

Aeroflot Group 12 months 2014 IFRS Financial Results
Conference call held on 2 March 2015

Operator:

Good day and welcome to the Aeroflot Group IFRS Financial Results Twelve Months 2014 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 Investor Relations. Please go ahead.

Andrey Napolnov:

Good day ladies and gentlemen, this is Andrey Napolnov, Head of Investor Relations at Aeroflot. Thank you for joining today's conference call on the Consolidated Financial Results of Aeroflot Group for the Twelve Months of 2014. Today we have two speakers, Aeroflot Deputy CEO for Finance, Network and Revenue Management, Shamil Kurmashov; and Deputy CEO for Strategy and Alliances, Giorgio Callegari. Our conference call will last for an hour and I suggest we pursue the following agenda: 30 minutes for our presentation and then a question and answer session.

Before we begin I would like to refer to the disclaimer statement in the beginning of the financial results presentation regarding forward-looking statements. During the call we may make references to forward-looking statements by using words such as 'plans', 'objectives', 'goals', 'strategies' and other similar words which are other than statements of historical facts. Any statement other than a statement of historical fact is or may be deemed to be a forward-looking statement. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this call. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements.

I will now turn the call over to Giorgio Callegari, Deputy CEO for Strategy & Alliances of Aeroflot Russian Airlines. Giorgio?

Giorgio Callegari:

Thanks a lot, Andrey. Good afternoon to everybody and thanks for joining us on our call. Let me start by saying that it's obvious that we are living in very challenging times and therefore what is, I believe, the most important way of understanding our approach to these challenging times. First of all, understanding the market trends and that's why we will devote some of our time to sharing with you our views on the Russian market dynamics. Second, understanding the competitive

scenario in that market and therefore measuring the ability of Aeroflot to cope with challenging market dynamics. And third, the degree of flexibility in our strategy so that we can adjust it according to different challenges. That will be, as I say, the theme that will develop in my initial – in the part of my presentation.

So market, slide number 4. As you can see and as we have been saying consistently over time, the Russian market is a very, very interesting market. Even in 2014, it has continued to grow at a very high pace – 7.8% – and that pace, by difference in domestic versus international, presents us with significant opportunities that we've been able to take because the Aeroflot Group has grown 10.7% overall and 11.1% during the fourth quarter. So that's the first indication of the fact that in challenging conditions, that strategy of the Aeroflot Group enables us to be more successful than other operators in the market.

On the following slide, we try again to explain with the aid of new visual information the reason for this resilience in the Russian market. The low penetration of air transportation in the market – it's only 0.7 trips per capita in Russia compared to 3.2 in the UK for instance – and very important, the migration of traffic from rail services to air services. That means that that domestic market is growing very fast. You'll see in 2014 17.9% of growth compared to the previous year. That is also due to the fact that some destinations were considered domestic, as Crimea in particular, and also an interesting rate of growth in the international traffic even though obviously affected negatively by the change of status of some destinations. In that market, which we confirm is the most resilient one, Aeroflot took the largest share by growing 26.0% and carrying 17.6 million passengers.

Net result, as you can see on the following slide, in an increasing market share whereby the distance between Aeroflot and the closest competitors is still increasing, so if we measure the performance of Aeroflot only with respect to the domestic carriers, we are at 37% while the combined market share of the following three players is at 34%. If we look at what the international players are doing, we will see that a number of players that have entered the Russian market are now leaving it due to the challenging economic situation. And that refers to both, let me say, full-service carriers – you see on the right side of the slide that SAS, Scandinavian Airlines, and Czech Airlines and Finnair have reduced capacity – but it also concerns low-cost carriers from Air Berlin to Flydubai that have reduced their presence in the Russian market. Therefore this trend is presenting us with opportunities both on the premium segment, on the international segment as well as on the domestic segment.

What's our approach, as I said in my introduction, to these challenging market conditions? Well, we still believe – and I think that results are proving that we are right in our belief – that the multi-brand approach is the right approach. Aeroflot, the premium brand, retains the lion's share of revenue with 68.0% of the passengers carried. Rossiya has delivered impressive growth performance in St Petersburg, also thanks to the inauguration of the new terminal in Pulkovo and is now carrying over 5 million passengers. Donavia is more or less stable in terms of passengers if we discount the effect of the Sochi Olympics, but is doing so with an increasing efficiency thanks to the standardised fleet and a more focused network. And Aurora is also a very satisfactory result of the merger between Vlad Avia and SAT and is now delivering efficient transportation both in terms of international and commercial traffic as well as in terms of subsidised services to local communities. We certainly will not deny there has been a significant amount of challenges in the leisure segment, in particular in Orenair. What we believe is important in order to understand the Aeroflot Group's approach to challenges is the speed of our reaction and the depth of our reaction. Several commentators are talking about a decrease in the leisure market of about 50% and therefore conditions that are possibly wiping out players both as tour operators as well as airlines from these important segments. That's why we have adapted the strategy, the approach, the marketing approach of Orenair by significantly reducing the capacity dedicated to the leisure segment and by deploying some of the Orenair flights out of Vnukovo in order to offer additional capacity to the fast-growing domestic market. That has paid off significantly because it has enabled the Aeroflot Group to reach critical mass in Vnukovo over a short-term period of time and has also minimised the negative performance of Orenair. The message is the crisis hit at the end of the third/beginning of fourth quarter in 2014. By the January 15, so less than three months after the turmoil caused also by the rouble collapse, Orenair was already under full commercial management of Aeroflot with a new network operating out of Vnukovo and with the capacity dedicated to the leisure segment completely repositioned. Same kind of effective approach to opportunities we can see in the Pobeda development. The low-cost operation was grounded as a result of sanctions imposed by Europe. After a very short period of assessment of the opportunities that Aeroflot had, we decided to re-launch the company, to start from scratch, and on October 13 the new brand was agreed and decided and communicated to the market. In November, ticket sales commenced and the first flight was performed on the December 1. So from grounding to the first flight of the new company, less than 3½ months passed. I would say that's an impressive demonstration of disciplined management in pursuit of market opportunities. And the market is paying us back as we have carried more than 100,000 passengers already. The new

company is therefore on track to reach by the end of 2015 the original plan, making up for the delay in the initial start, and therefore we confirm the target of 10 million passengers by the end of 2018 with 40 aircraft and 47 routes, which will include by that point not only Russian routes but also CIS destinations and international destinations.

In terms of Aeroflot Group network, once again, in an effort to ensure growth but to reduce the level of risk exposure of that growth, we continue our focus in optimising frequencies and in selectively growing destinations. That's why in the year 2014 we added only one domestic destination, Noviy Urengoy, and three CIS destinations, Karaganda, Tbilisi and Chisinau. That has meant that the capacity that we are facing in the Group has gone to the service of incremental frequencies and with the exception of the charter segment, for the reasons I just explained, the scheduled frequencies of our destinations have gone up from 9.6 to 11.1. That's an increase of 16.2%. That means again significantly improving the quality of the network of Aeroflot, still based on one hub which is Sheremetyevo, but leveraging the presence of our daughter companies across the country.

In terms of quality of the network, that is also reflected in the percentage of connecting traffic. As you can see on slide 11, the connecting traffic has gone up from 35.5% in 2013 to 39.2% in 2014. That is certainly a significant percentage of connecting traffic but is by far well below the percentage of connecting traffic that fully developed network carriers see at their hubs. I'm referring to the European carriers in particular, some of the Asian carriers. That represents a great opportunity for us in terms of the ability to capture additional traffic due to the geographic advantage and to the optimised schedule of quality that we have put in place. Therefore it presents Aeroflot with an opportunity to minimise the effect of the rouble devaluation. In the slide you see some examples of the advantage that connecting via Moscow represents over connectivity via other hubs. What is also extremely important – and that I would say complements what we have said about the hard specs, so new fleet, efficient network, efficient operations – is the quality of our service. In a critical economic environment, we believe that delivering quality in each of the products that we have, to each of the segments is essential. Value for money is an extremely important component of our strategy and that is recognised by the most renowned organisations from Skytrax to Condé Nast Traveler. But also very important, the quality of the operations of Aeroflot is recognised in local markets: in South Korea and in China, Aeroflot was recognised as a leading market operator.

Numbers, because strategy is successful only inasmuch as it delivers the numbers that are targeted, and if we look both at Aeroflot and the Group, if we look both at the fourth quarter and the full year, I would like to point out, because again you'll have had time to study the figures so I would like just to highlight what I believe is the key component of those figures, that at Aeroflot passenger traffic has grown 13.0%, flight hours have grown 9.0%. So once again, we continue a growth which is based on efficiency; it's based on attracting more passengers by maximising the utilisation of the asset. That is true of Aeroflot and it is true as well – actually even more so due to the continuing restructuring work that we are doing on the daughter companies – at the Aeroflot Group level where the number of passengers has increased by 10.7% and the number of flight hours has increased by 5.0%.

I don't think I need to spend a lot of time on the following slide because we already mentioned that the growth has gone to markets that present us with more opportunities. So Russia, Asia because of the high growth trend, and less so Europe and Middle East. We've also taken a decision to terminate flights that were unprofitable like Toronto, Cancun and Punta Cana, and again that proves the discipline in protecting the economic results rather than defending the footprint of our network.

The interesting slide that you see for the first time on slide 16 is the distribution of revenue by point of sale. So you see that the percentage of sales on the international market is significant – 27.2% – confirming the appeal of our products for international customers.

Regarding yields let me point out what happened in the fourth quarter represents an inversion of trend compared to the third quarter, the quarter when we suffered from the beginning of the rouble devaluation and therefore we saw decreasing yields. If we look at yields in roubles, we see an increase in domestic and an even larger increase in international. So as we said we were going to defend our market position and translate that into yield increase, and here is the delivery of our performance.

Hence, just before handing the floor to Shamil Kurmashov, our position is the following. The market is certainly challenging but the market is a market which is full of opportunities. We stand positioned better than other players, both domestic and international, due to our strategy of serving markets with the right capacity, with an efficient fleet and with the highest quality of services while retaining a very, very high degree of cost efficiency as Shamil will prove. We therefore face certainly a disappointing set of financial results but we are better equipped than

anybody else to make sure that the satisfactory operating performance will continue to deliver satisfactory growth opportunities for Aeroflot. Thank you so much. Shamil?

Shamil Kurmashov:

Thank you Giorgio. Now I will switch to the fleet structure and fleet evolution. There is nothing special about this topic of discussion because our fleet management strategy is focused on the renewal of the fleet and the substitution of old aircraft with modern fuel-efficient aircraft and unifying the fleet of subsidiary airlines. So there should be only one type in each segment, mid-haul segment and full-body segment. For Aeroflot Group, we also had substantial progress in terms of fleet renewals resulting in the decrease of average age of the fleet from 10.4 years in 2011 to 7.0 years as of the end of 2014 and if you take Aeroflot standalone, we have the youngest fleet in Europe and one of the youngest in the world. So the average age of our aircraft is 4.1. So we are consistent with our declared strategy that we are going to invest in the product and especially in the aircraft, which is one of our strongest advantages.

The structure of the fleet is represented on the next slide. We are following our disciplined strategy of adding new capacity. In 2014 our fleet increased by 23 aircraft on a net basis. So some were phased out and some new aircraft were received in our fleet. The majority of Group fleet, approximately 70%, is under operating lease contracts and the remainder is under financial lease contracts. As of today, we expect 79 new aircraft to join the Aeroflot Group fleet within the period of 2015-2017 on a net basis, meaning that 130 new aircraft entering the fleet and 51 aircraft to be phased out. We phased out Ilyushin-96 and as of now we have three aircraft on our balance sheet, we are going to dispose of these outdated aircraft within one month.

Financial performance, slide 23. Our financial results show the growth of 10% as a result of expanding passenger traffic and favourable currency impact – we have a positive foreign exchange difference on our revenue side – though this was partially offset by softer pricing due to significant capacity coming to the market and weaker macroeconomic environment. So partially the positive effect was offset by the lower pricing as it had been initially in our budget. The cost base was most influenced by expanding operations and significantly affected rouble. Additional pressure on costs as a result of a number of non-recurring expenses including provisions for doubtful debtors and aircraft return reserves. The key message of this slide is that the adjusted net income for foreign exchange losses and non-recurring expenses, as you see here a special line. And if we take actual reserves, for example if we take net income reported and net income adjusted, you'll see the difference and our net income adjusted for the two major factors is approximately RUB 11 billion,

which is lower than the respective period in the previous year but nevertheless much more favourable. It goes directly straightforward from our figures.

Furthermore, we're going to look at the factors and the key contributors to the difference between the actual net income and the adjusted income but on the next slide we'd like to make the comparison analysis with national peers, a track record of profitable growth. If we take all the key majors in Europe, United States and Asia, the key players which represent the benchmark for us, if we take key operational metrics like PAX growth, ASK growth, RPK growth, passenger turnover growth, sales growth and EBITDAR margin, we can make certain conclusions that in terms of PAX growth, we always perform in the median – 7.5%. We expect the minimum from Air France, IAG, Lufthansa Group and Turkish Airlines. So the median is 7.5%. Aeroflot Group demonstrated 10.7% in PAX growth terms. In RPK growth metrics, we are also positioned above market average (5.5%) and we're slightly above this median. Our level works out at 5.6%. it's very interesting also that if we compare ourselves with Singapore Airlines, so our sales growth is more, considerably, maybe 10 times more than the one of Singapore Airlines, and if we compare ourselves with United States companies like Delta and United Airlines, in both metrics – sales growth and EBITDAR margin – we are also above the industry average of respective markets. So therefore we can conclude that in 2014 Aeroflot continued to pursue its strategy of profitable growth demonstrating superior growth, except for IAG and Turkish Airlines. So we demonstrate superior growth of key operating metrics and revenue while maintaining the margins in line with the leading international peers. But we can explain why we are below in comparison with IAG and Turkish Airlines case. So behind IAG numbers stand Vueling, the Spanish local subsidiary which is in the middle of an ambitious expansion plan; and if we compare ourselves with Turkish Airlines, their traffic grew faster (about 14%) as a result of the network expansion and sustainable governmental support in developing their home base hubs like Istanbul. They don't have such kind of support in Sheremetyevo.

So switching to revenue analysis on slide 25, as I have mentioned before, the significant positive impact on our revenues was produced by foreign currency, foreign exchange differences, which was softened by lower pricing – I mean weaker pricing. RUB 25 billion, which stands for the first factor, was offset by RUB 16 billion and which translates the lower pricing that had been initially planned. So the net effect was plus almost RUB 10 billion. These positive factors were partially offset by certain differences, foreign exchange differences on our cost side which we are going to speak later on.

Cost analysis on slide 26, almost all cost items were negatively impacted by foreign currency exchange rate fluctuations. The overall adjusted expenses rose nominally to 6.8% versus actual growth of 13.8%. Here we follow the same approach. We try to show the adjusted expenses items versus actual ones. The key operating cost increase was mostly driven by changes in operating leases, maintenance of aircraft, traffic and passenger servicing expenses that are the key P&L contributors and they are linked to foreign exchange rates. Let's just stop on each of them in more detail.

Relatively low fuel cost growth (net of FX) in 2014 of 5.4% has been positively affected by the company's efficiency initiatives. Our aircraft, traffic and passenger service costs are directly linked to PAX and RPK growth and they are in line with this growth and were growing a bit slower compared to our passenger traffic. If we exclude foreign currency effect, 7.9% versus 10.4% traffic growth. Staff costs grew by 15.0%, mainly as a result of salary indexations at the end of 2014, increasing number of employees by 2000 people as a result of operations growth, and other factors including the increased reserve for foreign lease – this is like a special adjustment which is made in our accounting. Operating lease expenses, +24.3% in dollar terms, was driven by rouble depreciation and if we take the correspondent figure, which was cleared out from this influence, we can extract that the actual growth was 8.0%. Maintenance expenses decrease of 5.6% was mainly driven by capitalisation of some expenses, I mean components, a part of repair overhaul and changes in maintenance programs due to phase-out of MD-11, we phased out three freighters, and Ilyushin-96 aircraft. SG&A expenses were almost flat year-on-year and D&A and customs duties increase was driven by expansion of Group's fleet. It's also like a derivative of the growth of our fleet. And other expenses growth was mostly driven by one-off provisions for accounts receivable in relation to doubtful debtors, first of all the touristic companies which used to represent in there, there are two of them – Ideal-tur and PGS – touristic, we are in legal cases with them now. Also we'd like to mention provisions for pre-term return on aircraft as well as increased communication expenses and costs related to booking systems.

Group unit costs analysis – on a per unit basis, cost per ASK (CASK) increased by 7.1% from RUB 2.49 to RUB 2.66 as a result of negative FX impact on operating expenses and traffic and passenger servicing, and also increased personnel expenses. If we take CASK net of foreign exchange differences and non-recurring expenses, these metrics would represent 6.1% decrease with the actual level of twelve months 2014. Key drivers of group unit costs are the same as I have just mentioned for total operating costs on the previous slides, the previous page.

Fuel cost management, if we take traditional use by our fuel consumption per ASK and fuel consumption per ATK – available tonne kilometres and available seat kilometres – we see 5.4% and 2.9% of decrease respectively. Average quarterly fuel price, there is an almost more than 30% decrease in kero price. As you will remember, we use formal pricing for kero so it leads to Amsterdam Platts index being calculated in rouble terms using the market foreign exchange rates. Fuel consumption per ASK decreased by 5.4% thanks to continuous fleet optimisation process which showed efficiency gains in the fuel cost of the new aircraft have been put into operations, we continued to benefit from optimised fuel supply and therefore being linked to formula pricing, we are not dependent upon the supply and demand balance inside the country because we are not dependent upon the rouble pricing; we are dependent upon the Platts-linked pricing being translated into roubles. In order to mitigate fuel price fluctuations on our financial results, we've used hedging policy as we targeted higher feasibility of our operating costs. According to our hedging policy, we hedge up to 70% of fuel needs for the sales, which corresponds to approximately 55% of Group's need. We use twelve months' hedging like a rolling basis and therefore strike on our fuel hedge contracts for this year is somewhere at the average oil price level for 2014. We haven't added any new hedge contracts for 2016. So far the market was quite volatile and we don't think that it's the right moment of entering new contracts.

Headcount overview and labour productivity. In PAX traffic revenue terms being divided by average headcount and PAX traffic being divided by average headcount, we demonstrate further improvement in comparison with the previous year. This is the fourth consecutive annual improvement in these metrics, demonstrating 1.8% improvement in terms of the first metric and almost 4% in the second metric. Over 20% of the increase in the number of personnel is related to the expansion of Aeromar, our catering subsidiary. They are expanding their operations in Rostov, Sochi, Simferopol, St Petersburg and we also improved customer service by the introduction of SKY shop service on board. This also required additional personnel and additional facilities. But nevertheless, we managed to achieve labour operational productivity gains this year. As you see, almost 4% improvement is evident.

Operating income evolution. We already explained the positive foreign exchange influence on our revenue side, which was weakened by a lower pricing in the amount of RUB 15.8 billion, but we also have the influence of currencies on our cost side, and this input is +RUB 15.8 billion. The revenue growth was driven by higher passenger volumes and currency effects and as I said, by decreasing overall yields on the back of an unfavourable macroeconomic environment, and also intensified competition. Fuel, personnel and other operating expenses growth were in line with

our operational expansion. However, foreign exchange gains from rouble devaluation is approximately 1.6x higher than foreign exchange losses on operations expenses as you can see from this slide. But the operating income generated from our core Group is RUB 11.2 billion and it's also further corrected by non-recurring expenses in the amount of RUB 3 billion. The actual pro forma operating income stands at a level of RUB 14.3 million.

Now the next slide, I will try to explain the effects not only on the operating income level but also on the net income. On the lower part of this chart, you'll see the net income moves up from actual RUB 17.1 billion, and how we correct that, and what stands behind these figures. 2.5 billion roubles are provisions on accounts receivable in relation to doubtful debtors, the two touristic companies I already mentioned. RUB 1.7 billion is one-off expenses related to the three freighters which we phased out from our fleet but it goes without saying that it was very favourable for us because the net loss generated by these three carriers for the period of one year was \$70 million. So I think that's a very favourable transaction that we managed to negotiate with the supplier - the pre-term return of these aircraft. Derivatives, these are non-cash adjustment. The valuation of the hedging contracts, oil contracts and foreign currency exchange hedging contracts, RUB 13.8 billion. This is non-cash items like adjustments which are introduced based upon International Accounting Standards which is like maybe in the first half of this year if there would be adjustment to the contrary, if the change in oil price or the change in foreign exchange rate euro/rouble or dollar/rouble rate moves to the contrary, there will be positive difference and it doesn't produce cash-out effect. RUB 1.4 billion was a gain on pre-term return on Tupolev-204 – this was on the part of Vlad Avia fleet and was returned to Ilyushin Finance. Foreign exchange and other loss, 7.4 – that's the part of difference between negative effect of finance lease revaluation on our balance sheet and a positive foreign exchange difference on pre-delivery payments which were returned by Boeing and Airbus. For the difference, the negative difference is 7.4. I'd like to say and mention the effect of finance lease obligation. As you know, our finance lease liabilities on the passive side of our balance sheet is RUB 15.7 billion and if we use International Accounting Standard 21, the difference on this finance lease body is reflected in the current year based upon the foreign exchange rate as at the end of 2014, 31 December 2014. And it doesn't depend, according to the logic of the Standard 21, that we have the tenor or lease contract at 12 years and therefore we should reflect the currency differences within the period of realisation of cash-out under the contract. Therefore we are now, for the fourth quarter 2014, this is unprecedented accounting treatment we introduced and implemented in our financials, the other standard, IAS 39, according to which we reflect foreign currency exchange differences in our financial statements and once

they are realised, there is a cash-out of the company. So we are not going to reflect this difference for a full \$2.6 billion finance lease obligation but as soon as they are realised in the form of cash-outs from the company. This makes for a rather significant effect and this is something, this is a logical which I should set it straight and commented on.

Capital structure and liquidity. Our net debt is RUB 146.8 billion is predominantly represented by finance lease liabilities in an amount of 149.3. So as you can see that our cash lines are represented by – like the borrowing is in the amount of RUB 24 billion, half of them are roubles and half of them are foreign currency-denominated. Finance lease is predominantly in dollars. 98% of finance lease is represented by dollars and borrowings, as I have already said, half-half. Total debt increased by the amount which is shown here, mainly due to revaluation of finance lease obligations, and despite the negative trends, our business is well capitalised and there is no near-term funding needs. Our portfolio is balanced in terms of liquidity. Most of the payments are due after 2018, as you can see from the chart. And strong position with almost RUB 50 billion available by cash on balance sheet, short-term investments and undrawn credit lines, committed undrawn credit lines. The nominal level of net debt to EBITDA according to aforementioned cycle increased to the level of 5.9 from 4.7, but we have already explained that, the key contributors towards the dynamics of these metrics.

Operating free cash flow is shown on slide 34. So our free cash flow for 2014 is RUB 17.5 billion, which is 30.2% below the correspondent level in the previous year. Net cash from operations, RUB 35.9 billion. Net capital expenditure, RUB 6.7 billion – that is cash capex and our capex on projects which are underway and represent the routine activity of Aeroflot. And net pre-delivery payments for aircraft, RUB 11.7 billion. So these are key material drivers of our free cash flow statement.

If we talk about our plans and how we're going to move forward, we always expect lessons from the previous crises and the recent one was in 1999 which was the trough of the aviation crisis, one of the most negative periods in the aviation industry. As you look at the charts, 2008 financial crisis led to a substantial decline of passenger traffic but the recovery was very quick. Aeroflot performed substantially better compared to the market overall, as you can see just judging by the figures on the upper chart. The company also focused on cost savings initiatives, and we cut down at the moment of time \$1 billion expenses and we fired 2500 personnel, employees, which allowed us to decrease the CASK level by 5.5%. Key drivers were administrative personnel optimisation, termination of loss-making flights or suspension of flights, fuel efficiency and a reduction of sales, general and administrative expenses. As a result, we managed to keep decent EBITDA margins in

2008 and achieve pre-crisis levels already in 2009. As you can see, in 2009 the EBITDA margin was 22.3%, which was almost in line with the pre-crisis year in 2007 with a respective level of 23.8%.

So the next slide, this is an analysis of how things behaved during the 1998 crisis, what was the proportion of domestic, international flights and what was the evolution of passenger demand and what was the Aeroflot role in this crisis. As you can see, we expected relevant lessons and recovery was very intensive.

Our contingency plan is based upon five pillars: network, capacity, fuel costs, opex and other costs, and investment plan. In order to be able to manage the current macroeconomic environment, we have developed a contingency plan that could be activated should the situation in our main strategic markets worsen. The core focus areas of the contingency plans are defending the main strategic markets of our operations by rigorous pricing and network planning. We believe that on a lot of Aeroflot destinations, we are below our fair market share, as you maybe – very few people know that Aeroflot’s market share on average in the domestic market is slightly above 20%, not 40% in bigger figures like it’s usually used by our competitors or by our opponents. Only 20%, slightly more than 20% and therefore we think that we underpenetrate the market and we should move forward and really take the strategic plans in order to invest in the destinations where we are not so intensive or where we were not so strong as our competitors. Operating efficiency with a particular emphasis on capacity and unit cost management. And the third direction of our actions, maintaining our financial discipline by implementing various cost optimisation programs and investment plan revision, I mean downward revision of our investment plan. I think the proportion of our capital expenditure which is maintenance capex is even more negligible than the figure which was shown on the previous slide and I think that is not more than \$50-\$70 million per year. That’s why we have very substantial flexibility in cutting down our investment program in case need be – in case we need some additional cash which should be expected on our development plans, at the expense of our investment program. It’s not so crucial for our activities.

At this point I would like maybe, it would be reasonable for me to stop and switch to the second part, getting the Q&A session.

Operator:

Thank you. Ladies and gentlemen, if you would like to ask a question over the telephone please press the star or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue

by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions. Our first question today comes from Denis Vorchik from Uralsib Capital. Please go ahead.

Denis Vorchik:

Good afternoon, gentlemen, thank you for the presentation. So given the non-cash FX loss, do you plan to adjust the net profit for FX items and to pay out some dividends for last year?

Shamil Kurmashov:

Thank you for the question. According to the instruction of our main shareholder like Rosimushcestvo (Ministry for Property), the basis for a dividend payout is consolidated net income under IFRS. Before that, we explained and tried to persuade the Ministry for Property that we, as a Russian legal entity, it's right we should take standalone legal entity Aeroflot for the basis of dividend but due to the previous years, Ministry for Property analysed that the consolidated net income was bigger than the standalone net income and in order to receive more dividends, they approved the policy and they implemented the policy that there should be consolidated income for the purpose of dividend payout. Therefore, it's not our position how many dividends we are going to pay. This is the position of the Ministry for Property and therefore these corrections, although they are paper ones, they are made under IFRS standards and if you take net income from legal point of view, we are just in the framework of the decision of Ministry for Property and therefore I don't think that in this case dividends should be paid. But once again, that is the position of the shareholder and the Board of Directors. If they think it's appropriate, they can make such a kind of adjustment.

Denis Vorchik:

Okay, and does it mean that this will be applied if you get, going forward, some FX gain? So does it mean that if you get FX non-cash gain, you will not make some adjustments to net profit down and pay out the dividend from there, actually from the FX gain?

Shamil Kurmashov:

No, that means that from the formal point of view, according to the decision which was approved by the Board of Directors just half a year ago, so we have closed period as of the end of 2014 therefore no positive changes can be produced because the period is closed. If in the future we have positive effects, so therefore even the paper, even in cases that the paper net income increases or it becomes positive, we are going to pay dividends, but not for the year 2014. But

nevertheless, any decision can be taken by the government. If they think that it's appropriate, they can vote for any net income and the dividend level because they have their representatives on the Board of Directors of Aeroflot. From the formal point of view, the 2014 is closed and we don't, we are not authorised to incorporate any corrections into our financial statements because it's already closed.

Denis Vorchik:

Okay, that's clear and second question please regarding maintenance expenses. So we see some decline in the maintenance year-on-year in 2014. So you mentioned the reason phased out of some plans. I am wondering what effects part of maintenance expenses.

Shamil Kurmashov:

We phased out certain – two types of aircraft, 767 and the MD-11 and partially Ilyushin-96 and this stands for economies on maintenance program for these families of aircraft because 767 was rather inefficient and we spent a significant amount of money for maintenance of these aircraft. So predominantly the effect is driven by these three types that were phased out, 767, Ilyushin-96 and pre-term return of MD-11.

Denis Vorchik:

Okay, and could you indicate what part of maintenance expense is related to FX, to for example US dollars for the remaining part after phased out of Ilyushin?

Shamil Kurmashov:

Which part is linked to US dollar?

Denis Vorchik:

Right, right so what is percentage of your maintenance expenses is linked to rouble and what percentage is linked to dollars?

Shamil Kurmashov:

Almost 100% of our maintenance expenses is linked to dollars because we have maintenance service providers which traditionally in the aviation industry are paid in dollar terms.

Denis Vorchik:

Okay, clear, thank you very much.

Operator:

Ladies and gentlemen, as a reminder to ask a question please press *1 on your telephone keypad. We will now take a question from Dmitry Sorokin with VTB Capital. Please go ahead.

Dmitry Sorokin:

Good evening, gentlemen, thank you for your presentation. My question is related to the hedging, what percentage of the fuel is already hedged for 2015 and '16 and what is the price? Thank you.

Shamil Kurmashov:

70% of our annual fuel consumption is hedged for 2015 (JSC Aeroflot). Beyond 2015, nothing is hedged yet because looking at the market and deciding, considering the right moment to enter into those contracts. But we have zero cost structure in place, we have a zero cost structure in place. That means that we buy and sell the options at different strikes. So if the oil price goes below a certain strike level, so we pay to the banks. If it goes above certain level, we receive compensation from the banks. We have approximately 10-15 contracts in place and the negative, the negative adjustment for derivatives which is reflected in our P&L for 2014 effects that the price went below a certain level. If the strike price which defends us, so above which we are going to receive compensation, goes beyond \$80-\$85 dollars per one tonne, it goes without saying that those contracts were entered into in September of the previous year. At that moment of time it was rather a relevant price. So I hope I answered your question.

Dmitry Sorokin:

Thank you.

Operator:

We will take a question from Andrey Rozhkov from Metropol. Please go ahead.

Andrey Rozhkov:

Good evening, gentlemen, thank you very much for your presentation and for results. I have two questions. First question is about your outlook for 2015, outlook for passenger turnover growth this year and probably increase in passengers carried.

Giorgio Callegari:

Okay, as you know, we don't disclose outlook but what we can say is that on the basis of already published statistics in the month of January, the Group grew 17.7% compared to last year and the

trend of growth is continuing February as well notwithstanding the fact that last year in February we had the peak of traffic due to the Olympics. So going back to the initial introduction I made about the resilience of the Russian market, we believe that even though there will be a decrease in the overall market, that decrease will not affect everybody in the same way and we tend to continue our growth thanks to the efficient setup that we have.

Andrey Rozhkov:

Okay and my second question is about passenger yields. Could you give some view on passenger yields in rouble terms for 2015 and probably for first half of this year?

Giorgio Callegari:

No, I'm sorry but that is truly something that we will not disclose.

Andrey Rozhkov:

Okay. Okay, thank you for the questions.

Operator:

Once again, to ask a question please press *1 on your telephone keypad. We will now take a question from Mikhail Ganelin from Gazprombank. Please go ahead.

Mikhail Ganelin:

Good evening, thank you for results. I have follow-up questions on your hedge strategy. Could you tell me when you have to settle settlements on your current hedge instruments?

Shamil Kurmashov:

The most material one by the end of 2015.

Mikhail Ganelin:

Okay and my second question is in your balance sheet there is hedged instrument reserves which increased to RUB 48 billion and could you explain the nature of this jump?

Shamil Kurmashov:

No, there is no jump. RUB 48 billion in capital I would like to explain that the total valuation of the hedging instrument is classified, whether speculative or whether hedging, that's also the standard, International Accounting Standard. If it's classified as speculative, which is reflected in P&L if it's classified like a hedging instrument, it's reflected in the equity. So you will not see it in P&L From

the point of view what's the criteria for classifying them in one or the other one, that's exactly standard number 39 and there are a lot of tests and figures and explanations and the logic of the test is very complicated. It's tested by the auditor and our auditor is PWC. Based upon this classification, these contracts are reflected in our financial statements as I already explained.

Mikhail Ganelin:

Okay, thank you.

Operator:

As a reminder, to ask a question please press *1 on your telephone keypad. We will now take our next question from Sergey Arinin with JP Morgan. Please go ahead.

Sergey Arinin:

Good evening, thank you for the presentation. I have a question on reporting standards. You mentioned that you switched to a new standard in the fourth quarter. Can you clarify what kind of FX loss we would have seen if you kept the previous system in place in fourth quarter?

Shamil Kurmashov:

I would say that that's not the new standards. They are the standards which was in place, have been in place for a long period of time. That means if it relates to finance lease obligation reflection in the financial statement, that means that we think that all the methodology to reflect the potential foreign exchange valuations in the financial statement because the cash flow should coincide with the exchange differences which relate to those cash-outs. for example if I have \$2.6 billion body of financial obligations in my balance sheet, I should reflect only the exchange difference which relates to payments which are made within the current year, not for the full 12 years' tenor of this finance lease obligation. That's the key logic which we adopted internally and where we had the conversation with our auditors. Therefore we think it's not logical to reflect the full foreign currency exchange difference on the full body in 2014 and it's not correct. It's not correct but I don't think it's logical and relevant or applicable in our case.

Sergey Arinin:

Yes, thank you. I just try to understand what kind of remaining FX losses may be applied for the year for these leasing contracts in the next let's say 5-10 years or so. So how many of these FX revaluations is left for future years actually?

Shamil Kurmashov:

For future 12 years? For future 12 years maybe RUB 35 billion for finance lease, RUB 35 billion. But you know, this is a synthetic figure because for example as of the end of 31 December 2014, we had for example the exchange rate was at the level of 60. If it goes down to 55 by the end of the first half 2015, we would have positive foreign exchange difference. And some of this would be like the correcting balance line, P&L line in the future. Therefore each year, when the payments are realised, we will attribute a certain portion of negative foreign exchange difference and reflect it correspondingly in our cash flow statement. And therefore any other assessment for the period of 12 years' tenor of finance lease contracts, we think it's not appropriate. But nevertheless, I cited you the figure.

Sergey Arinin:

Thanks a lot.

Operator:

Ladies and gentlemen, as a reminder please press *1 to ask a question over the telephone. We will now take a question from Mitch Mitchell from BCS. Please go ahead.

Mitch Mitchell:

Hi gentlemen and thank you for the call. At the beginning of the call you talked about three ways to think about approaching challenging times and one of them was understanding the competitive scenario in the market. I wonder if you could talk a little bit about what your sense is of the consumer right now, how price-sensitive are they. Are they becoming a little bit less concerned about prices than they were in the fourth quarter or are they more sensitive now or just a general comment on that? Thank you.

Giorgio Callegari:

Yes, happy to provide some let's say colour on that. Well, my experience is that customers are always price-sensitive so it's not that sometimes they say well, I don't care about the price. The problem is to deliver the right product at the right price at the right moment and that's why we are convinced of the effectiveness of our multi-brand strategy. As possibly I have successfully shown, the fact that Pobeda, our low-cost subsidiary, is growing so fast indicates that certainly there is still a very interesting growth opportunity at the lower end of the market. So it means that certainly we will see some significant growth at lower price but also at lower cost because Pobeda is a much more efficient company operating one type of aircraft from one airport and simplified process. On

the other hand, if you see that the yields of the Group, notwithstanding the fact that in December, Pobeda already operated at very promotional rates, had grown in the fourth quarter, that's an indication of the fact that if you give the right price, people will pay – if you give the right product, people will pay a little bit more to secure what is perceived as a quality, safe, reliable product. The fact that even though I breezed through it, the number of frequent flyer members as reproduced on slide 12 has increased by 14% in 2014 further indicates the degree of loyalty to our brand. So all in all, we believe that we have a combination of product and price that enables us to monitor market development and to offer to the market what the customer actually wants.

Mitch Mitchell:

Great, thank you.

Operator:

We currently have no further questions.

Andrey Napolnov:

Okay, thank you for the call. If you have any follow-up questions, please contact Investor Relations. Thank you very much.

Operator:

That will conclude today's conference call. Thank you for your participation. You may now disconnect.