

Aeroflot CMD Follow-up Call
March 19, 2014, 17:00 Moscow

Operator: Ladies and gentlemen, welcome to the Aeroflot CMD Follow-up call on the 19th of March. Throughout today's presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions.

If any participant has difficulty hearing the presentation, please press the star, followed by the zero, on your telephone.

I will now hand over the conference to Shamil Kurmashov. Please go ahead.

Shamil Kurmashov: Good afternoon and good evening to everybody. I would like to comment on certain questions which were asked at the Investor Day, but according to the perception of the market not all the answers were straightforward, and according to our understanding they need some clarification, especially the question about yields of the company.

That's why we'd like to comment on certain bullet points, and then we can make Q&A session in order to further clarify what were the trends, what were the plans in the fourth quarter of the previous year and in the first two months of this year.

Firstly, there are three segments on which we analyze the dynamics of the yields -- the domestic market, where fares are denominated in rubles. We don't see any decline of the customer's purchase power, and the overall demand remains resilient. We witnessed 9.4% growth of the yields in ruble terms in the first two months, also, of 2014.

Aeroflot's domestic segment demonstrated 27% passenger traffic year-on-year growth over the same period. Judging by these fundamental operational data, we can judge there is no signs of any maybe slowdown or any recession or any decrease in purchasing power of the population.

Therefore, we don't need to adjust the tariffs, and we don't understand any of the questions. There is a certain panic all of a sudden, like (INAUDIBLE), but we don't feel any influence in our operations.

For international, the second segment, international flights originated in Russia that were going to Europe or to the States where fares are denominated in euros, we lowered our fares by 5% once in January, we see no potential need to further stimulate demand via, like, sales promotion, sales actions.

There was one-off step, and we constantly adjust our tariff policy to the environment, and we stimulate the demand in the low seasonal variations.

The third segment, the international flights originated abroad and directed to Russia, where fares are also denominated in foreign currencies, our revenue remains stable, and currently we don't envisage lowering tariffs in this segment, where we don't see any negative signs of recession or intervention with the tariffs.

Our performance on international routes is in line with positive global market dynamics. Our international flights globally demonstrated a strong growth of 7.8% in revenue passenger kilometers, year on year, according to IATA.

In the first two months of 2014, both international segments demonstrated 6.8% passenger traffic growth, and yield improvement in dollars by 3.1%. We don't speak about rubles, but, nevertheless, the increase in rubles is 15.4%. But by clearing off the effect of the devaluation, the yields and the revenues in U.S. dollars is plus 3.1%.

This-- if we speak about Aeroflot overall operations, we demonstrated 14.7 passenger traffic growth and yield on both international and domestic markets increased by 1.5% in dollars, in dollar terms.

So, our group operations demonstrated largely the same performance and as Aeroflot's. And predominantly, our groups operate inside the market where there are no any-- where we don't even intend to lower the tariffs, but we want to increase our margin.

So, I'd like to also note is the negative impact on Aeroflot's profitability from decline in yields across some of our markets, and volatility of foreign exchange rates is mitigated by natural and strategic hedges as our revenue and cost structures the currencies are relatively balanced.

Currently revenues in Europe account for 13% versus 5% of costs in euros. So, therefore, we don't have obligations in euros. If there's a certain even increase of euro to ruble exchange rate, there is no impact on profitability.

If we speak about-- the second group of questions were related to the cost base of Aeroflot.

How I'm going to proceed? We are going to make a Q&A after the like yield section, or am I going to go through all the blocks of questions and then make a Q&A?

Okay, let's go to the second block of questions, relating to the cost base. So, Aeroflot's cost base was impacted by a number of new recurring and

non-recurring cost items, like personnel expenses impacted by introduction of new option program in the amount of \$10 million. We have mentioned it at the Investor Day, a new profit-sharing plan for staff and management.

There is also a profit-sharing plan expense for \$23 million one-off expenses. This is reserve. This is not-- these are not expenses which are reflected in our financials, because this is like provision which should be further to the shareholder meeting, which is going to happen on June 2014, but nevertheless, our auditors required us to reflect it as like in the expenses, like provisions for further potential payments, but it might not be approved by the shareholder meeting. It should be taken into account.

So, SG&A growth is the result of payment for consulting services already to Dobrolet, maintenance and repair projects, and non-recurring IT costs relating to financial reporting and ERP system. We have spent \$15 million for Dobrolet's maintenance and repair projects, and we spent \$19 million for our IT projects, which were terminated in the fourth quarter 2013.

Maintenance and repair expenses increased due to phasing out of two Boeing 767 aircraft, and transfer of five Airbus aircraft to subsidiaries, because we should have, like, spent some money on them, you know, according to their original livery conditions. It's also customary for the aviation industry.

Other expenses were impacted by accrual of provisions for aircraft return in the amount of \$60 million, so it is one-off expense, \$8 million impairment of Ilyushin 96, as I would like to remind you that we placed them out from our suite beginning with the first of April. That was the only one remainder of our old Soviet fleet. And \$33 million deferred tax asset write-off. It's related to Vladavia. It's also one-off expense.

So, according to the aforementioned comments, Aeroflot demonstrated impressive financial results for the full 2013 year, and its performance in the fourth quarter was generally in line with management expectations, because Aeroflot was able to maintain market share, minimize yield decrease, and demonstrate high-growth trends, because growing simultaneously 25% to 30%, retaining load factor at the level of approximately 80%, and having, like, one-off sometimes actions in place, I mean, you know, to promote our sales. I think that combining all these three elements in the development of the company is very difficult, but we managed to do that.

If we speak about the guidance and cost structure and profitability margins in 2014, so we envisage strong double-digit growth in available capacity, SKs, and RPKs in 2014, at the same time sustaining seat load factor at the level achieved in 2013 is 78.7%.

Then this should translate into low double-digit growth of revenue, I mean, 11%-plus. It's a very conservative forecast. I think we-- it's like very, very conservative.

We expect our operating and EBITDA margins to be stable in 2014, although there will be the launch of Dobrolet, but its influence would be very negligible, because (INAUDIBLE) like marginal operations. It will launch in June 2014, maybe a little bit later. That's why its annual influence would be less. And we also expect successful ongoing integration of subsidiary airlines and optimization of their costs which should further support this outlook.

So, the margins won't be lower than 2013. That's our vision, and we don't see any arguments to justify a position to the contrary.

According to the third block of questions, Aeroflot's response to the recent economical and geopolitical developments, I would like to pass the word to my colleague, Deputy CEO for Strategy and Alliances, Mr. Callegari.

Giorgio Callegari: Thank you, Shamil. Good afternoon and good evening to everybody. Thank you for accepting the call to have some additional information visibility on Aeroflot.

One set of questions that we received during the last Capital Markets Day was about Ukraine, and, therefore, what is, if any our contingency plan with respect to the situation developing there.

Well, first of all, let me say, that it was-- we believe, to really explain our strategy, it's been one of the reasons for our success, but I think it's worth underlining the fact that while Shamil was saying we benefit significantly from the growth of the Russian market, 27% growth in the first two months, we're not dependent on it, because the group grew 14%, thanks, also, to an impressive result in foreign markets.

And the reason for that is because we have a very balanced network, and we have a very balanced distribution of revenue in the various geographies. That is a further strength and a competitive advantage by our effective sales policy, which during the Capital Markets Day we explained as moving forward toward even more efficiency by the very visible and ever-increasing visibility of our brand internationally, as well, and in the flexibility of our operations.

When we talk about flexibility, it means that we can leverage, thanks to the multi-brand approach, but also to the fact that we have a very efficient and streamlined fleet, we can leverage the fact that our geographic position, in the sense that the average stage length or the average duration of a flight to most of the Russian destinations and to most of the European destinations is basically equivalent, which means that if we-- with the kind

of efficient operations that we have, we can easily redeploy some of the capacity from one market to another one.

Now, considering that the capacity currently deployed, as per plan, so nothing has changed so far, to Ukraine is in the very low single digits of our total capacity, it will be easy, let me say, to understand that it's not a very big concern, not from a commercial perspective, not from an operational perspective. And that's why we can be confident that we'll be able to adjust to if there are changing market conditions to those conditions.

We don't have a dedicated fleet type to Ukraine, once again, because of the choice that Aeroflot has made, very consistent, to have the same cabin configuration for domestic and international flights with a fixed business class seat and, therefore, with a fixed-- with a premium product that can be offered and is appreciated from both the domestic and international air passengers.

Finally, on the, let me say, broader context of what the current political turmoil could cause to Aeroflot, the combination of a very tight cost controls and of a very high level of flexibility in our operations, has been the recipe for our ability to deliver positive results in the previous cycle.

In the first half of 2009, there was a decline in RPKs of 10%, equivalent to about a 30% decline in revenue, and still Aeroflot was able to deliver, in that same period, an EBITDA margin increase of 12.5% compared to the previous period-- to the similar period in 2008, so first half.

Therefore, we are closely monitoring the situation. Some of you might have read in the press that we have returned to overflying normally Ukraine as the most efficient route to other destinations, so we see the situation, we monitor the situation and we see it operationally stable, and if need be, we have the answers to adapt to the changes in those conditions.

Shamil Kurmashov: Thank you. I guess we'll now move to the Q&A questions.

Operator: Thank you, sir. If any participants would like to ask a question, please press the star, followed by the one, on your telephone. If you wish to cancel this request, please press the star, followed by the two. Your questions will be polled in the order they are received. There will be a short pause whilst participants register for a question.

The first question comes from Elena Sakhnova from VTB. Please go ahead.

Elena Sakhnova: Gentlemen, thank you very much for the possibility to ask additional questions. So, basically, I have two.

The first is that you basically treat the tariffs separately for the travel which is originated in Russia and abroad. So, could you please give us a breakdown of your RPK, international RPK, for the travels which you treat that you are-- like as originated domestically, and for the travels which you think are originated abroad?

Shamil Kurmashov: We don't have--

Giorgio Callegari: First of all, Giorgio Callegari, answering the first question. Yeah, Elena, good afternoon.

As far as setting prices different according to the market and the currency is the standard practice for all the aviation companies. So, in that respect, we're no different than anybody else, I mean, from European companies to Asian companies to North American companies.

As far as the split of RPK, we don't have it now, but we will provide it as a follow up.

Shamil Kurmashov: This is a distribution of RPK between the two flows of flights, originating in Russia and originating abroad to Russia. We'll provide it shortly after the meeting, because we don't have it just nearby.

Giorgio Callegari: And, in any case, let's also focus on a key consideration, Elena, that the capacity is not, as capacity, divided between, you know, one direction or the other one. What makes the difference is the revenue management policy, which allocates more capacity, and, therefore, relatively more ASKs, and generates, therefore, more RPKs, based on the performance of the market.

Now, we are in the unique position-- that's why we are saying-- we are being so, let's say, firm, possibly not giving up, in our defense of the yield. Our position is that we have, on one side, a market which is growing very fast, and it is seeing an increase in yield, and on-- in rubles, and on the other hand, we have a market which is growing also significantly, IATA said 7.8%, even though yields are not growing so fast.

So, we have the ability with our revenue management, to hedge one market against the other one, and, therefore, even if we will provide the information that you requested, it's not the deciding factor. The deciding factor is our effective revenue management policy.

Shamil Kurmashov: RPK data we'll provide you later . Okay?

Elena Sakhnova: Yes. Yes, thank you. And on the second question, it's more of a clarifying nature. Am I correct in understanding that basically, when you are talking about your growth rates, you refer to your international travel as

something which is not really related to domestic economy, because when you were talking about, like, we have seen some double-digit growth, and this came from, not really like Russian economy, but because of the growth of other economies to where we are flying to.

And then, when you were discussing that your average flight distance is the same on the domestic and international flights, and you were saying that you would be able to reallocate the capacity if it is required, do-- like, am I correct in understanding that you believe that, like, your international travel is not really affected by domestic economic trends?

Shamil Kurmashov: Yes. I just definitely want to state, we don't see any slowdown in domestic markets. We have, like, very intensive growth, and we don't see any deceleration in our relation with the business in Europe, because our total turnover between, you know, both countries is \$500 billion. It doesn't have a trend to the (INAUDIBLE) effect.

We don't understand why there should be a slowdown in our flights to Europe and from Europe, because the economic relationship between the countries hasn't suffered from anything up to now. We don't know what it will be in the future. In the future it can be everything, but we speak about the principle of going concern, that there-- what-- by the two months of 2014, we don't witness any negative trend in the traffic or passenger turnover between, for example, the European market and our market.

Inside the country, we have our own trend. Inside Europe, by the way, for the first quarter we have IATA figures that there's a growth in the passenger flow, which very seldom happens, because the first quarter is the lowest in the seasonal variation, and if you look at the previous years, there is very, very slight growth or negative pace of passenger traffic market.

Now we have 2%, at least 3% growth from country to country. It's also the sign that there is economic growth and we have some correlation between the passenger flow and the economic growth in our focus countries, in the segments in which we work.

That's why we think that in both markets, domestic markets and our focus markets of destination, there are no signs of any decline in business, and, therefore, in economic ability of the population.

Elena Sakhnova: Okay. See your point. Thank you.

Operator: Once again, if you would like to ask a question, please press the star followed by the one on your telephone. The next question comes from Irina Stupachenko of Otkritie. Please go ahead.

Irina Stupachenko: Good afternoon, gentlemen. I also have a couple of questions. first of all, you mentioned that in first two months your international traffic increased by like 7%, and could you please say what was the dynamics for turnover, for international turnover? Because you remember that we saw, actually, negative dynamics in January.

Shamil Kurmashov: We have 4.7% increase in the international segment of our passenger turnover for the first two months of 2014, 4.7%, and in passenger traffic terms, 6.8%.

Irina Stupachenko: And this is for Aeroflot only, or for the group?

Shamil Kurmashov: This is for Aeroflot, but the group is within the Aeroflot trend, because the capacity of our daughter companies is our 100% management. Therefore, we think that the-- we have the exact for each of the companies, like now, but looking at the combined effect, we don't think that it would influence-- the group operations would differ radically from the data of Aeroflot alone.

Irina Stupachenko: Okay. And my second question is about your financial leasing terms. Actually, we have not seen the-- actually, the Western countries have not yet announced the amount of potential sanctions that may be imposed on Russia due to the situation in Ukraine, and actually one of our concerns is that potentially all credits, loans, or leasing agreements could suffer, including, potentially, some of your financial leasing contracts.

Actually, is there any possibility that you may see an increase in financial leasing rates for your coming aircraft deliveries?

Shamil Kurmashov: We don't have international credit lines outside the country. We don't have-, in money credit lines, we don't work with the banks. So, we don't have indebtedness in the money credit lines with the Western banks, at all. We have zero.

Talking about finance lease contracts, we don't use these facilities as intensely as we had used them before that; over the period of two years as I've been explaining its share in our credit facility instruments decreased because it became earlier more expensive than it had been before, because of the policy of the credit agencies which provide support for these finance lease credit lines.

They just increased the commission which is brought from the borrowers, like from Aeroflot and from the Asian-based companies like non residents of the European Union, non residents of the USA. And there was a triple interest in the commission, which drew our effective rate from 1.2% to 2%.

Therefore, we extensively use operating lease facilities, and we don't-- therefore, there we would not be influenced by the cost of financing, even if any sanctions would be, like, in place.

As far as the overall picture, we don't even expect that there will be a decline in the passenger traffic due to this action, because a lot of foreign countries they, like, are in (INAUDIBLE) the capital of our infrastructure projects, like in the energy industry, in the gas and oil industry, and they would suffer, in the first term, from these interventions, because they would lose their business.

And we don't, therefore, in the bilateral relations they would, like, undertake any steps, because, first of all, their economic interests would suffer from that. And from the cost of financing, I have explained to you, we're not dependent upon Western credit lines..

Irina Stupachenko: Okay. And as far as operating leases is concerned, so, is there any possibility of change in terms for this?

Shamil Kurmashov: We think that there are so many new aircraft on the secondary market now, because there are so many airline companies which became bankrupt, and, therefore, the leasing companies, they have a surplus of supply of such kind of aircraft, because a lot of companies, they cut down their orders placed within-- with lessors.

Therefore, we really feel, over the period of two years already, downward pressure, significant downward pressure on the lease rates on the operating lease market. Therefore, I think that this market would be go even lower, because of the, like, weight of the supply in this market.

Irina Stupachenko: Thank you very much.

Operator: Thank you. The next question comes from Alex Kazbegi of Renaissance Capital. Please go ahead, sir.

Alex Kazbegi: Yes, hi. Can I ask just several questions?

On your transit international to international via, whatever, Moscow or something else, what is roughly the proportion of those passengers who do take transit, but not into Russia, but rather, international to international?

Secondly, if you could just tell us what is your rough idea now of the deployment of the new capacity within 2014? Where do you envisage mostly it's going to go?

And the last thing is that, could you, so to say, strip out the effect of Sochi, if that was at all significant again? Or tell us how significant it was, so to say, for your first two months' growth? What is roughly the growth

without, if you wish, additional Sochi, which probably is a one-off type traffic?

Thank you very much.

Shamil Kurmashov: Your first question-- thank you for your questions.

Transit share in our international to international traffic works out at the level from 36% to 39%.

Alex Kazbegi: Sorry, how much?

Shamil Kurmashov: From 36% to 39%.

Alex Kazbegi: All right. And that's international to international-- I mean--

Shamil Kurmashov: That's the total transit share, from 39% to 36%-- from 36% to 39%.

I think that the share of international to international transit is less 15%. It's right around 15%.

Alex Kazbegi: Right, okay.

Shamil Kurmashov: Our-- the second question is about the capacity allocation. It would be customary, first of all, that would be-- the first priority of contribution is Russia, CIS, and the second largest would be Europe and the third one would be Asia. So, our-- by customer markets of growth.

The Sochi impact, we didn't earn on that, but we didn't lose anything in terms of money, because we really allocated significant capacity to-- sometimes from three frequencies per day, to 16 frequencies per one day. And we didn't charge a lot, but I think the benefits from our being the official carrier of these Olympic Games cannot be measured only by money, but by brand recognition. International-- a lot of passengers and brand awareness all over the world.

And I think that our benefits are much more than we'd have had, had we charged more for our tickets. But in money terms, like in P&L terms, it was slightly above zero, maybe breakeven, but the potential increase of passengers who became loyal and it was a net addition to our passenger base is 130,000 passengers.

Alex Kazbegi: Okay, 130,000 passengers all together.

And so, also, you said basically zero on the P&L, meaning the EBITDA level, but in terms of the revenue contribution, roughly is it, like, whatever, annualized 2% addition, 3%, or is it not really--

Shamil Kurmashov: It's not really material .

Alex Kazbegi: Okay. Yeah, okay, understood. Thank you very much.

Shamil Kurmashov: Thank you.

Operator: The next question comes from Danil Fedorov of Goldman Sachs. Please go ahead.

Anton Farlenkov: Hi. it's Anton Farlenkov. So, hopeful, as well. I have a couple of questions.

The first one, I just wanted to clarify on that yield side, so, in the first two months, do I understand correctly that in the first two months you are seeing a 9.4% year-over-year growth in yields for domestic traffic; domestic to international, 5% decline on a year-over-year basis in the first two months; and international to domestic, no change for the same period of time-- over the same period of time? Is that correct?

Shamil Kurmashov: Yes, I would just like to repeat and clarify. In the domestic market, 9.4% growth in yields in ruble terms, because the currencies are not denominated in euros, in rubles. For international flights originated in Russia, it comes from Russia to other destinations, as was the decline of 5%, all in January; we don't have figures for two months. And for international flights originated abroad and directed to Russia, the yields, denominated in euros, there is improvement of 3.1%-- I'm sorry, in dollars, is 3.1% improvement, because our--

Anton Farlenkov: In dollars? For January, right?

Shamil Kurmashov: In the first two months of 2014. So, for international flights-- for the second segment, that was only for the January-- for January. For international flights for two months, 2014.

And for overall operations, here I speak about all the segments, about all the business, 1.5% increase in dollars, and 11.9% increase in ruble terms.

Anton Farlenkov: Okay. That's for the group, right?

Shamil Kurmashov: That's for Aeroflot only.

Anton Farlenkov: For Aeroflot. For the group, I would say similar trends, no?

Giorgio Callegari: Yes, our group operations and sales, largely the same performance as Aeroflot.

Anton Farlenkov: Okay, excellent. So, on the synergy side, how much do you plan to get from your subsidiaries this year. Well, Donavia is loss-making, and other

performance can be improved. Can you quantify it, somehow, 40, 50 million, I don't know, 200?

Shamil Kurmashov: For our subsidiaries, we are positive on our operating income level. If you speak about the overall net profit on operating level, operating profit, is plus \$14 million. It's like the-- really, there is not a lot of performance.

If you speak about the net income, which is negative, I explained that these are not-- these are one-off corrections, one-off adjustments of our operating income related to the reserves or return of aircraft, for, like, indebtedness of the counterparties, and so on and so forth. 33% for the write-off of tax assets and so on, and so forth. So, they are like paper adjustments.

And if you speak about the net effect beyond these net adjustments, our net income is negative only by \$5 million, \$6 million. I think that it's almost breakeven.

Therefore, we expect 2014 would be very-- like positive. We expect another \$30 million of economies would be extracted from our operations, not more than that, because a great deal has been done in the past two years.

Anton Farlenkov: So, \$30 million on EBITDA line, right? Plus \$30 million?

Shamil Kurmashov: Yes, plus \$30 million.

Anton Farlenkov: Okay, very clear. And the third question is on operating lease. Let's assume worst-case scenario and the market will be flat or even a negative territory. How much does it cost for you, let's say, to cut capacity, i.e., to cancel operating lease for Airbus 320 or 321?

Shamil Kurmashov: You know, that-- about what, like, worst-case scenario are you speaking? Because having analyzed our operations in all our market (INAUDIBLE), I don't really see that there are no signs of decline or any concerns which should be taken into account.

Anton Farlenkov: Well, let's assume your ops are growing 12%. but let's say market is going to grow, like, let's say, 0%, sharp slowdown because of economy slowdown in Russia, et cetera. Let's assume this type of scenario.

So, how much would it cost for you just to cancel operating lease or delivery of your new planes? Last year, you canceled one and you paid, I believe, 30 million.

Shamil Kurmashov: Speaking on the principle of going concern, that we would just be in our business, being successful, and so on. If something happens, force majeure happens, yes? So, we will terminate that business, you know. Like, we

don't (INAUDIBLE) about the-- if we terminate-- if we ground all our fleet, what would happen then? Well, then we'll be negative, and there will be bankruptcy of the company. Yes, so how would we speak about that?

Because if we cancel 70% of our fleet, which is in the operating lease form, and--

Anton Farlenkov: No, no, just one or two-- Just cutting capacity for one or-- just cutting one or two planes, let's say--

(crosstalk)

Shamil Kurmashov: Yes. You cannot-- first of all, I would like to mention the case about that Airbus 330, which was returned to the lessor and we paid one-off commission-- yeah, one-off penalty for giving it back to the lessor company. That was the worst-case scenario, in our opinion, because the contract was very firm. It was entered into by Vladavia before Aeroflot had merged Vladavia into its group of companies, and the conditions were firm and unfavorable for the company.

(technical difficulty)

Anton Farlenkov: (INAUDIBLE). Hello?

Operator: The next question comes from Michael Ganelin of Gazprom Bank. Please go ahead.

Michael Ganelin: Good day, gentlemen. Thank you for (INAUDIBLE). I have one question.

In your presentation I saw that you forecast passenger traffic for (INAUDIBLE) 46 million passengers in 2018. Does this figure include traffic from Dobrolet that you forecast at 10 million passengers in 2018?

Operator: We apologize for the pause in the presentation. Please remain on the line. The presentation will resume shortly. You will be hearing music until the presentation recommences. Once again, please accept our apologies for the pause in the presentation.

Ladies and gentlemen, we have the speaker on the line.

Operator: Yes. We have a question from Michael Ganelin of Gazprom Bank. Please go ahead, sir.

Michael Ganelin: Good day. I have one question. I see that in your Investor Day presentation--

Speaker: We apologize, yes. We were interrupted in answering of the previous question.

Shamil Kurmashov: There was the question from Goldman Sachs related to the, like, retirement or cancellation of operating lease contract, and we explained that the one example was, also, just given to us, the penalty of RUB1 billion or \$30 million for three aircraft, which was like paid by Vladavia to lessors, that was the international lessor company. And I would like to explain, first of all, this case, and then to answer the question.

The lease rates in the contracts between lessors and Vladavia initially exceeded the market by almost 30%, and it was entered into by Vladavia before the integration to Aeroflot. It was an extraordinary case. That's why we didn't really-- why we sacrificed this one-off payment in order to terminate the operations of this aircraft, because in the long run, 'til the end of this lease contract, it contributed minus \$70 million into our P&L. That's why that was the investment case for us, and we preferred paying \$30 million [penalty and maintenance costs per 3 aircraft].

But as far as, like, giving back like mid-haul aircraft family, for example, in Vladavia we pay for retirement of Airbus 320, in total up to \$3 million. That would be total expenses which we should bear in order to give it back to the lessor. And, therefore, if we give two, that would bring maybe, up to \$6 million.

So, I think I answered the question.

Operator: Thank you. The next question comes from Michael Ganelin of Gazprom Bank. Please go ahead, sir.

Michael Ganelin: Hello, again. My question about your traffic, your air traffic forecast in 2018. In your presentation you put a number of 46 million passengers by this year. Does this figure include traffic from Dobrolet, as well, that you forecast at 10 million passengers? Thank you.

Giorgio Callegari: Okay, thank you.

Yes. Thank you for the question. The figure refers to the overall group traffic. So, it incorporates-- including all the subsidiaries of the group, so including Dobrolet, yes.

Michael Ganelin: So, 46 million passengers, including Dobrolet?

Giorgio Callegari: Yes.

Michael Ganelin: Okay, thank you.

Operator: Once again, if you would like to ask a question, please press the star followed by the one on your telephone. There are no further questions. Are there any further points you wish to raise?

Shamil Kurmashov: Yes, we would like to resume what we have explained, and speaking about business and speaking the trends of the macroeconomic environment, we would like to draw your attention to the fact that we really-- we have minimal exposure to the Ukrainian market, and we don't have any dedicated fleet to Ukraine, and the fleet operating on that route is totally flexible and can be quickly allocated on other routes, if necessary.

By the way, in our overall network, we have the capacity of three Airbus 320s. That's why don't increase frequencies, don't increase the depth of our network of certain directions, and, therefore, we can allocate the fleet to these profit-making destinations, if necessary.

And we will continue to serve the Ukrainian market to the extent it's economically viable, and if it's profitable for us. We don't have any obligations to fly there.

And we have a proven track record of maintaining profitability of operations in a downturn, like the economic crisis of 2010, if something happens. So, therefore, we would like to make you understand that the, like, slowdown and maybe a certain shortfall in our operational performance in the fourth quarter 2013 was something one-off, and judging by our constant analysis of our market presence, we don't expect any adverse on our operations, and we don't think that we should react with decreasing of our yields, , judging by operational results of the first two months-- by the way, the lowest -- I would like to once again repeat that -- these are the lowest months of the period of one year.

We have the growth not less in the history-- in the historical relevant period of previous years.

Thank you very much. So, if you have any follow-up questions, please address it to our contact email so we can react and make like very quick answers. Thank you very much.

Shamil Kurmashov: Thank you.

Operator: Ladies and gentlemen, this concludes the Aeroflot CMD Follow-up conference call. Thank you for participating.

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