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**Andrey Napolnov:** Good afternoon, ladies and gentlemen. Thank you for joining our call today where we will discuss Aeroflot's 9M 2016 Financial Results. Today we have two speakers Deputy CEO for Strategy and Alliances, Giorgio Callegari, and Deputy CEO for Commerce and Finance, Shamil Kurmashov. I'd like to remind you that press-release and IFRS statements are available at our website in the Investor Relations section. Also, I'd like to draw your attention to the disclaimer statement on the second slide regarding forward-looking statements.

Now, I would like to pass the floor to Giorgio Callegari, who will take you through the company's operational achievements in the nine months of 2016. Giorgio?

**Giorgio Callegari:** Thanks a lot, Andrey. Good afternoon, everybody. Let me start as per tradition by describing the highlights of our nine month results. We carried 2.8 million more passengers in the first nine months of 2016, compared to the first nine months of 2015, which brings the total of the Group to 32.8 million passengers. The passenger load factor Group wise is 82.4%. Truly remarkable. This amount of passengers that we carried translates into a market share increase of 6.5 percentage points from 35.2% in the first nine months of 2015 to 41.7% in the nine months of 2016.

We are talking not only about the number of passengers that we carried, but, obviously, about the financial results related to that. Total revenue up 23.2%, yield increase of close to 10% on scheduled flights, which is significantly better than the evolution of cost, as measured in CASK. EBITDAR and EBITDA margins, respectively, of 31.6% and 20.2%, and a net income of over 40 billion roubles. That is, obviously, more than 20 times year-over-year. We used the net significant cash flow to deleverage the company, bringing it to a net debt/EBITDA level of 1.2x.

Those results, we believe, are remarkable in the face, in particular, of the evolution of the Russian market, which continued to show a decrease, a decline of 7.9% year-over-year, and that decline is the combination of the domestic growth of 5.5% and of the international decrease of 20.4%.

Now, the statement that we put on the first line might sound, sort of obvious, when we say that capacity's being expected to be in line with demand, but this actually means that carriers are behaving more rational after a couple of years, where we saw capacity being added in an effort to chase market share rather than to stimulate sensible demand.

If we look more carefully on slide 5, the evolution of the market, here I would like to point out the fact that, again, the market keeps on decreasing. There is a decrease in 2015 over 2014 by 4.1%, and that decreasing trend continues in 2016. Still, we see a reversal of that trend in the last four months of 2016. If you look at capacity, not carried traffic, we've seen an increase of very close to 6%. So, as we have mentioned a couple of times, the average three-year cycle that characterises aviation downturns seems to hold true also in the Russian market, which is showing signs of recovery.

In that market, as I said, Aeroflot has carried 2.8 million more passengers; S7 group, has carried 2 million more passengers, while UTair has decreased the number of passengers that they carry. So, that translates into a market share, which I already mentioned, of Aeroflot of close to 42%, while the number two and number three carriers have now market share of around 13% and 7% respectively.

As far as capacity dynamics, what I believe is interesting on slide 6, is to look at the fact that the decrease in capacity has been both on domestic and international routes, but certainly more significantly on international routes. And, if we look, in particular, at September 2016, there's not been a decrease in international capacity, which also matches the fact that over the nine months we've seen an increase of 5.5% of passengers carried. Most of the capacity decrease has been of Russian carriers, simply because of the size that they have, but there has been a significant adjustment of capacity, in terms of reductions of foreign carriers in the first few months in the year, and then that lower level of capacity has stabilised. As I have mentioned earlier on, in Q4, we are seeing the capacity coming back to the market.

Now, if you look at the Aeroflot Group performance in the first nine months – it is slide 8 – what I would like to underline here is that there is a satisfactory distribution of growth across the four brands. In particular, the premium brand, which is delivering significant growth of 2 million more passengers: from 19.7 million to 21.7 million; 10.4% in terms of percentage growth.

Rossiya, as you remember, was showing a significant decrease over the first six months, compared to last year. The decrease is still there, measuring nine months-over-nine months, but the trend is clearly improving. So, also Rossiya is delivering good results, and is fulfilling its role within the multi-brand strategy of regional carrier and carrier serving the leisure market.

Aurora continues the positive trend that we've seen in the first six months and carries 200,000 more passengers in the first nine months of 2016 vs. 9M 2015. So, that amounts to an increase of 21% in terms of passengers carried. Pobeda: there is a specific slide dedicated to this carrier. So, let me just focus the fact that it's 1.1 million more passengers. So, overall, we can say that the multi-brand strategy is working across the four brands, with all of them meeting their targeted developments and delivering positive results.

As far as Pobeda is concerned, it is the next slide. Again, it's no longer a surprise, but I would like to underline a couple of pieces of information on this slide. In particular, the fact that compared to last year, the growth has happened both on international, with over 300,000 more passengers carried here, and domestic, with close to 800,000 additional passengers. The network, compared to last year, shows more and more point-to-point evolution with a number of markets now connected without a transit service via Moscow. We also started services from St Petersburg, obviously, limiting that development in order to minimize, or avoid at all, cannibalization with Rossiya. The growth of Pobeda, as you see in the lower left part of the chart, is something that has happened throughout every quarter with a load factor in Q3 of over 90%.

When we look at the Group as a whole on slide 10, what is important here is – and I will compare this with the operating results later on in the presentation – is that there has been an evolution of a number of flights, which might seem quite counter-intuitive: decrease in Russia; but that's because we have increased average capacity, and then some of the flights that we are flying, we optimised the frequency, in particular, of Rossiya. So, reduced operations of Donavia and Orenair that translates in that decrease in the number of flights, while in terms of ASKs there is an increase as we will see later. Europe is the addition of destinations and flights; Asia, same; North America, we added frequencies to Miami; Los Angeles, New York, no new destinations. CIS is, in comparison, obviously – interruption of services to Ukraine, while there are minor adjustments, as far as Middle-East and Africa is concerned.

We continue the combination of very conservative addition of new destinations with an increase of frequencies across the board: domestic and international. Now, that approach, as we see on slide 11, means that we increase the quality of our connections, so the connecting index keeps on increasing, even though, as we see, there has been a slight, slight adjustment in terms of domestic frequencies, from 16.2 to 16.1, but everything else has grown.

Now, what is very, very important to highlight here, because it indicates how we approach market developments, is that the percentage that Aeroflot represents in terms of connecting traffic in Sheremetyevo has decreased: from 44.9% to 42.5%. We weigh less in terms of connecting traffic in Sheremetyevo, which means that Sheremetyevo is fulfilling its role of connecting hub also with other carriers. Still, we carried the same amount of passengers, of connecting passengers, as last year.

I've already indicated that the load factor is extremely high, so, this is a clear demonstration of the approach that we have to connecting traffic. Connecting via Moscow is convenient for passengers; it's the shortest travel time for a number of routings. We therefore can be extremely appealing for those passengers, but we don't base our network strategy only upon connecting traffic. We certainly see a significant role in that traffic, but only inasmuch as it maximises the profitability of the company.

If we look at the operating results in more detail, we see that the growth shown on slide 13 of the Group performance in terms of passengers carried in 2016 over 2015, is throughout the whole nine months. The load factor has increased both at the Group level with 3.1 percentage points, and at Aeroflot airline level with 1.8 percentage points, compared to an overall increase in the market's PLF of 1.1 percentage points.

We out-performed the market also in terms of domestic load factor, not to mention international, where we grew and the market decreased. Which leads to the summary table with operating data, where the only additional information I would like to point out here is that, again, we grow the passengers by 10.4% if we look at Aeroflot, and increase number of flight hours by 7.2%. So, not only are we growing, but we continue to grow in an efficient way, adding market share, and increasing the customer base with a very sensible investment in terms of additional capacity.

In terms of geography, as I mentioned earlier, the number of flights does not necessarily represent the whole picture, because, as you see on slide 15, we've increased everywhere the number of passengers; we've increased everywhere RPKs; and we've increased the load factor everywhere with the exception of Asia, where there has been minor adjustment, but that's due to the significant competition we are facing there, and important growth in terms of capacity— with 12.1% ASKs added on that market.

Now, if you look at the revenue and yield management, even as I said Rossiya is performing very satisfactorily its role of effective leisure operator, the charter passenger flights are still representing less than 4% of the total revenue in the first nine months of 2016. So, we certainly contain the exposure to a very volatile market, and we are able to extract value, by being an operator in that segment.

Another important piece of information here is the distribution of sales in terms of markets and channels. We have in Russia close to 37% of our sales; abroad, more that 31.1%; and close to 30% of our online sales. That percentage of online sales based on recent benchmark that we conducted puts Aeroflot among the best airlines, legacy airlines, in the world in terms of penetration of online services.

In terms of geography, certainly, Russia, based on the fact that, again, the international market has decreased, while the domestic market has increased 5.5%, represents now 42.1% of our revenue. Europe is second with more than 26%, and then we have Asia with 15%, and even distribution among the other markets.

As far as yields are concerned, we've seen an adjustment in terms of international yields in Q3 that is to be expected due to the foreign exchange effect: rouble has strengthened compared to the dollar compared to last year, while we continued delivering significant yield increase in terms of domestic performance. Obviously, as the load factor has increased to the level I was mentioning before – over 82% – RASK, the revenue per available seat/kilometre, has increased more than proportionally. So, we are looking here at – summarizing that initial part, at a market, which has decreased, but is showing signs of revival.

In that market, we have focused on more point-to-point traffic without also giving up our significant competitive position on connecting traffic, and that has led to maximising the combination of load factor and yield, and therefore resulting in RASK which is delivering impressive results. Obviously, when we talk about yields, that cannot be taken as a forward guidance, in particular considering that capacities are

coming back into the market, and therefore we expect on top of the traditional weakness of Q4 some pressure from competition.

I would turn over the presentation to Shamil Kurmashov. Thank you.

**Shamil Kurmashov:** Good afternoon. Let's begin with the traditional slide dedicated to our fleet expansion. This slide has an overview of the fleet in operation; we are proud to have the one of the youngest fleets in the world, and we are still in first place. As of the end of September, the average age of our fleet decreased to four years, compared to 4.4 years in the same period of last year. Aeroflot Group maintained average age of 6.4 years despite the addition of older Boeing 747 and 777, from the former Transaero fleet.

As of the end of September the group had 290 aircraft, slide 21; 65% of the fleet are narrow-body for medium-haul flights; wide body amounts to 18% of the fleet. Narrow-body for regional operators amounts to 17%. 65% of the Group's fleet is exploited by Aeroflot itself, and the majority of the Group's fleet, 81%, is under operating lease contracts. This figure was 78% as of 31st December, 2015.

Slide 22: In the nine months of 2016, the Group has been intelligently expanding capacity with almost 50 aircraft joining the fleet and 19 aircraft being phased out, resulting into a net increase of 29 aircraft.

Key changes: 13 additional wide-bodies, including 11 ex-Transaero aircraft, 6 Boeing 767s and 5 777s and phase-out of one Boeing 767; addition of 27 narrow-bodies, phase-out of 18 narrow-bodies. As of now, we are expecting in Q4 up to three Boeing 747s, and one Airbus 321 from the order book. So, we don't expect considerable changes in our fleet structure in Q4 2016.

On slide 24, we expose our financial highlights, and revenue growth of 23.2% in nine months, was the result of three factors: growth of passenger traffic, active revenue management, and currency impact. The cost base was mostly influenced by expanding operations and rouble exchange rates; however, despite foreign exchange cost inflation, effective yield management helped us to generate strong margins. We will look at them on a further slide.

In this period, EBITDAR and EBITDA margins have increased to 31.6% and 20.2%. We will discuss the reasons in more details later during the call. The bottom-line posted strong improvement in this period, compared to the previous year, and includes both positive and negative one-off effects.

Let's begin with the revenue side on slide 25. The growth, as I've already mentioned, is 23.2%, or 71.8 billion roubles in absolute terms. It was driven by accelerating growth of revenue from scheduled passenger flights. Sizeable contribution from charter business operated by Rossiya Airlines. In terms of the key factors: growing traffic volume works out to the level of +32.4 billion roubles; currency effect: 34.4 billion roubles. That means that almost 70% of our revenue side is nominated in, collected or linked to euro. That's why we have positive effect on our revenue side in amount of 34.4 billion roubles.

What can be said about the yields? Our domestic yield: there was a slight change of -4.4% over the last year; and for the international destinations, minus 4.1% (EUR terms, 9M 2016 y-o-y). Taking into account aggressive expansion, certain deceleration of our yield dynamics is logical.

Operating costs on slide 26: We can divide our operating costs in two groups. First group: operating expenses that increased more than revenue in percentage due to significant foreign exchange effects. First of all, operating lease expenses, up 37.7% on the background of foreign exchange rate. 100% of our operating lease payments are denominated in US dollars. Net of foreign exchange growth amounts to 23.4%; it's in line with the growth of revenue.

Expansion of fleet: 37 additional aircraft under operating lease, which corresponds to +18.6% growth in aircraft on a net basis. And the second factor is three months LIBOR rates increase by 40%. It amounts to 0.85.

The second significant item in this group is maintenance expenses: +24%, mainly driven by rouble depreciation. Net of this effect, the growth would have been 9.8%.

The second group of expenses is characterised by the growth less than revenue. Fuel costs were +4.1%. Net of foreign exchange effect, the growth would be negative: -5.4%. So, we have a counter effect.

The second item is aircraft traffic and passenger service costs, up 15%. Staff costs, up by 18%; SG&A expenses were up 12.9%, and others. But, if we look at the net effect of currency exchange, foreign currency on our financials, we have the surplus in the amount of 13 billion roubles. That means that our base in revenue is growing faster than our base in cost, which is characterised by the currency movement.

On the slide 27 we have a unit cost analysis. On a per unit basis, operating cost per ASK (CASK) increased by almost 6% from 2.9 roubles to 3.08, as a result of increasing operating lease staff and maintenance costs, which represent almost the entire CASK increase. So, these three factors, they explain the increase in CASK. Fuel CASK was down by 4.3%, which reflects not only our fuel price decline in roubles, but also efficiency of operations. Key factor for CASK inflation is, as I've also mentioned, foreign exchange, and net of that, and net of non-recurring expenses, I mean, like one-off effects, it would have been 2.88 roubles. Key drivers of group unit costs are the same as I have just mentioned for the total operating costs.

Fuel cost management on slide 28. In nine months 2016, we continued a long-term trend of increasing our efficiency in fuel consumption, enhanced fuel efficiency and lower fuel consumption ratios as a result of replacement of older aircraft with a new fuel-efficient fleet. Fuel consumption per ASK decreased by 1% during nine months thanks to our continuous fleet optimisation process. We also see better fuel price. Jet fuel prices down by 3.6% to 30.5 thousand roubles.

Headcount overview is on slide 29. We substantially increased our labour productivity. And this is a consecutive increase for the period of three or four years. PAX traffic over headcount of the Group's airlines increased by 3.5%, while traffic revenue over headcount of Group's airlines increased by 18.2%. Efficiencies were achieved despite the execution of massive ex-Transaero employee recruitment programme. 4,300 new employees joined the group: engineers, cabin crews, and so on. Optimisation of the work force took place in our airline subsidiaries in light of uniting three regional brands under the Rossiya airline umbrella. Optimisation was related to back office and administrative personnel mostly. 12% growth in technical maintenance and repair category is mainly attributable to the creation of a new MRO subsidiary A-Technics, which has almost 550 employees, as of the end of September this year.

EBITDA evolution. As I've already mentioned, the net foreign exchange effect corresponds to 13 billion roubles – on this slide, you see the foreign exchange benefit in green, and foreign exchange drag marked in red. As usual, for the convenience of perception of this slide, we extract the foreign exchange factors from revenues and costs to show you the net effects separately. By and large, the key driver of EBITDA increase was revenue growth: 71.8 billion roubles, out-pacing cost inflation, +42.5 billion roubles.

Key drivers of EBITDA increase: revenue growth, foreign exchange gains from rouble devaluation exceeded foreign exchange losses on operating expenses; fuel bill impact on operating costs was positive: minus 3.8 billion roubles in nine months, which can be explained by procurement optimisation and low price effect. And total fuel costs, net of foreign exchange, somewhat offset an increase in key operating costs.

It is worth mentioning that revenue growth driven by volume alone exceeded operational growth adjusted for foreign exchange. Operating leverage during the period of nine months: passenger load factor increased by 3.1 percentage points y-o-y (up to 82.4% load factor), resulting in additional revenue without incremental fixed cost. It is very important, because it gave us a net increase – net improvement of operations without spending anything. Additional revenue was generated at a higher average yield also.

Adjusted EBITDA, net of one-off effects, pre-term return of aircraft at Orenair and Rossiya, reserves, sale of aircraft and finance lease. Adjusted EBITDA, net of that, amounts to 76.4 billion roubles. So, embedded organic EBITDA is even stronger than the one which is reflected in our books.

Net income analysis is described on slide 31. Key factors: traffic revenue growth exceeding operational expenses growth: 66 billion versus 41.7 billion; RASK growing ahead of CASK, 13.8% increase in RASK; and the CASK growth is only 6%. And other revenue growth: we mean 5.8 billion, at a large extent, driven by foreign exchange also.

Other factors resulting in substantial net income improvement. No one-off effects in the amount comparable with non-recurring expenses for the period of the last year. We almost don't even have such non-recurring expenses, or one-off effects.

Reported and adjusted operating and net income analysis on slide 32. Here we show reconciliation of the reported operating income, net income, and the one which would have been if we didn't have certain particular factors during this period.

So, as the conclusion, we have posted very strong results in operating and net income line levels – operating profit amounts to 66.9 billion roubles in nine months due to reorganisation at subsidiary levels and other external factors. We have a number of one-off add-ons, which are not so numerous. Key one-off items that affect the bottom-line are: FOREX change on PDP refund in the amount of 12.6 billion roubles; and sale of aircraft for finance lease, 2.8 billion. And other factors, which we already discussed at the six months disclosure conference call.

Capital structure and liquidity is on slide 34. Total debt, as of the end of the period, decreased by almost 30% on the back of decreased borrowings. It was direct down payment of our credit lines, which were rather expensive, and which we organised, which we set during the period of low market liquidity. So, we got rid of such kind of credit lines, we prepaid them, and there was also decrease in finance lease liabilities due to phase-out of nine planes under finance lease agreements, and the re-evaluation in the environment of appreciating rouble. Significant adjustment came from repayment of borrowings, as you can see here. Amid a significant decrease in the level of borrowings and finance lease obligations, Aeroflot Group managed to significantly lower its net debt to EBITDA ratio down to 1.2x from 3.4x as of the end of December last year, which is a very, very extraordinary result, in our view.

We believe that our business is well capitalised, and there is no near-term funding need, as our debt portfolio is balanced in terms of maturities and currency structure. And we also have strong liquidity position, with 130 billion roubles available via cash from balance sheet, short-term investments and undrawn credit lines. It's a very stable and solid liquidity position. We also don't pay commitment fees for these stand-by credit lines, which means that they don't generate us any spare interest, which is accrued and paid on unused credit lines, which is also very significant and material for our financials. So, we have stand-by lines with no expenses being borne on these lines.

Operating and free cash flows, slide 35. We can observe improvement in operating cash flow, which is driven by strong operational performance; however, in nine months, contribution from working capital was literally negligible: 2 billion roubles, due to seasonality effect at the end of the quarter and due to the following factors. The first factor is accounts receivable, which increased by 15 billion due to change in PDP, advances on operating lease, and foreign exchange effect, and accounts payable increasing by 19 billion. First of all, it can be explained by increase in transaction volumes and an increase in unearned revenue due to the growth of the business. And key adjustments before working capital changes include: 6.6 billion - a loss re-classified from hedging reserves to P&L. It's like a technical re-classification entry. 4 billion roubles - realised loss of settlement of contracts; you remember the contract we just closed in Q1 2016. 8.8 billion - loss on disposal of Vladavia. Ultimately, this company was liquidated, and we are not going to bear any further expenses, so it's very positive news for us. And within 8.8 billion roubles, a provision for impairment of investments is included.

Free cash flow was used to pay out finance lease in the amount of 19 billion roubles, and for loan repayment: 31 billion roubles net. As a result, the net change in cash amounted to 21 billion roubles.

We will now stop at this slide and switch to the Q&A session, which will be really reasonable, in order to more efficiently use your time. Thank you very much.

**Operator:** If you would like to ask a question, press \* followed by 1 on your telephone keypad. If you are using a speaker-phone, please make sure your 'mute' button is turned off to allow your signal to reach our equipment. Again, press \*1 to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for question.

We will take our first question from Kalim Aziz from Duet Asset Management. Please, go ahead.

**Kalim Aziz:** Thank you very much for the conference call. You've done brilliant results for this quarter, and these nine months. I have two questions: one relates to your activities on the fuel side with respect to are you still hedging, or not hedging the fuel for this year, and do you have any plans to continue the policy of keeping the positions open as hedging last year cost a lot of money? That's the first question.

The second question relates to plans for next year with respect to how do you look towards managing the fleet i.e. the number of birds you want to keep in the air, and the load factor? And what kind of yield management you are looking to achieve? Those are the questions. Thank you.

**Shamil Kurmashov:** Thank you for your questions. We don't hedge fuel, because currently we have in work a so-called natural hedging effect. Our cost side of fuel is characterised by so-called formula pricing, within which we have certain factors. First one is Platt's index, that's the kerosene price index of Amsterdam, and the dollar-to-rouble effect. They compensate each other, and that's why we don't implement any hedge position. And you can see by our financials that there was a respective increase by 10 roubles to the dollar, and euro-to-rouble metrics. It was equal increase in 10 roubles in these metrics. That gave us automatically 13 billion roubles positive currency effect. That's why we don't hedge fuel, we don't hedge currency.

In terms of fleet, we are going to receive 737s, and Airbus 320 family aircraft. There is nothing interesting about that, because we go and we sit in the existing contracts. We don't conclude any new contracts, that's why we go in line with our previous fleet strategy, renewal of fleet, and we retire the finance lease ten-years aircraft, in order to make it more efficient. If there is a good price for the old aircraft, we earn on the sale of the aircraft, and we take, on operating lease terms, new aircraft.

**Giorgio Callegari:** Yes, Shamil, on that I would add just a qualification in the sense that the fleet growth that you see represented of the fleet on the slide regarding fleet, so 37 additional aircraft, goes mostly to Aeroflot, where we see also better performance in terms of premium price and high load factor. So we see an opportunity to continue to grow the brand, expanding frequencies, and not so much destinations. So, I echo what Shamil said in terms of network strategy; we continue along the same lines.

Notably, we're adding five aircraft to Pobeda, so we are continuing the growth of Pobeda, while there will be no net addition of aircraft to Rossiya, which we still want to consolidate, and a marginal addition to Aurora because we see opportunities in the regional market there. So, a balanced distribution of additional capacity in line with what we have done in the last few years.

**Kalim Aziz:** Okay, thank you very much.

**Operator:** We will now take our next question from Artem Yamschikov, Renaissance Capital. Please, go ahead.

**Artem Yamschikov:** Hello, thank you for the presentation, and congratulations with the strong results. I have two questions regarding the fourth quarter. Firstly, could you, please, explain why did your ASK growth accelerate to almost 16% on the group level in October, and whether this trend is sustainable until the end of the year, or you will hold it back. Secondly, could you, please, provide us your view on yields dynamics in Q4, and what is the current situation with forward bookings versus the previous year? Thank you.

**Shamil Kurmashov:** I think Giorgio, would you do it again?

**Giorgio Callegari:** Yes. So, first of all, in terms of growth, we should not forget that in drawing comparisons we are looking at Q4 2015 which is highly unusual, because, obviously, there has been a

number of developments concerning Transaero; passengers that we carried coming from Transaero, and at the time, we were still operating Orenair, Donavia and Rossiya as separate entities. So, when you look at, in particular, October and November, which were the months, when the whole Transaero demise happened, you should be very careful in drawing long-term considerations.

On top of that, you know that Rossiya has taken deliveries of their 747 fleet throughout the summer. So, even the growth of October appears big, because it compares to the initial part of the year where those aircraft were not still operating under the Rossiya brand, even though they were contracted because they were still under re-conditioning, in order for them to fly and perform to our standards. So, I would not take October as indication of deviation from what we consider our strategy of having a balanced growth.

On top of that, still, I think I've mentioned that several times during the initial part of the presentation, we focused most of the first nine months on point-to-point traffic, somewhat reducing the weight of connecting traffic. We see, in particular, if we look at geopolitical factors around us, in particular Turkey, we see an opportunity to take back some of their connecting traffic. So, some of the growth will be dedicated to going back to the percentage of connecting traffic that we've done earlier, and therefore we believe that, if you look at the evolution over a longer period, you will see that it's consistent with the strategy deployed so far.

**Shamil Kurmashov:** I would like to just highlight what Giorgio has said that one of the key changes – the most critical change is that we are not oriented anymore, in the current moment, towards increasing our transit traffic. That means that we not going to dilute our yields, because, as you know, available seat/kilometres are cheaper in transit flows than in point-to-point operations. We increased our transit potential in order to substitute a short slowdown in our point-to-point operations during the certain periods. But now we think it's sufficient, and we are going to develop high-yield point-to-point destinations, which are now being revived. That's the key message and the support to our yield. Thank you.

**Operator:** We will now take our next question from Mitch Mitchell from BCS Financial Group. Please, go ahead.

**Mitch Mitchell:** Hello gentlemen, and thank you, and congratulations on your results, and thank you for taking my call. I have two questions. The first one follows on little bit on the last question, which was, I just wanted to ask Giorgio if, thinking specifically about Pobeda, how Pobeda will develop in 2017, and then looking forward? Are you going to focus more on point-to-point traffic, opening up new destinations into the Pobeda network, or is it focused still on frequencies there? So, it is more of a general strategic question about Pobeda.

And the second question is, I just wondered if you could comment – sitting here in Moscow every few weeks we see new stories on the wires about the dissolution/bankruptcy processes around Orenair specifically. And I guess, also you should be liquidating Donavia as well. I wonder, if you could give us just a bit more clarity on what's happening there, and just confirm for us again that you would not expect at this point to have to book any losses in connection with the liquidation of those legal entities in the way that there were losses with the liquidation of Vladovostok Avia. Thank you.

**Giorgio Callegari:** Thanks, Mitch. As far as Pobeda is concerned, as I've mentioned, the company will see an addition of five aircraft. Those aircraft will come most in the second part of the year. So, in the first half of 2017 with the current fleet. And, therefore, no big changes are expected in terms of network in the initial part of the year. We have an internally agreed rule that minimizes the exposure of Pobeda to international flows, even though they are performing quite well, as you saw in the slide dedicated to the carrier. And that rule is to have capacity of international flows not going beyond 15%. That's because we see a lot of potential in the Russian market, and that potential, obviously, is more in point-to-point services. So, if anything, expect more capacity to be deployed outside of Moscow, and the distribution of capacity between domestic and international remaining the current one. Shamil, you want to address the part about Orenair and Donavia bankruptcy?

**Shamil Kurmashov:** But there is nothing interesting about that, because the operations have been transferred to Rossiya Airlines, so Rossiya network is under 100% management of Aeroflot, except eight



aircraft, which are in the charter programme of Rossiya itself. So, the two legal entities, Donavia and Orenair are going to be liquidated, under legislation within the period of one year, but they don't have any connection to the business anymore. All the staff that was involved in operations and is necessary to develop our operations is transferred to Rossiya Airlines, and therefore there is a technical stage of liquidation of these two entities. They don't generate any costs to us, and we don't expect them to do so in the future.

**Mitch Mitchell:** Okay, thank you.

**Operator:** We will now take our next question from Ivan Belyaev from Sberbank. Please, go ahead.

**Ivan Belyaev:** Yes, good evening, gentlemen. My first question would be a kind of a follow-up to the Orenair question from Mitch. I think it was in the news today that you won actually another case against Orenair, and now should be able to collect 6.8 billion, which used to be a loan plus interest, and so on and so forth. And that adds to the 2.2 billion you claimed earlier. So, in total, it gives us 9 billion roubles in claims from Orenair. So, my question is: is this real money? Is there real opportunity to get this money back? And if so, what's the timing of that? And, if not, what's the point of all these cases?

And I have a second question, if I may, as well. Thank you.

**Shamil Kurmashov:** Thank you. The aim of these law suits is that we have the legal right to get this money from the liquidation balance. Because there are some creditors, and we are the largest creditor, and in order to have the right to require this money back we should have approved legal cases for that. Therefore, we expect some of these amounts to come back from this legal entity. How much? We don't know, but any rouble we are going to get will only improve our financial result. Therefore, that's the explanation.

**Ivan Belyaev:** Okay, got it. And my second question. I am just trying to think of your full-year dividend amount. All investors are now looking at your very strong bottom line, which was about 40-43 billion roubles for nine months. So, my question is: are there any events in Q4, i.e. operating activities, one-off losses, and debt repayments that might be influencing your profit for the full year significantly in Q4, and also your cash flow – free cash flow generation for the year? Thank you.

**Shamil Kurmashov:** We don't expect any unexpected events during the fourth quarter. I would think it's in line with the seasonal trend, which is always the same each year -- Q4 is a bit lower than Q3, it's evident for aviation. There are not any one-off effects, which are going to happen in Q4. All we have we already reflected in our nine month results.

**Ivan Belyaev:** So, assuming zero –

**Shamil Kurmashov:** I'm sorry, I meant to answer your question about dividends. We expect the position of the government, and the dividends would be at the level of 50% of our net income, IFRS income, on a consolidated basis, which you see now for nine months. So, therefore, I think, there is a high level of probability, very high, close to 100%, that we are going to distribute in the form of dividends 50% of our net income.

**Ivan Belyaev:** Okay. And you are not going to accelerate debt repayments, or adjust net income for some one-off items?

**Shamil Kurmashov:** No, we think that we've made a great deal of repayments of debt, and debt is in solid position. We think it's already stable, and we are not going to change it.

**Ivan Belyaev:** Okay, thank you very much.

**Shamil Kurmashov:** Thank you.

**Operator:** We will now take our next question from Osman Memisoglu from Bank of America Merrill Lynch. Please, go ahead.

**Osman Memisoglu:** Hello, this is Osman from Merrill Lynch. Thank you for the presentation. Much appreciated. Just a quick follow-up, I guess, on the capacity growth next year. I've got the five aircraft for Pobeda and some for Aurora, but I may have missed it for Aeroflot, the main brand line. What are your capacity plans for next year?

And then, I guess, from a yield/load factor perspective on competition for next year. What will be particularly coming in from the local side? There are some news headlines, on and off, regarding maybe another competitor instead of Transaero, or some news again on what could happen with Rossiya, potential disposal. I know you've talked about it briefly on the Capital Markets Day, but any further colour you could give on that front would be very helpful. Thank you.

**Giorgio Callegari:** Thanks, Osman. If you look at slide 22, you will see a detailed description of what is the fleet plan for 2017 and 2018. Obviously, 2019 and 2020 are still to be completed and, therefore, subject to change, but 2017 and 2018 are close to being final. So, you will see a description of type of aircraft and it's not difficult to imagine where those aircraft are going, particularly, as I said, Rossiya will be stable, and so on.

So, in terms of competition, well, it's our responsibility and duty to monitor everything that is happening on the market, not only the Russian market, but the international market. As I said in the introductory part of the presentation, already in the last four months of 2016 we see an increase in capacity, but that increase seems to be in line with the evolution of the market. So, yes, we expect additional competition. It's very possible that some foreign carriers will come back to the market. There are indications that they could do that, but we don't expect major upheaval. So, we'll be very careful in monitoring the market around us, but at this stage, we don't see any major disruption.

**Osman Memisoglu:** So, an ASK growth of, I guess, low double digits would be likely for 2017? Would that be a fair comment?

**Giorgio Callegari:** Very-very low double digits.

**Osman Memisoglu:** Okay, thank you very much.

**Shamil Kurmashov:** I am sorry. This is Kurmashov. In terms of capacity, yes, double digits, in terms of aircraft, Aeroflot itself, that would be circa 30 aircraft. The destiny of Rossiya. There are rumours on the market, and I would like to comment on that. We, as management, see positive contribution of Rossiya Airlines to our business, because if you were to look at it as if they existed in the market on a stand-alone basis, I think it would not be interesting to an investor because being in our network, and considering the network effect, in the form of feeder passenger flow, it gives a positive influence on our financials, on our commercial metrics. And beyond Aeroflot, it would not be interesting to any investor, because it would then be one of 100 other carriers in the Russian Federation.

As management, we are not going to accelerate somehow raising the initiative and we think that this initiative, or maybe this idea, because it exists in the form of an idea of some analysts in the market, because it would increase competitive environment in the market. We think that it is very silly statement, because – if it is extracted from Aeroflot, it will be one of the numerous other players with no positive effect on its own network, because if you – if you understand now, it doesn't produce any separate revenue passenger kilometres, because it is under 100% management of Aeroflot now.

Therefore, we buy ASKs and we sell them in the market, but they give us, like, the network effect, which would not exist beyond Aeroflot Group. Therefore, we don't believe that this decision will be taken. Our Rossiya Airlines, on a stand-alone basis, is going to carry in the forthcoming year 11.5 million passengers, but we don't separate anymore Rossiya, or any other legal entities inside the Group, because we look at our business on the consolidated basis, and we maximise the profit on the consolidated basis. And if we had 100% ownership in Rossiya Airlines, we would not keep it as a separate single entity, would, like, take it over, maybe, it would cease its operations in the form of a separate legal entity.

Given the fact that 25% of the capital belongs to the Administration of St Petersburg, so we cannot take it over although, we could save on costs, if it would be like a business entity of Aeroflot, not a separate legal entity. Therefore, Rossiya is responsible only for cabin crews, pilots, and aviation safety, and all the other operations are being carried out by Aeroflot itself: commerce, finance, revenue management, network management, and so on. So, that's the explanation of the situation. Thank you.

**Osman Memisoglu:** Okay, thank you very much.

**Operator:** We'll take our next question from Georgy Ivanin from Otkritie Capital. Please, go ahead.

**Georgy Ivanin:** Good afternoon, gentlemen. Congratulation on the excellent results. I have a question regarding FX gain calculation. When I look at the number, I see that in the first half, you've booked only roughly 6 billion roubles of FX gain, while the rouble appreciated much stronger than in Q3, like a 12% appreciation in first half compared to 2% appreciation in Q3, while at the same time, in Q3, your FX gain was much stronger than in first half: like, 9.7 billion roubles. Could you explain what drives FX gain and why is sensitivity in 1H so different compared to Q3, because it impacts your bottom line quite significantly.

**Shamil Kurmashov:** Foreign exchange influence is reflected in our revenues and costs, which is described in slide number 30, called EBITDA evolution level. In the core business segment, and secondary business segment, which we call 'other operations', not 'core operations' of Aeroflot. We talk about pre-delivery payments (PDPs), we have more currency PDPs going to Aeroflot in Q3, than in the first half. Yes, that's the truth, and that's explained by using of the new structures and can be detailed in the factor analysis we will provide you after the call, so you can see the positive and negative effects of PDPs.

**Georgy Ivanin:** Okay, thanks.

**Shamil Kurmashov:** Thank you.

**Andrey Napolnov:** Thank you, everyone, for joining today's call. If you have any follow-up questions, we will be happy to answer them. So, thank you, and goodbye.