contracts. And what kind of limitation on the overall costs you think that will put, in terms of how much will be spent on the hedging: as a percentage of the total fuel costs what is the rough expectation from your side? And lastly, maybe you could also give us a bit of colour on second half of this year in terms of net income. Because net income has been – as you mentioned – affected by a couple of non-recurring items. Let's see, if I look especially on net income after minorities, since minorities are very high in the first half, and what will be the evolution of that? Vladavia presumably will not be a part of it. Something else possibly – just a bit of colour on how you see the second half in terms of non-recurring or additional items panning out in the second half of this year? That's it, thank you.

Giorgio Callegari: Thank you Alex. Giorgio here answering your questions about the fleet. Yes, you are correct if you look only at absolute numbers of aircraft. But then let me guide you through the concept that is behind that. First of all, as you will see, we are retiring old aircraft. So for instance the 319s whose leasing period is maturing, they are no longer adequate in terms of accommodating the kind of traffic that Aeroflot is now carrying. So as both I and Shamil said during the presentation, we need to increase unit capacity of the fleet, in particular in the

narrow-bodies, and that is why we are retiring 319s and 320s, and adding 321s and a larger number of 737s. You also see that compared to six total SSJs we'll be adding nine SSJs in continuation of the contract we have. And that is to serve our original market that would complement nicely the hub structure of Sheremetyevo. So only now we believe that even though it might be a bit aggressive on the face of what we have seen in 2016, the growth is consistent with how the market is expected to perform. Finally, as Pobeda is delivering impressive growth in terms of passengers carried, even if in 2016 there's been no increase in its fleet size, we believe it's time to go back to the original fleet plan and therefore bring in some capacity to Pobeda. So yes, if you look at the total number it might seem impressive, but when you analyse it portion by portion we believe it's keeping with a kind of conservative and soundly based growth across the various segments – also because, again, 39 aircraft out of a total of 300 is in the end slightly more than 10% of total capacity. Thank you.

Alex Kazbegi: What is the implication of this on the market share of Aeroflot?

Giorgio Callegari: Well if I manage to express what has been the trend in the first six months, Alex, you'll see that our domestic load factor has been consistently above 85%. And that certainly means we have been very successful, but it also means giving up some significant market opportunities in terms of adequately serving the domestic market. So as we have at least six more points of market share to grow, we believe that by adding capacity and continuing the strategy of selectively developing our network, we can again remain under 50%, grow the company, rebalance domestic with international, and still deliver positive results.

Alex Kazbegi: Yes.

Shamil Kurmashov: In terms of fuel hedging. We have the decision in place of the Board of Directors, but nevertheless we do not have a right to enter into the hedging position. You asked the question about when and which instruments are going to be chosen. This is more a question of if it will be realised. Some of these would be classical options, not the complicated structures like we had before. So our choices would be limited by the premiums which we are going to pay up front on these instruments. But if we speak about when and whether there will be such transactions in 2016, I cannot say anything about that, because the decision is taken by the Board. I think this the probability is low this year, that is my assessment.

Answering your question about net income, we don't expect material one-off expenses or non-recurring items in the second half of the year. If there are some, they would be very negligible and not material for the financials of the Group. We expect to end the year with a significant positive result: that is all I can say about that.

Alex Kazbegi: Okay very clear, thank you.

Operator: Thank you. We will now take our next question from Michael Ganelin from Aton. Please go ahead, your line is open.

Michael Ganelin: Good day gentlemen. Congratulations on the excellent results, I have just a short question. I see that you have a good cash position on your balance sheet, more than RUB 50 billion. So what are you going to do with this cash going forward? Do you plan to reduce your debt position or pay cash-flow dividends? Thank you.

Shamil Kurmashov: First of all, we are trying to get rid of expensive credit lines, which are relatively expensive in comparison with our portfolio; we spent the cash in above-mentioned manner in the first half of the year. In terms of dividends of course we have our dividend policy and we are going to distribute dividends by the end of the year; the maximum level of annual dividend payout is 25% of IFRS income. But if a special decisions is taken by the government, I mean the Ministry for Property, then a larger portion of dividends might be distributed for the shareholders. They have the right to approve any level of dividends, but it will not be less than 25% because we have significantly good results, and a good cash position in order to provide this pay out. But the larger portion of net income might be decided to be distributed in the form of dividends. That's why of course part of our free cash flow would be used for dividend payments.

Michael Ganelin: Okay, thank you. And I have one more question if I may. I remember Aeroflot has filed through court claims against Transaero of around RUB 5 billion. Again, we understand that the chances that Aeroflot would get this cash from Transaero is very low. So is there a risk that Aeroflot will create additional impairments for these Transaero debt? And in addition, the decision that Aeroflot has filed to court against its subsidiary Orenair and also with some claims: what was the reason for that? And again, is there a risk with some impairment for this to appear in the H2 2016 results? Thank you.

Shamil Kurmashov: If we speak about Transaero, the exposure for Transaero had been fully reflected in our financials for 2015, and the remainder for the first half of this year. So there will be no further impairment or bad debt reserves which could be created for Transaero debt. So you can be sure that it's already in. If you talk about Orenair this is a technical procedure and we file a lawsuit against our subsidiary as a part of the complicated reorganisation of Rossiya Airlines, Donavia and Orenair; one company is being created with the liquidation of the former legal entities. That's why we treat it as a technical decision, so as not walk through all of the procedures of the liquidation of the legal entity, and to economise further on the expenses of the legal entities, we want to create only one. This should be the operator, which is exploiting this segment of the market. Therefore, there is no negative consequences of Orenair, even if we just filed this lawsuit. It's like a technical step on the way to liquidation of this legal entity.

Operator: Thank you. We will now take our next question from Daniil Fedorov from Goldman Sachs. Please go ahead, your line is open.

Daniil Fedorov: Good evening gentlemen. Congratulations on these outstanding results. I have a few questions; first on your pricing plans. I just wanted to check with you what was the main reason, in your view, for improvements in passenger numbers in the first half: was it VAT, or the change in ticket mix, or was it just harmonisation of pricing to healthy levels following the

departure of Transaero from the market? And also could you please share some colour on trends which you see in July and August? And second question I have is on aircraft additions. You shared some information that you are going to receive around 23 aircraft in the second half of this year, and we see that there is in reality there is some shortage of aircraft in your fleet right now, given the load factor performance. Could you just share some information on timing of these deliveries? When should we expect some pick up in traffic growth, capacity additions: should this start in August already or will it be closer to the end of the year?

Giorgio Callegari: Good afternoon Daniil, and thanks for your questions. As far as the yields are concerned, yes, you are correct. We certainly were able to have a more rational approach to the market, providing competitive fares, also as a Group thanks to the increase in capacity that Pobeda put on a number of domestic routes. And also, let me say, continuing to build on the quality of the network of Aeroflot. So it is the continuation of our strategy, and certainly the benefits of more rational behaviour in the market. There is no reason to see that changing, and therefore the expectation is that the trend will remain in terms of improvement, even though as Shamil has indicated in the general guidelines that we issued at the end of the presentation, we expect – obviously as the base is higher – a smaller number in terms of percent increase. So yields and RASK results of that behaviour are trending to a lower number as a result of a higher base. Thank you.

Daniil Fedorov: Thank you and on aircraft additions in the second half please?

Shamil Kurmashov: Currently we have certain shifts in deliveries of aircraft, and now in our network during the high season we have a significant shortage of aircraft in the fleet. So in this case we either reduce frequencies or we cancel some flights because we have to choose between the destinations which should be in full operation if we didn't have this deficit. Therefore, the additions which should have happened in the first half are postponed to the second half. And therefore, at first glance 23 aircraft as net additions is a significant amount, but there is strong (postponed) demand that should be satisfied. A significant portion of our network is still not served to the full potential. Therefore, we don't earn as much as we could if we had this fleet in operation. New additions are predominantly the Airbus 320 family, of which there will be 12 Airbus 321s. This type of aircraft is compatible with our specific situation in Sheremetyevo, because the capacity of A321 is more than the A320. We have to fit more passengers in less fleet in order to get along with this limitation. That's why we think this type of aircraft is the most relevant in the current situation.

Then we would have additions of two Boeing 777s; as you know we have a contract in place with The Boeing Company for 16 Boeing 777s, out of which two aircraft will be delivered to bring us up to the full 16. We have also plans for the 737-NG. We think that our mid-haul segment should be represented by not more than two types of aircraft. That is the most efficient approach in terms of maintenance and optimal structure of our costs. Therefore, we are in line with the contracts which have been in place before that. We don't take aircraft in addition to these contracts. For the short period in winter 2016-17, there may be a lot of surplus aircraft in

place, but for March and April it would not be even sufficient for our Group expansion. So we don't assess it as excessive. I hope I have answered your question.

Daniil Fedorov: Excuse me, just wanted to clarify. I'm not trying to say that it's too many aircraft, I actually like the fact that you actually reduced the fleet addition this year given the Transaero situation. I'm just trying to ask: could you please provide any colour on the timing of this aircraft addition? So should we expect them in Q3, these 20 aircraft, or should we expect them in Q4?

Shamil Kurmashov: We are due to receive 12 A321s in the third quarter, out of which we have already received six in summer. They are already in the schedule. The remainder we will get by the end of this year. One 777 we have already received this year, and the second one will come to our fleet by the end of Q3. So out of 23, I suppose that 16 will be in the third quarter, the remainder in the fourth. I would like to draw your attention to the fact that within these 23 aircraft, there are four 747s and three 777s of Transaero. That is a significant amount of aircraft, and we will operate these aircraft on long-haul connections to the Russian Far East. The capacity of this market is very significant, and we earn good margins on these destinations, even in winter, even in the low season, because their load factor at close to 90% allows us to set acceptable fares and at the same time earn money. So, these Transaero aircraft are going to places in the Far East and sometimes to southern destinations, as there is a significant demand for them.

Operator: Thank you. As a reminder, if you would like to ask a question, press *1 on your telephone keypad. We will now take our next question from Dennis Vorchik from Uralsib. Please go ahead, your line is open.

Dennis Vorchik: Good afternoon, gentlemen. And once again, congratulations on great results. So, my question regarding next year: could you share your view on 2017? When landing Transaero is over, do you see Aeroflot Group being able to perform better than the market without sacrificing the yield?

Giorgio Callegari: Yes, thank you for the question. I think we indicated that there is a lot of sensitivity in the market to pricing policies, because I highlighted the fact that for the first time in the last five years, long-haul rail services have increased their share compared to what it was before. So we will be very careful in managing our pricing policy, our yield policy, in order to continue to stimulate demand without overcharging. That is why the distribution of aircraft is – in terms of a range or capacity – such that we're not investing in any one single market. So we'll have more wide-bodies for Rossiya so they can continue to serve the Russian Far East and develop markets which are coming back online, such as Egypt and Turkey, which were basically non-existent in 2016. We will have some capacity added for Pobeda, particularly the 737s that I mentioned earlier, and a balanced distribution of additional 777s and 321s for Aeroflot. So, while we don't make forward-looking statements, we can safely say that we will be able to continue the considerate growth strategy that we deployed so far, protecting the yield and therefore delivering satisfactory economic results.

Dennis Vorchik: Thank you for this. And my next question is actually a technical one, probably to Shamil. So, you have almost RUB 7 billion as goodwill on the balance sheet and it's mostly related to Rossiya and Orenburg Airlines, which is currently under restructuring. So, do you plan any write-down of maybe part of the goodwill? This looks like a pretty sizeable amount compared to, for example, to your net profit for the period.

Shamil Kurmashov: Thank you for the question. Right now, we test goodwill for impairment once a year, providing cash flows to our auditor and the way how we see this business. So the question about goodwill has been on the table for three years, and each time we provided our vision of the business development. So currently, based upon the first half of the year which has already passed, we don't see any drivers for impairments of goodwill in this year, because we understand that we don't speak about legal entities, we speak about business. These are not separate companies like Rossiya Airlines and Orenair, because they provide us with feeder transit flow which contributes to our network and to our margin which we earn on transit traffic. With these companies, we control 44% of the market, which is a significant figure. We have certain control and we – in this understanding – are market makers, it allows us to consolidate our fares and to use different competitive strategies in the market.

Therefore, we show the business of the Group to the auditors, not the business of the legal entities, because this general result doesn't give the picture of the real business which is being controlled by the entities. Therefore this year we don't see any reasons for write-offs, and we are now doing extensive work with our auditors in their business analysis of the operations of these companies. But currently, we don't see any arguments why now we should do something we haven't done in the previous years, because we have an improvement of the situation but not the impairment of the financial result. The margins we have extracted from these regions are significant for Aeroflot: the north-west, which is controlled by Rossiya Airlines, and the south and the Urals which are respectively the reasons of presence of Donavia and Orenair. Therefore, answering your question, we don't see any factors for writing off these investments for these aforementioned entities.

Dennis Vorchik: Okay. Thank you very much and once again, congratulations.

Operator: Thank you. We will now take our next question from Georgy Ivanin from Otkritie Capital. Please go ahead, your line is open.

Georgy Ivanin: Yes, good afternoon, gentlemen. Thank you for the presentation and congratulations on the good results. I have a question regarding your cash flow performance in the first half. You had a significant improvement in your operating cash flow, which was, as far as I understand, to a large extent driven by working capital, driven by increasing accounts payable and accrued liability. The cash flow statement shows a RUB 43.8 billion increase in this number. And as far as I understand, part of this sum was due to a material increase in unearned traffic revenue on your balance sheet, an almost double increase. Is this increase in unearned traffic revenue and is this figure sustainable or should we expect a normalisation of your payables in second half?

Shamil Kurmashov: Indeed, there is a positive contribution from working capital, which can be explained as follows. Accounts receivable increased by RUB 6 billion ahead of the high season of the third quarter; you have higher booking levels for future periods. So, that means the depth of sales increased significantly, which is very positive; this is a very good metric for aviation. The revival of the market is a very good sign. So, we have the prepaid tickets and carriage which haven't been factored for these prepaid amounts but technically, they're like account receivables. There has also been a contribution of growing scale of business - passenger revenue growth of up to 28% year-on-year in H1 2016.

And the second influencing factor was accounts payable: first of all, an increase in transaction volumes due to growth of the business; and also an increase in unearned revenues. Whether these factors will be sustainable in the second half, traditionally and from seasonality point of view, these factors play less of a role. They are less material in the second half of the year. Therefore, they would be on a regular basis every year but the influence will be less in the second half.

Georgy Ivanin: Okay, thank you very much.

Operator: Thank you. As a reminder, if you would like to ask a question, press *1 on your telephone keypad. We will now take our next question from Olga Boltrukevich from VTB Capital. Please go ahead, your line is open.

Olga Boltrukevich: Yes, good evening. Congratulations on the great results. I have three questions. The first question is regarding the fuel price, because you managed to decrease the fuel price, even in rubles. So, could you provide more information on what steps were taken to ensure these great results. The second question is regarding your plan to purchase a Boeing 787. It was recently mentioned in the media that you wanted to transfer the rights for this aircraft to Rostec. So, could you please provide more details about the decision. And the last question is regarding your impairment of investment in Sheremetyevo, because it's clear what is your current stake and what was your reason for this dilution in terms of the valuation of your stake in Sheremetyevo? Could you please provide more details on this as well?

Shamil Kurmashov: I suppose that we should begin with the fuel price. As you see from the chart on slide 28, there was a certain hit for only one month where we observed an increase of 2016 prices in comparison to 2015 prices, which was June. First of all, the majority of fuel purchases in Russia and almost all fuel at international airports is supplied at a formula linked price. Formula-linked pricing is based on previous month quotes. That's why they lag by one month, and this produces a certain effect on the jet price. Global jet fuel pricing in June 2016 is attributable to the growth in the oil price in May, plus 10.2% month-on-month, and the lagging depreciation of the ruble. We managed to get good pricing formulas in direct contacts with suppliers and combined with the foreign exchange difference, our ruble price is this year is lower than the one which we had last year.

Speaking about 787, yes, we have certain plans for this contract. We entered into this contract in 2007. And from that time, our strategy has changed because the capacity of this aircraft is not compatible with the length of flight it was designed for, because it is a very long-haul aircraft. So with our extended length of flight its capacity is not enough for such a stage length. Its capacity is on average 250 seats, as compared more than 400 seats for the Boeing 777 and more than 300 for the Airbus 330. That explains why the CASK per one passenger is not on a very compatible level. And that's the first, economic rationale. And in terms of commercial argumentation, we have very few destinations with the significant distance for which these aircrafts were designed. Therefore, from the strategic point of view, we don't see which destinations we can deploy such an aircraft. And the third reason why we look at this type of aircraft is the limitation of the throughput capacity at Sheremetyevo. Because if we have the choice whether to use ten 777s with total 4,000 seats, or for example, we use ten 787s, which is 2,500 seats. That explains the difference, because with the same amount of aircraft, we carry fewer passengers with 787s. Therefore, we are planning to transfer the rights to the specialised aviation division of Rostec.

As for the third question, about Sheremetyevo, I already started to explain. We have a minority stake in Mash on our balance sheet,. The current valuation takes into account a lot of factors: from macroeconomic data allowing GDP growth and mobility, to the development of passenger flows, which has a very strong correlation with GDP growth. That's why from time to time, valuation is undertaken by the auditors. We provide our analysis, they check it and then they reflect changes. It looks like shares which are held for sale or like an instrument which could be sold in the future. That's why we look at it like the current vision or the current valuation of this stake. Maybe in one quarter, there might be a positive revaluation of this stake, not impairment of this stake. But there's a financial model which is kept by the auditors and they try to get their inputs into it and revalue this stake on a quarterly basis.

We don't see any negative signs on this investment. It's not material for us, first of all. And the second explanation is that it doesn't mean that after an impairment, there would be a further impairment; vice versa there may be a positive revaluation of the stake.

Olga Boltrukevich: Thank for the answers. Just to clarify, do I understand correctly the revaluation of the stake in Sheremetyevo was not because of consolidation, and it was not because of the unfair treatment of the value of your stake prior to the consolidation of Sheremetyevo?

Shamil Kurmashov: In common situations, we should have a valuation which corresponds to the stake in the minor entity when it has a stake in the bigger entity. So, that doesn't mean we have less control or we have less rights from the stake; it's a quantitative assessment by the auditors. These are purely market factors which lie behind this valuation, and you understand that the GDP revision takes place maybe once a week or once a month.

Olga Boltrukevich: Okay. Thank you. And to clarify on these contracts for Boeing 787s, was any decision taken recently regarding this contract?

Shamil Kurmashov: No, the decision hasn't been taken yet, because we made the calculations and they have been sent for revision internally. Then it is further presented the Board which will make the decision of how to treat this contract and what to do with it.

Olga Boltrukevich: Okay. Thank you very much.

Shamil Kurmashov: Thank you very much.

Operator: Thank you. That will conclude today's Q&A session. I will now hand the call back to the Speakers for any additional or closing remarks.

Andrey Napolnov: I'd like to thank you all for joining the call and to remind that in October we are hosting our Capital Markets Day with management presentations in the morning followed by site visits to our production facilities. Looking forward to seeing you in Moscow. Thank you and goodbye.