

## Aeroflot Group

### Aeroflot Group 9M 2018 IFRS Financial Results

Conference call held on 30 November 2018 at 12:00 PM (UTC + 03:00)

#### Edited Transcript

#### Speakers:

- Andrey Chikhanchin, Deputy CEO for Commerce and Finance
- Ivan Batanov, Head of Revenue Management
- Andrey Napolnov, Head of IR
- Artem Glaznev, Head of IFRS Reporting

#### Participants asking questions:

- Denis Vorchik, Uralsib Bank
- Mikhail Ganelin, Aton
- Alex Kazbegi, Renaissance Capital
- Elena Jouronova, J.P. Morgan
- Osman Memisoglu, Bank of America Merrill Lynch

*Operator:* Good day, and welcome to the Aeroflot Group 9M 2018 IFRS Financial Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr Andrey Napolnov, Head of IR. Please go ahead, sir.

*Andrey Napolnov:* Thank you for joining us on the call today where we will discuss the Aeroflot Group 9M and Q3 2018 financial results. Here we have the following speakers on the call: Deputy CEO for Commerce and Finance Andrey Chikhanchin, Director for Revenue Management and Network Planning Ivan Batanov, Head of IFRS Artem Glaznev, and myself. I would like to remind you that the press release and IFRS statements are available on our website, in the IR section, and the webcast presentation will be available after the call. Before we start, I would like to draw your attention, as usual, to the fact that some information on the call may contain forward-looking statements regarding future events or performance, and actual results may differ materially from those expressed or implied in the statements made during this conference call due to known and unknown risks and uncertainties. For more information, please refer to the disclaimer statement on the second slide of the presentation.

Let us begin our presentation with financial and operational highlights of 9M 2018. In Q3 2018, we accelerated our operational growth both on domestic and international routes, which helped us to generate additional traffic at a higher yield without diluting PLF in the most important season of the year. 9M 2018 passenger traffic growth supported by 13% PAX increase in Q3 2018 reached 10.2% (2 p.p. higher than in 6M 2018), which indicates that we are well on track to meet the full-year operational targets. Pace of revenue growth in Q3 2018 was almost in line with the growth we saw in Q2 2018, which allowed us to post a 15.2% revenue increase in 9M 2018. With the help of strong operating results, active revenue management and

strict cost control, we were able to generate net income of RUB 28 bn in Q3 2018 increasing YTD profit to RUB 22 bn.

Before we plunge into our analysis of Aeroflot Group results, we suggest having a look at the industry numbers. In terms of the market, we definitely see indication of the market slowing down: 10.8% growth for 9M 2018 vs. 8.5% growth in Q3 2018. At the same time, if we look at the monthly numbers within Q3 2018, we see that the market has accelerated from 7% growth in July to 10% growth in September (y-o-y). The driver of this acceleration is the performance of Russian airlines, while foreign airlines saw the pace of their growth decrease from 10% in July to 4% in September (y-o-y). These trends prove our initial assumptions that the FIFA World Cup would force some travellers move their holidays or other travel plans to August and September from June and July. Foreign airlines, however, are facing a high base effect and withdrawal of World Cup-dedicated capacity. It is also important that Turkish leisure market – one of the key drivers of foreign carriers LTM growth – is reaching all-time high. It is therefore logical to assume that leisure airlines from the region will inevitably grow slower.

Now, let us compare performance of the market with operational results of Aeroflot. Opposite to the industry, the Group has materially increased the pace of growth during the high season surpassing its peers (13.1% vs. 8.5%). This acceleration was supported by the new services launched and increase in frequencies that we will discuss later. Extra capacity added by Rossiya Airlines in the Russian Far East vs. the Q1 2018 optimisations and Pobeda's growth accelerating to 63% in Q3 2018 vs. 50% in 6M 2018 have both contributed to Aeroflot's results. It explains why we were growing much faster than the market on domestic routes.

The international segment saw growth decelerate for the market and accelerate for the Group due to the decreased contribution of the leisure segment to the overall market growth. Looking at absolute PAX numbers, Aeroflot Group continued to grow faster than any of its peers, adding 3.9 million passengers y-o-y and bringing the Group's overall PAX to 42.2 million in 9M 2018. However, our competitors have been also developing quite actively – foreign carriers all together added 2.1 million to their PAX figures, S7 and Ural added 1.3 and 0.9 million PAX, respectively. As a result, in Q3 2018, the Group's market share stopped its downward adjustment and for 9M 2018 was flattish and stood at almost 40% (or 38% adjusted for international transfers).

A few additional comments on competition and capacity. Indeed, capacity growth that we have seen in the recent year was outstanding. Not only domestic airlines, but also many foreign carriers have continued to add capacity. Airlines from Turkey, China and the Middle East are among the most active increasers of capacity in 9M 2018. And, of course, capacity additions in Q2 and Q3 were supported by FIFA World Cup.

In Q4 2018 and the next quarter, according to the schedules currently available, we see that capacity growth for the market will continue to slow down, but the capacities will still be growing. It is an important aspect to understand.

Now, let us move on to the slide highlighting our multi-brand strategy. Compared to 6M 2018 results, all airlines of the Group have sped up the growth in Q3 2018, even Pobeda that already had been growing very fast. Rossiya Airlines grew by 5%, which helped to offset PAX decline of H1 2018. Two important messages here are as follows. First, Aeroflot and Pobeda, both increased traffic by approximately the same number of passengers (circa 2 million PAX each). This translates into 8% growth for Aeroflot and an outstanding 55.3% growth for Pobeda. The second message here is that, despite the fact that all airlines of the Group posted growth, we have not seen material pressure on PLF, which means that LCC vs. legacy cannibalisation is not yet a factor for the Group.

Now, let us take a more detailed look at Pobeda's numbers. During the reporting period, the airline received 6 aircraft, increasing total fleet to 22 planes. Backed by efficient utilisation of Boeing 737 (as we have highlighted many times Pobeda is the world champion in Boeing 737-800 utilisation), ASK was up by impressive 65%. The airline's network in winter comprises 84 routes, including 44 unique ones for the Group, which is very important as it means that the network is not completely the same and, by servicing unique markets, Pobeda brings extra passengers to the Group.

In terms of network development, the most important recent and planned developments may be summarised as follows. First of all, more international flights from Moscow. Pobeda has launched flights to Helsinki, Eindhoven, Salzburg, Innsbruck and Palermo. Second, we are also expanding in St Petersburg, both domestically and internationally. If you compare the winter schedule with the one we had this summer, you will see that 6 new flights were launched, including the milestone flight to London Stansted. And thirdly, more regional and inter-regional flights that Pobeda is operating or plans to operate to connect Russian regions and improve population mobility. As a result, this winter, in addition to 49 routes from Vnukovo, Pobeda services 17 routes from Pulkovo and 18 routes from regional cities. Pobeda's most important cities in the winter schedule are Yekaterinburg (5 routes serviced from the capital of the Urals region), Rostov (3 routes) and Sochi (2 routes – slightly less than in the summer, but that is a seasonal story).

Now, let us move on to the Strategy slide. As you know, the Board of Directors has recently approved the Company's new strategy for the period through 2023. The Group is now targeting 90–100 million passengers in 2023, when Aeroflot will celebrate its centenary. All of the Group's airlines will work towards achieving the new targets, but the Group's low-cost carrier Pobeda received the most serious call to be a key growth driver. By 2023, it is expected to carry 25–30 million passengers annually. The Group also plans to increase international transit traffic from 5 million passengers in 2017 to 10–15 million passengers in 2023, open regional hubs across Russia to additionally feed the route network of the Group with additional passengers originating in Russian regions as well as contribute to the increase of population mobility in the country. This will happen amid further development of the modern and efficient fleet of the Group, which is planned to reach 520 aircraft in 2023. Last but not least, coupled with the above measures, increased level of digitalisation across Aeroflot Group will allow to achieve new levels of operational efficiency and secure strong financial results.

Now, I would like to pass the floor to Ivan Batanov.

*Ivan Batanov:* Good morning everyone. Let us start by first looking at Aeroflot Group's network. The overall approach to managing Aeroflot Group network remains unchanged. Our priorities lie in improving the network quality by focusing on frequencies and connectivity and expanding to new markets with high point-to-point and transfer potential. The total number of the Group's flights in 9M 2018 grew by 6.8% y-o-y, with Europe, and the Middle East and Africa being the two most actively expanding regions. In the Middle East, we have doubled the frequency to Dubai (to 14 flights) and Istanbul (to 28 flights per week). We have also resumed flights to Cairo with 3 flights per week. In Europe, we have launched a number of new destinations such as Naples, Verona and Burgas, increased frequencies on high-demand routes like Rome (from 28 to 35), Budapest (from 14 to 28), Helsinki (from 14 to 21), Tallinn (from 14 to 21) and so on.

Let us move on and take a look at network expansion in the summer and the current winter season. Aeroflot and Rossiya Airlines added seven domestic and seven international destinations to the network for the Winter 2018/2019 season. Domestic openings are concentrated in the southern part of Russia, and new international points are located in Europe and Asia. We have also increased frequencies to key destinations in both summer and current winter season and have recently announced further improvements in our network. For instance, we have launched the 4th flight per day to Dubai in winter and increased frequencies to Phuket and Bangkok.

All these markets have high point-to-point demand as well as high transfer potential. And despite the fact that all these flights are open in the low season we have seen encouraging operational results of these routes in November as well as forward bookings. Domestic flights as well as flights to Central Asia already show high seat occupancy and other flights need some time to ramp up.

Now let us move to the yields. On our next slide, we present yields for the Group for scheduled operations. Total yields continued to grow and what is particularly important is that this growth has not diluted load factors and, therefore, RASK has been growing slightly higher than yields. Total reported yield is up by 5.6% for 9M 2018. We have seen some deceleration of the y-o-y yield growth in Q3 vs. Q2 to 4.2%, but we still consider this growth as a strong one. Yields on international routes increased by 9.8% and were supported by currency effects as EUR increased vs. RUB by 12.9%, and USD increased vs. RUB by 5.3%. These are 9M 2018 numbers. Yields on domestic routes modestly increased by 0.5% driven by an upward fare adjustment and fuel surcharge increase. The Q3 domestic yields have been under pressure decreasing by 1.5%. This dynamics is explained by the following factors.

First, it is the impact of competition as Russian airlines added approximately 4 million seats in Q3 2018 or almost 30,000 flights on domestic and international routes. Some of the domestic capacity was excessive and we had to respond in order to achieve optimal RASK (up by 1.5% y-o-y in scheduled segment and 3% including charter).

The second factor is flat fares to the Far East as Rossiya Airlines introduced flat fares to the Far East from 1 January 2018, but before Q3 2018 the Airlines' capacity to the Far East was limited.

And the third factor we see here is the so called "Pobeda effect" – the growing share of LCC (Pobeda's domestic RPK in the Groups' total domestic RPK is up from 11 to 16%) and increased portion of secondary cities in Pobeda's network.

We have discussed the yield trends in 9M 2018 and let us now have a deeper look into monthly dynamics of the revenue units of Aeroflot airline standalone. In 9M 2018, Aeroflot airline yields steadily increased across all segments, most notably international yield was growing double-digit in June–July 2018 y-o-y supported by higher demand during the FIFA World Cup.

Both Economy and Business class yields increased in 9M 2018 with the most significant improvement in yields observed in America (growing double-digit) and Middle East and Africa. Europe segments were also growing higher at single-digit rates. As we move into Q4 2018, it is important to highlight that we begin to face the base effect of the previous year that started with a low single-digit decline and ended with flattish yields.

Now I would like to pass the floor to Andrey Chikhanchin.

*Andrey Chikhanchin:* Hello, everybody. Let us talk about Aeroflot Group fleet breakdown. As at 30 September 2018, the Group had 361 aircraft in the fleet deployed in operation by the Group's airlines. The composition of the fleet has not changed materially from the recent results. In 9M 2018, the Group expanded its capacity by 36 aircraft, including 5 wide-bodies (B777), 18 narrow-bodies in medium-haul segment and 13 narrow-bodies for regional services (SSJ100). The fleet expansion strategy is as follows: in Q4 2018, we do not plan to further increase the fleet. We are currently working on a number of long-term committed contracts and finalising last arrangements for 2019 and 2020 deliveries.

Let us now talk about financial performance. In 9M 2018, we continued operational expansion, posting PAX growth of 10.2%, RPK growth of 9.1% and generating RUB 466 bn in revenue that represents a 15.2% growth. The yields that were growing during the three quarters of the year helped us boost the 9M 2018 traffic

revenue growth to 17%. As we are navigating through Q4 2018, we currently see the yields in this quarter reflect the common low-season dynamics exacerbated by additional pressure coming from significant capacity additions of the industry during Q2 and Q3 2018.

Now let us move to revenue growth decomposition. The Group's revenue grew by 15.2% during 9M 2018 y-o-y and amounted to RUB 466 bn, mainly driven by passenger traffic revenue. Expansion of scheduled operations (mainly due to the growth of Aeroflot and Pobeda) generated RUB 51.7 bn. The leisure segment had a sizeable contribution of RUB 7.8 bn. Charter revenue grew by 34.2% (despite only 5% increase in RPK) as leisure market showed good performance in Q3 2018. On a quarterly basis, revenue has shown clear signs of acceleration. For example, we had 8.6% growth y-o-y in Q1 2018, 16.8% growth y-o-y in Q2 2018 and 18.0% growth y-o-y in Q3 2018.

We expected revenue growth in Q4 2018 to be softer y-o-y due to lower season, higher yield base of Q4 2017 as well as competition impact stemming from significant volume of capacity remaining on the market after high season. We have seen a positive contribution to revenue from all the factors: volume, currency and pricing. Expansion of our business generated RUB 35.5 bn backed by 9.1% RPK growth. Depreciation of RUB vs. EUR (ca. 13%) and USD (ca. 5%) had positive implications for the currency factor of about RUB 19.1 bn. The yield growth helped us to generate extra RUB 3.5 bn.

Let us discuss operating costs. In 9M 2018, we have seen OPEX growth driven by the following lines. Fuel costs – up by 47%. The dynamics of the fuel costs was driven by increase in rouble fuel price by 36% and growing scale of operations, as ASK grew by 9%. Fuel price growth was peaking at +48% in Q3 2018 y-o-y, which represents a result of further increasing oil price in 2018 and the change in the correlation pattern between oil and rouble.

The next line is operating lease: up 34% y-o-y. The growth is primarily linked to growing fleet in operating lease as well as depreciation of RUB vs. USD. We have increased the fleet in operating lease by almost 60 aircraft in the last 12 months. It implies a 22% increase in the number of aircraft in operating lease.

The next line is maintenance: plus 22% y-o-y. The increase is explained by the growing size of the fleet (up by 15% y-o-y) and an increase in light maintenance procedures due to the schedule primarily in Q2.

Other lines have been supported by our savings initiatives. Staff costs in 9M 2018 were up only by 1%. Notwithstanding the hike in pilot salaries this year and headcount growth of 6%, in Q3 2018 the Group decreased overall staff costs, which was possible due to the management decision to decrease variable compensation this year as well as the high base effect of the previous year when we accrued the unused vacation provision. It means that the staff costs line in Q3 2018 was affected by one-offs in the amount of ca. RUB 5 bn.

The next slide is on the Group unit costs. In 9M 2018, on a per unit basis, costs per ASK in rouble terms increased by 8.6% to RUB 3.32. Non-fuel CASK amounted to RUB 2.3 and has not changed. In Q3 2018, we managed to control CASK inflation by decreasing non-fuel cost by 2.3%. CASK dynamics once again illustrated execution of our cost-cutting initiatives.

On the next slide we will discuss fuel cost management. Jet fuel price has been extremely high in 2018. This growth had begun in 2017 and stabilised only in Q3 reaching a historical maximum of RUB 50,000 per tonne of jet fuel. The average growth for 9M 2018 stands at 36% and for Q3 at 47%. This trend is a result of Brent increase and absence of rouble response to the oil market dynamics. In October and November, jet fuel stayed relatively flat, which means that the macro pressure has continued. We will see some relief in December as

oil has decreased and the base of the previous year is high. But at this stage we would like to avoid making long-term conclusions.

The next slide is on EBITDA evolution. In 9M 2018, we generated RUB 47.2 bn EBITDA. The pressure on EBITDA in the period is fully explained by the increase in the number of cost items, which we previously discussed. The total fuel bill was up by RUB 42 bn, mainly driven by RUB 28.3 bn pricing factor and RUB 8.4 bn volume factor. The EUR/USD was quite favourable for Aeroflot – the 9M 2018 average rate reached 1.19 vs. 1.11 in the respective period of the previous year – as it has resulted in EUR strengthening vs. RUB faster than USD. This in turn resulted in positive FX effect on revenue in the amount of RUB 19.1 bn, which was partially offset by the negative FX effect on costs in the amount of RUB 14.3 bn. We would like to highlight two important messages for your consideration. In Q4 2018, EUR is not appreciating to USD y-o-y, and EBITDA in 9M 2018 includes ca. RUB 2.4 bn of one-offs such as insurance deposit refund and market capitalisation related bonus release.

Now, I pass the floor to Andrey Napolnov.

*Andrey Napolnov:* A couple words on Pobeda financials, which we are reporting. It is definitely interesting to look at the numbers of Pobeda standalone. Financial results of Pobeda speak for themselves. Notwithstanding significant capacity additions we discussed in the operating results section, Pobeda was able to increase the load factor for the period by 0.1 p.p. y-o-y and grow RASK by a modest 0.6%. Yields of the company were under slight pressure (particularly on domestic routes) due to development in less sizeable markets and accelerated addition of capacity in the period. But international yields grew at a mid-single digit rate in 9M 2018.

The company expanded revenue by 65.5% in 9M y-o-y and grew passenger traffic by 55.3% on the back of active fleet expansion with 10 aircraft added in the last 12 months. Active growth always requires additional OPEX, which coupled with significant increase in jet fuel prices during 2018 pressured the margins. Still, the company earned impressive RUB 3.3 bn of net income, which represents only a slight decline y-o-y. What I would like to highlight about Pobeda's financials is not just the net income in absolute amount, but also the margin itself, which, despite some decline, remains at a very high level.

Now I would like to pass the floor back to Andrey Chikhanchin.

*Andrey Chikhanchin:* Let us look at leverage and liquidity. The total debt as at 30 September 2018 decreased by 7.6% on the back of decrease in finance lease liabilities. Finance lease liabilities decreased due to phase-out of 4 aircraft from finance lease. No new major borrowings. Aeroflot Group is currently left with one major loan outstanding in the amount of RUB 3.5 bn. The Group secures a very stable cash position of RUB 60 bn, up by 9%. On top of that, we secured RUB 81.5 bn of undrawn credit lines. Aeroflot Group secures a comfortable net debt/LTM EBITDA ratio at the level of 0.7x as at 30 September 2018. Due to IFRS 16 application starting from January 2019 we expect major changes in the presentation of the financial statements as operating lease will be capitalised. If we capitalise the operating lease now, our adjusted net debt/LTM EBITDAR would amount to 4.6x as at 30 September 2018, which represents a slight increase vs. 4.2x as at 31 December 2017. Thank you.

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

*Denis Vorchik:* My first question is regarding your cost control. Actually, the performance is solid, the staff costs are down by 11% and sales and marketing are down by 39%. How should we take this reduction? Is it a one-off or should we expect growth in Q4 and going forward next year?

*Andrey Napolnov:* Denis, thank you for your question. We think that there are two aspects to consider here. On the one hand, we have one-offs in the staff costs because of the RUB 2 bn released as the variable compensation that was booked under P&L in the previous periods. You will find more details on this in Note 23 to our Financial Statements. At the same time, last year we booked approximately RUB 3 bn as a reserve for unused holiday provision, which inflated the base for staff costs in Q3 last year. If you adjust these numbers to the staff cost line this year, you will get the growth of the staff cost line. As we mentioned during the call, there was headcount growth linked to expansion and pilot salaries increased, which caused the staff cost increase. However, with all the other lines where we do optimisations, and you can definitely look on a CASK basis, those initiatives are all planned to continue in Q4. It includes savings on the marketing costs, SG&A and some other dedicated initiatives. However, I would also like to remind you that last year the marketing costs picked up in Q3 and not in Q4, and in Q4 this indicator was going slightly down which means that savings y-o-y can be a little lower in this line as well.

*Denis Vorchik:* Thank you. Earlier, media discussed the deficit of pilots, which pushed their salaries up. How do you see the situation in the labour market for pilots now?

*Andrey Chikhanchin:* Thank you for your question, the situation stays quite the same, we still have deficit of pilots, but our initiatives such as increasing the salary are working now; it is still a bit low but it is still what you have in the market.

*Denis Vorchik:* Good, that is clear. My final question is regarding your dividend policy, which is to pay 25% of net profit under IFRS, but for the last two years, the Company has been paying well above that level. Please advise, how should we see the payout this time? Will it be closer to 25% or to 50%?

*Andrey Chikhanchin:* Thank you for your question. According to our dividend policy, which was approved by the Board of Directors, our target is 25% of IFRS net income. If our key shareholders decide to pay more than 25%, we will do it. Our policy is stable as was approved by the Board.

*Denis Vorchik:* OK, thank you very much.

*Operator:* We will now take our next question from Mikhail Ganelin from Aton. Please go ahead.

*Mikhail Ganelin:* Good day, gentlemen, thank you for the presentation. My first question is regarding your Q4 numbers. Historically, we see that this is a loss-making period for you and this year we saw that oil prices skyrocketed in October, then collapsed. How do you see Q4 this year? Is there any indication of whether it will be worse or better than the previous years? Thank you.

*Andrey Chikhanchin:* Thank you for your question. We could say, for the normal market environment, just look at the previous year and make respective assumptions. However, this year is very special and complicated, so we expect Q4 results to be much softer than last year for the following reasons. The competition in terms of capacity additions in the market, as we mentioned earlier, means that our yield growth is limited. The next one is that RASK is under pressure due to competition, the high base of Q4 2017, the load factor decline we see in November and December. And the dynamics of the USD/EUR pair as USD is getting stronger vs. EUR, which has implications for our revenue and costs as well. And of course jet fuel price in October and November stayed at the September level, which means we can see relief only in December, which means that it will be very limited.

*Mikhail Ganelin:* Thank you. My second question is regarding your expectations for the next year, as our next call will be next year too. Where do you see passenger traffic and turnover at Aeroflot Group next year?

*Andrey Chikhanchin:* We are currently finalising our budget for 2019 and we will present it to the Board of Directors soon. We are talking about guidance and assumptions here. Operation growth will continue and we plan to open a number of new destinations, increase frequencies and the ramp-up of the recently launched destinations. Finally, the big thing is IFRS 16 and its application. We are finalising the implementation process and we will share the view on the 12M 2018 in early March and I think that is all we can say right now.

*Mikhail Ganelin:* Do you think there will be some acceleration or deceleration compared to this year, or is it too early to say?

*Andrey Chikhanchin:* I think it is too early to say and too early to make such a forecast now.

*Operator:* We will now take the next question from Alex Kazbegi from Renaissance Capital. Please go ahead.

*Alex Kazbegi:* My first question will be on the staff costs. If you take your 9M staff costs, could you split it roughly between three components such as the salary, the bonus accrual and the third, most unpredictable and variable one, related to the stock price performance? It would be great if you could give us numbers for the salary, the bonus and this third element. My second question is on your receivables. Your cash flows seem to have grown quite considerably, so please give us an idea why this happened and whether you expect any changes on that side. Also, you have PDPs in your cash flows. If you have zero additions of aircraft planned for 2019, should we assume that in 2019 there will also be neutral PDP flow in the cash flows, no prepayment and release, which will probably neutralise everything? And the last one, just looking at your fleet addition schedule on page 37 of the presentation. According to your current plan compared to what you want to have in 2023, it would imply a very accelerated addition of planes in 2020–2023, almost by a hundred. I assume that does not include the deal with Sukhoi, which you still need to get approved. So what would be a more realistic fleet addition, especially for the next three years, would we see any changes in 2019–2021 from the approval of the Sukhoi deal or anything else? Thank you.

*Andrey Napolnov:* Alex, thank you for your questions. I suggest we move the question about the staff costs offline. We can provide the breakdown. However, I would like to say to the public here during the call that the staff costs were affected by the 6-7% growth in headcount and indexation of the chief pilot salaries. We have provided the estimates before. Definitely, the unused holiday provision also supported the base effect last year and this year the release of RUB 2 bn has adjusted the y-o-y growth for Q3 line. As for other questions, about the PDPs, Artem Glaznev will answer that.

*Artem Glaznev:* Out of the net amount of RUB 12 bn about RUB 8 bn is returned. The paid PDP is related to Airbus A350 and Boeing 777. And the return of PDP of about RUB 21 bn is related to Airbus A320 and A321 and Boeing 777. So the net amount is about RUB 12 bn.

*Alex Kazbegi:* That is clear, but the question was more about the outlook for the next year, given the phase-out of about the same number of airplanes as you are getting in, do you expect to have no PDP impact on the cash flows?

*Andrey Napolnov:* Next year, there will be no material PDP impact (according to the current estimates).

*Alex Kazbegi:* What about the receivables? For the 9M, there was quite a big change in the working capital there, specifically for the accounts receivable. Is there anything unusual there?

*Artem Glaznev:* It is a usual seasonal operation.

*Alex Kazbegi:* OK.

*Operator:* We will now take our next question from Elena Jouronova from J.P. Morgan. Please go ahead.

*Elena Jouronova:* Hello. I have a few questions. First of all, regarding the fuel costs or rather your pricing strategy in light of the rapid decrease in the oil price and subsequently lower fuel costs for Aeroflot going into the next year – at this stage, does that really change your pricing strategy and the outlook for RASK and RPK yields? And if yes, in what sense? That is my first question.

*Ivan Batanov:* With regard to the pricing policy – as you know, we already increased the fuel surcharge a few times this year. The last increase took place just two days ago and it was based on the level of the fuel price increase since the beginning of the year. We still can see that the increased prices are not covered by the fares, so we made a decision to increase the fuel surcharge by RUB 200 on domestic routes. As you may remember, the decision on the last increase was taken in July. It does not mean that we increased the fares for the whole year. If we see insufficient demand, we can decrease public fares so that the total goes down. So we increased the fuel surcharges but it does not mean that we cannot play with the fares if the situation requires it.

*Elena Jouronova:* If I understand you correctly, you are carefully monitoring demand at the current level of fares and with the recent fuel surcharge increase, and you will be adjusting the fares depending on the load factor and the volume that you target. Is this about right?

*Ivan Batanov:* Yes, you are absolutely right.

*Elena Jouronova:* OK. Then my next question is again linked to your fuel costs. I think that the fuel CASK for you will go down and this should mean that you are going into the next year with much lower CASK. At the same time, there were some costs that you cut this year because you were pressured on the fuel CASK. Should we assume that because and if there is less pressure on your fuel bill, you will be – I do not want to say less disciplined with other operating costs, but – let us say, more inclined to spend on something else on which you have not spent this year? And if that is the case, can you let us know which expenses that you cut back on this year you may be more aggressive with next year?

*Andrey Chikhanchin:* Thank you for your question. As we have said earlier, we are finalising our budget and right now I cannot give any information on the frozen costs. Normally, if the situation next year is better than this year, we will defreeze some of them, but we need to consider oil prices and our jet fuel costs. We do not expect the price to go down next year. According to our internal forecast, oil prices next year will be on the same level that we have now. If we see a different situation and a lower oil price, which would be better for us, of course we will defreeze some of our costs.

*Elena Jouronova:* Is there any way to quantify it or is it too early? Could you just give us an idea of which expenses we can be looking at exactly – is it investment in marketing or passenger service, or what else could that be?

*Andrey Chikhanchin:* Again, we cannot yet predict oil prices for next year and we cannot give an estimate for the costs that we may return to the budget. If we have some savings, we can defreeze some of the costs.

*Elena Jouronova:* OK, thank you. Another question I had was on CAPEX. Can you give us some idea of what sort of CAPEX we should assume for Aeroflot in light of the new strategy? Obviously, a lot of that is just buying

new planes, but I think that investing in new regional hubs might require some additional spending. Is there anything you can give us in terms of numbers right now?

*Artem Glaznev:* In 9M 2018, we had about RUB 8 bn of CAPEX. We expect the same level next year.

*Elena Jouronova:* Does that mean that we should not expect any material increase in CAPEX next year despite the newly announced strategy? Aeroflot is not going to materially increase the spending, right?

*Artem Glaznev:* Yes. That is right.

*Elena Jouronova:* This is good. And my final question – what do you expect in terms of market capacity growth next year? All other Russian carriers, your competitors, have been growing aggressively this year. Do you think that this growth should start slowing next year or are there still no signs of that?

*Ivan Batanov:* Thanks for your question. I really hope that our competitors will learn some lessons from the results of this year and will stop growing so fast because the growth of the market is driven only by declining fares and I personally do not see any room for a further decrease. So I hope that the capacity will stop growing for the next year and we will see stabilisation of the market.

*Elena Jouronova:* OK, thank you very much and congratulations on the better-than-expected results.

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

*Osman Memisoglu:* Hello, thank you very much for the presentation and your time. I have a general question on revenues and particularly on yield. In your presentation, you show a roughly 50% yield growth in Q3 2018 vs. Q2 2018. How do you see Q4 2018? Is it going to be lower than Q3 2018 in terms of y-o-y growth? And then for the overall revenue growth – how would you describe the direction there? You have some moving parts now with the charter doing at least better than I had expected. Are you planning to push the charter further? There is also some increase in airline agreement revenue – it is also jumping quite high. And on the cost side, I just wanted to double-check – the one-off is RUB 2 bn for staff costs, is that correct? Is there any way you can guide us for a number or a growth number for staff cost in Q4 2018? Thank you.

*Ivan Batanov:* We expect a positive trend for yield both in domestic and international flights of Aeroflot Russian Airlines standalone, and we are aiming to achieve a revenue rate that would exceed the rate of inflation to hedge ourselves on the current trends and fuel expectations. Our forecast assumes depreciation of the rouble, and therefore we expect growth of revenue yields for international flights to exceed that of domestic flights. Also, domestic yields will be very weak in Q4 2018, and slightly negative in December due to the base effect.

*Osman Memisoglu:* OK, so would it be a fair assessment to expect a muted overall yield growth? Or do you see a decline vs. Q3 2018 growth?

*Ivan Batanov:* For Q4 2018, we definitely expect a decline compared to Q3 2018, driven mostly by competition in the international sector, but again, it is slightly offset by the exchange rate. As for the domestic market, based on actual figures for November and forecast for December we expect the yields to be more or less on the same level as last year. Do not forget that there is a ca. 10% market growth.

*Osman Memisoglu:* And the fuel surcharge you just introduced – I know it is very early, but is there any reaction from the competition yet?

*Ivan Batanov:* Again, the decision was made to increase the fuel surcharge only on the domestic market, and we see a positive reaction of all domestic carriers. I am absolutely sure that our step will be followed by all the key players on the domestic market.

*Osman Memisoglu:* What about staff costs? Any guidance would be helpful.

*Andrey Napolnov:* For Q4 2018 the key driver is expected to be headcount growth, which will be in line y-o-y with what we see for 9M 2018, at 7% roughly. Extras will come from the pilot salaries hike we see from January but it will also be slightly muted in Q4 2018 y-o-y due to the fact that, just to remind you, in Q4 2017 we reclassified a sum related to the social security reserve from other OPEX to staff costs. That is a legal reclassification under the IFRS, so it will also be pushing the growth of staff costs slightly down (but not total OpEx). Still, the costs will be higher y-o-y than you see in Q3 2018, when we had a decline because of the release we have been talking about so much today.

*Osman Memisoglu:* Thank you very much. Did I get it correctly – there is a RUB 2 bn one-off in Q3 2018 figure for staff costs?

*Andrey Napolnov:* Yes, related to the release of provisions and lower accruals of the variable remuneration.

*Osman Memisoglu:* OK. One more question, if I may. Pobeda and margins. Obviously, they have been coming down for a good reason – you are growing very fast. Any colour on the further direction? Will we see a continuous decline in margins next year as Pobeda continues to grow, assuming fuel is what it is (unchanged for simplicity)? I just want to understand it conceptually – you are building up a network, adding costs, etc., so how do you see profitability?

*Andrey Chikhanchin:* Thank you for the question. As I said earlier, we are still in the budgeting process and cannot give any colour on profitability of Pobeda.

*Osman Memisoglu:* OK. I appreciate that, thank you.

*Andrey Napolnov:* Thank you everyone for joining the call today. If you have any follow-up questions, we will be happy to answer them after the call. Feel free to contact our IR team. Again, thank you for joining the call and goodbye.