

Aeroflot Group

Aeroflot Group Q4 and 12M 2018 IFRS Financial Results

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Edited Transcript

Speakers:

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

Participants asking questions:

- Kerem Tezcan, Citigroup
- Mikhail Ganelin, ATON
- Alexey Ryabushko, Sberbank
- Matvey Tayts, Sova Capital

Operator: Good day, and welcome to the Aeroflot Group 12M 2018 IFRS Financial Results conference call. This conference is being recorded. At this time, I would like to turn the conference over to Mr Andrey Napolnov. Please go ahead, sir.

Andrey Napolnov: Good afternoon, ladies and gentlemen. Thank you for joining us on 12M and Q4 financial results call. Today we have the following speakers: Deputy CEO for Commerce and Finance Andrey Chikhanchin, Deputy CEO for Strategy and Marketing Andrey Panov, Director for Revenue Management 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, and the webcast presentation will be on the website after the call. Before we start, I would like to draw your attention 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. For more information, please refer to the second slide of the presentation.

To begin with, let us look at the key highlights of 2018, the jubilee year of Aeroflot when we celebrated 95 years of operations. Despite we are one of the oldest airlines globally (which in fact may be considered as an investment highlight) we marked the year with a number of milestone events. First of all, strengthening positions in global Top-20 with 56 million passengers. Also, actively developing our fleet by adding over 40 aircraft, accelerating development of our LCC branch with 57% growth, updating our long-term vision for the next five years, moving domestic operations to brand-new terminal in Sheremetyevo and moving Moscow scheduled flights of Rossiya from

Vnukovo to Sheremetyevo. We also had a massive cost-cutting programme to offset oil price growth that we have seen last year.

Some market highlights. 2018 was another year for the market growth. Definitely not as high as 20% we saw in 2017, but still over 10% which is a very sizeable number. During the year the growth has been slowing down from 12.9% in Q1 to 10.7% in Q4. The lowest growth was posted in Q3 – just 8.5%. Q4 market trends are somewhat different from what we have seen in 9M 2018: foreign carriers' growth has decreased from 14% (in 9M 2018) to the modest 1.6%, while Russian airlines in general (including Aeroflot) accelerated growth by 2 p.p. Very important factor for the results that we will discuss further is that domestic carriers' capacity remained on the market in Q4 after summer season 2018. Some of the capacity may be considered excessive. As for foreign carriers, they faced high base effect of 2017 and withdrew the FIFA-dedicated capacity from the market in the second half of the year.

Aeroflot vs the market. Aeroflot Group was growing slightly above the market for the FY 2018, and substantially faster in Q4. Above-the-market growth is a pure Pobeda contribution (legacy part of the Group posted 9% growth in Q4). Looking at absolute numbers - Aeroflot Group added 5.6 million passengers y-o-y (however peers have also posted substantial additions). Market share was slightly growing to 40.7% in 12M 2018, and as usual this number includes international transfer.

On the next slide you can see that all the subsidiaries have been growing: Aeroflot itself – 9%, Pobeda – 57%, Aurora – 5%. Rossiya's PAX was flat. I have already mentioned that we have made some adjustments in the operations of our subsidiaries – moving scheduled flights of Rossiya to Sheremetyevo, which provides better connectivity and flexibility with capacity management. Some flights of Rossiya operated in Sheremetyevo will be connected to Aeroflot network, and we will speak about that in the following slides. Definitely, that's the major development here.

Having said that, I would like to pass the floor to Ivan Batanov who will give you extra colour about our achievements that were made in network and yield management last year.

Ivan Batanov: Thank you, Andrey. Let me start with Aeroflot Group network update. In 2018 we have continued to improve network quality by focusing on frequencies and connectivity and expanding to new markets with high point-to-point and transfer potential. The number of the Group's flights expanded by 8.1% in 12M 2018 y-o-y with Europe and Middle East and Africa being two most actively growing regions. Flight frequencies have also seen expansion across the board with the most notable growth points in the international segment including growing frequency between Moscow and Dubai to 28 flights per week, Moscow to Brussels to 21 flights per week, Moscow to Istanbul to 35 flights per week. Together with additional frequencies to Bangkok, Phuket and other Asian destinations this expansion was driving not only point-to-point but also international transit segments as well. These frequency increases have materially improved connectivity of specific European destinations to points in Asia. These are just few examples, by and large we have seen these improvements on many other destinations. Some O&D transfer was growing by 50-100% as a result.

Some network expansion details for 2018-2019. In summer 2018 and winter 2018/2019 seasons, Aeroflot and Rossiya airlines added 8 domestic and 13 international destinations to the network. Domestic openings are predominantly concentrated in the southern part of Russia, new international points are located in Europe and Asia. All new destinations have high point-to-point demand as well as significant transfer potential (transfer traffic for new domestic destinations amounted to 10-30%, up to 50% for some new international ones). Pobeda also continued to grow

the number of destinations served, and in winter 2018/2019 schedule operates 84 routes, 44 of which are non-overlapping with the rest of the Group.

Now, let us move to the yields. Last year total scheduled yield was up by 5%. As PLF was flattish RASK change has been comparable with the yield change. We have been very consistent with domestic fares and as a result total domestic yield has increased only by 1%, while international yield in RUB was 8% higher due to currency effect, meaning that in constant currency international yields have been flat. At the same time RASK trends are a bit different due to the increase in domestic load factor and dilution of international one (3.5% and 6% for 2018, respectively). Slower growth of domestic yields vs international ones in 12M 2018 can be explained by the following factors. First, impact of competition. Russian airlines added in excess of 4 million seats in Q4 alone with almost 30,000 flights on domestic and international routes. Q4 has been a second consecutive quarter of sizeable seat additions by Russian carriers after Q3. This aggravated domestic capacity excess started in Q3 and we had to respond in order to achieve optimal RASK. Second, flat fares to the Far East. Rossiya airline introduced flat fares for the Far East. Third, Pobeda effect, meaning the growing share of LCC (Pobeda's domestic RPK in total domestic RPK of the Group went up from 11% to 15%) and increased portion of secondary cities in Pobeda's network. Substantial support for the yields in 2018 and in Q4 came from the fuel surcharge increase that happened 3 rounds during last year. As a result, domestic yield in Q4 2018 has been up by almost 3% despite high base of Q4 2017. International yields in Q4 have been quite soft due to competition effect that I have stated above.

Now, let me pass the speech to Andrey Chikhanchin.

Andrey Chikhanchin: Hello, everybody. Let us talk about Aeroflot Group fleet breakdown. As of 31 December 2018, the Group had 366 aircraft in the fleet deployed in operation by the airlines of the Group. In 12M 2018 the Group has expanded its capacity by 55 aircraft including 6 wide bodies (Boeing 777), 36 narrow bodies in medium-haul segment and 13 narrow bodies for regional services (SSJ100).

Fleet expansion strategy. Main driver of fleet growth in 2019 will be Pobeda adding 9 aircraft during the year. We also anticipate extension of the fleet by 5 aircraft only (highlighted in the blue box in the low part of the slide).

Now let us move to Aeroflot's 12M 2018 financials. In 12M 2018 we continued operational expansion, posting PAX growth of 11.1%, RPK growth of 9.9% and generating RUB 612 bn in revenue that represents 14.8% growth. Growing yields during the year helped us boost traffic revenue growth in 12M 2018 to 16.6%. Mounting pressure of fuel prices and exchange rate dynamics were reflected in 12M 2018 margins and financial result, with negative impact partially offset by cost-cutting initiatives and active approach to pricing (including surcharge adjustments). As we commented on Q3 call, fuel was still very expensive in Q4. Extra capacity in the market after summer and EUR/USD changes resulted in softer than usual Q4. Looking at full year and Q4 results we need to keep in mind one important factor we all knew about: fuel. Fuel price increase alone resulted in RUB 48 bn impact in 2018. On top of that, RUB depreciation also was a negative factor for financials. Only massive optimisation programme developed by Management and supported by the Board has helped us stay profitable.

Let us look at the results in details. As I mentioned earlier, the Group's revenue grew by 14.8% during 12M 2018 y-o-y and amounted to RUB 612 bn. Expansion of scheduled operations generated RUB 69 bn. Leisure segment had a sizable contribution of RUB 7 bn. As expected, revenue growth in Q4 was softer y-o-y vs previous quarter due to lower season and 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 been able to realise the positive currency effect of RUB 27 bn and RUB 3 bn on pricing due to increase of fuel surcharge despite high competition and limited disposable income growth.

In 12M 2018 we have seen operating expenses growth driven by the following lines. Fuel cost went up by 48%. In order to offset this hike we have launched a number of optimisation initiatives that have helped us stay profitable in 2018. Fuel price peaked in absolute terms in Q4 amounting to RUB 50,000 per tonne. The next line is operating lease that went up by 35% y-o-y. The growth is primarily linked to growing fleet in operating lease as well as depreciation of RUB vs USD and growing of LIBOR rates. The next line is maintenance (up by 25% y-o-y). The increase is explained by growing size of the fleet (up by 13% y-o-y) and increase in light maintenance procedures due to schedule primarily in Q2. Other lines have been supported by our savings initiatives. Staff costs were flat despite material hike and pilots' salaries this year and headcount growth of 6%. We have released provisions for management incentive programme and KPI-based system resulted in lower variable compensation. We have also seen savings in SG&A (including marketing) and other costs. Overall total revenue in 12M 2018 has grown by 14.8% y-o-y. OPEX excluding fuel has grown 10.9% in the same period, which means that the pressure of our financial results is predominantly explained by the fuel price growth. Though the efficiency will remain our mid- and long-term priority after the massive cost-cutting our short-term opportunity to further optimise costs is limited.

The next slide is on the Group unit costs. In 2018 we have substantially improved our cost base in order to offset fuel headwinds as much as possible. As a result, non-fuel CASK effectively stayed flat despite 8% depreciation of RUB vs USD (around 50% of our costs are denominated in USD and EUR). It means that the reported 9% CASK increase is just a result of fuel inflation.

Fuel cost management. Jet fuel price has been extremely high in 2018. This growth has begun in 2017 and has stabilised only in Q4 reaching historical maximum of ca. RUB 50,000 per tonne of jet fuel. The average growth for 12M stands at 36.1% and for Q4 at 35.9%. In December 2018 we have seen a bit of relief. We see prices lower in January 2019 month-on-month, but they are still higher year-on-year (about 10%).

The next slide is on EBITDA evolution. In 12M 2018 we generated RUB 33.6 bn EBITDA. Pressure on EBITDA in this period is fully explained by the increase in a number of cost items, which we previously discussed. Total fuel bill was up by RUB 59 bn (main drivers are pricing and FX factor contributing to RUB 48 bn combined). EUR/USD was quite favourable for Aeroflot (12M 2018 average rate reached 1.18 vs 1.13 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 27 bn, which was offset by negative effect of FX on costs in the amount of RUB 29 bn.

Pobeda financial results. Pobeda has been actively expanding in 12M 2018, as my colleagues mentioned earlier. Notwithstanding significant additions of capacity (65.4% growth in 12M 2018 y-o-y) Pobeda was able to keep the load factor almost flat at 94.1% and grow RASK by modest 0.7%. Yields of the company were on the positive zone in 12M 2018 with slight pressure on domestic routes yield dynamics due to development in less sizeable markets and accelerated addition of capacity in the period. International yields grew mid-single digit in 12M 2018. For low-costs increase in fuel price is particularly complicated due to the higher elasticity of demand. But Pobeda managed to generate very high margin by any standard.

Leverage and liquidity. Total debt as of 31 December 2018 decreased by 6.8% on the back of decrease in finance lease liabilities. The Group secures very stable cash position – RUB 30 bn. Some decline in cash is a result of share buyback and extra expenses on fuel.

The guidance for 2019. Now I would like to pass the floor to Andrey Panov, our new Deputy CEO for Strategy and Marketing.

Andrey Panov: Hello, everyone. Let us discuss our expectations for 2019. We expect the market growth to slow vs 2018 and switch to single digit mode in PAX terms as last year was supported by events like World Cup. In our strategy we count on growth of 6-7%, but I should also mention that the market growth in January is still more than 10%. Speaking about Aeroflot figures, we are planning to continue operational growth, which will help us generate additional volumes in 2019 as well. The figures are as follows: PAX growth will be 9-10%, as we expect, ASK growth is the same, load factor not lower than 82%. We expect double-digit revenue growth backed by capacity increase and positive yield dynamics. As for fuel prices, we expect them to stabilise. But we actually don't expect that they will go down significantly.

Having discussed what was last year, let me speak a bit about our new 5-year strategy. As you may probably know, Aeroflot's Board of Directors approved a new strategy at the end of last year and some high-level numbers have been presented to the investment community. Before we proceed I would like to give you some historical context. In the last year of the Soviet Union evaluation of PAX number for the country was approximately 140 million passengers, and if we speak only about the Russian Federation, it is over 80 million passengers travelling mostly on domestic routes. Overall, now passenger flow figures in Russia are a bit higher, but the domestic flow is still lower than it was in the Soviet Union.

Next slide is on our new strategic vision and our new 5-year strategy. I can say that, in our opinion, it is very consistent with Strategy 2025. In other words we have upgraded strategic targets as we achieved some of key 2025 targets in advance or have been on the way to achieve them in foreseeable future. Let us start with number of passengers. We have upgraded our 70-75 million target for 2025 to 90-100 million for the next 5 years. We believe that Pobeda will be our major growth driver with really high contribution to the growth and we expect Pobeda to be in a 25-30 million PAX range in 5 years. International transit traffic is really important for us and we believe that we can have 10-15 million PAX in 2023. Regional development is also very important for us. We are talking here about new international hub in Krasnoyarsk, about which I will speak a bit later, and 3 bases in Sochi, Yekaterinburg and Novosibirsk. Fleet expansion is in line with our growth of PAX numbers, fleet of the Group will be about 520 aircraft. Once again, we understand the importance of digitalisation in these years and we will invest in it and we believe that it is an important factor for our future growth.

Let us talk about the target decomposition in terms of different airlines. If we take Aeroflot and Rossiya net of transfer of passengers, these airlines will grow at CAGR of 4%, which is well below historical growth and we believe these are appropriate figures because we understand that our overall forecast for the market is 6%-7% CAGR growth for the next 5 years and we can afford a bit less growth in Aeroflot and Rossiya segment which is a more premium segment. The main growth driver for us would be Pobeda, once again, that will grow approximately 4 times. Let me return to this after a couple of slides.

Let us move next. Here we will talk about Moscow as a global transfer hub. I will give you some key figures as to why we believe we can have a sustainable growth in international traffic and why it

could be successful. First, location. Passengers may save up to 3 hours flying with us to Asia and back. When we present the strategy, a lot of people say “Look, the same we hear about Helsinki”, and yes, this is true, but what is important is that compared to all our European competitors our CASK is much lower. This means that we can afford to be profitable on much lower prices than our European competitors. If we go back to Gulf carriers, here the 3 hours-longer flights are really important if you fly with the Gulf carriers.

We, once again, want to emphasize the high quality of service we provide to our passengers. Aeroflot is rated four stars by Skytrax and five stars by Apex. And we plan to gradually develop our product and get it promoted among the international audience. In terms of perception, we understand that we could have improved it in Europe, but at the same time we have really good brand perception in China. It is important to us because China is a huge market which is growing quite fast. So we are looking to gain a bigger share of China-to-Europe destinations.

It is also worth mentioning that we plan to grow our wide-body fleet from approximately 60 aircraft in 2018 to 80 wide-body aircraft in 2023, which will allow us to increase the number of destinations and frequencies in Asia.

Now let us move to Pobeda. Operationally, we see it as our biggest challenge as it was anticipated to grow four times and carry 25–30 million passengers. The LCC model has proven to be successful all over the world, and we believe that the first three years of Pobeda’s operation prove that it will be successful in Russia too.

If we look at the statistics, we see that when Pobeda opens a new route, the number of passengers on these routes increases dramatically. The effect from Pobeda is approximately 30% of additional traffic. And it is not just calculations or theories – Pobeda’s effect of traffic stimulation was proven by all these years of Pobeda’s operation. The last thing, which is also important, is the fact that Pobeda’s CASK is now one of the lowest not only in Russia, but also in the world.

We understand that many of you may have questions about our regional development. As I have mentioned earlier, we will have a new international hub in Krasnoyarsk and three bases in Sochi, Yekaterinburg and Novosibirsk. As a result, regional traffic will rise to 19 million passengers from 7 million in 2017. One of our aims is to grow our traffic in St Petersburg – we actually plan to double it. The main drivers of this growth will be Pobeda and Rossiya airlines.

As regards Krasnoyarsk and why we would like to have a hub there, we understand that this model has proven to be quite successful for some of our competitors in Russia. Our plans are not gigantic – we just want to try this model and see if it could be successful for us. So it will be a hub with two types of aircraft – Boeing 737 with normal business class and Sukhoi Superjet with European business class. Our main routes from Krasnoyarsk will be to China and Russia, so we will have both traffic from China to Russia at the early stages of the hub operation, point-to-point traffic from Krasnoyarsk and transit traffic in the Siberian region.

If we speak about Sochi, Novosibirsk and Yekaterinburg, it is important to note that Pobeda will be an active player in these cities. We have been receiving questions like “Is it feasible for Pobeda to have more bases than just one in Moscow?”. Here I would like to remind you that Ryanair has almost 90 bases in Europe, and I would say that it is quite a successful airline.

These were, more or less, the most important highlights of the strategy, and I think that we are done with the overall presentation and now Andrey Napolnov will guide you through the last part of our conference call.

Andrey Napolnov: Sure. That concludes our presentation part of the call. We can now move to the Q&A. Please feel free to ask any questions you have.

Kerem Tezcan: Hi, and thank you for the presentation. I have a couple of questions. My first question: as the aircraft unit servicing costs have increased or the momentum has changed in Q4, is there a specific reason for that, for that increase in Q4? And will that increase prevail in 2019?

My second question is about the pressure on pilot salaries. We are seeing it in some regions and on some routes because of the scarcity of pilots. Are you experiencing any pressure on the wages of pilots? And are you expecting the efficiency and personnel expenses in 2018 to prevail in 2019?

Another question is about IFRS 16. What would be the impact of you converting your financial statements to IFRS 16 in 2019? What is the tenure of your operational leases and how would that be affecting your margin overall?

And the final question is about dividends. Are you planning to pay dividends from this year's earnings? Thank you.

Andrey Chikhanchin: Thank you for your questions. Let us start with the costs for aircraft in Q4 and FY 2018 and our forecast for 2019, as I understand. The growth in costs for aircraft depends on FX effects and the rise in quantity of our aircraft. We are not in a position to think that in 2019 growth of these costs will be much higher than this year. I think it only depends on the rise in quantity of our airplanes. As I have said during the presentation, the net effect on the quantity of airplanes will be +5 aircraft in 2019.

As regards the wages of pilots, we think that we have one of the highest salaries in Russia. For pilots, it is about USD 10,000 per month. I think it is rather competitive. We do not expect any rises in this cost line.

Speaking of dividends, as I have said many times earlier, we have a dividend policy that provides for a 25% payout. We are not in a position to change this policy, but the decision about the size of dividends will be made in April or May by the Board and approved by the Annual General Meeting.

As regards IFRS 16, I will pass the floor to Artem Glaznev, Head of IFRS Reporting.

Artem Glaznev: Hello, everybody. The introduction of the new accounting standard IFRS 16 will reshape the balance sheets of most companies that rent valuable equipment, and airlines will be affected once the international standard takes effect. Aeroflot will adopt IFRS 16 starting from 1 January 2019 (or Q1 2019 financial results) using a fully retrospective approach. According to the preliminary assessment, the Group expects to recognise approximately RUB 645 bn debt as liability and RUB 485 bn as assets as a result of lease recognition under aircraft lease agreements excluding the effect from regular repairs and payments to the lessor (refunds). In order to mitigate potential debt revaluations, we plan to adopt hedge accounting as we do for our finance lease now. Preliminary confirmation from auditors was received. We assess the final effect of the IFRS 16 implementation and we will disclose it in Q1 2019. However, we do not expect that will be material. That is all.

Kerem Tezcan: Thank you for answering the questions. As for the question one I would like to clarify that I actually asked about the unit aircraft servicing cost, not the cost of debt or the cost of aircraft financing. It is the question about the aircraft servicing cost within the total expenses that I would like to repeat again. And the second question is, in addition to pilots, do you expect the personnel expense efficiency to prevail in 2019 because it was almost flat y-o-y in 2018.

Andrey Chikhanchin: Thank you for your clarification. Regarding the aircraft servicing cost, it was summarised in the costs, of course. It is the part of the cost that we can hardly control because it is driven by airports and we do not know if airports have any plans to raise the price. If we are talking about salary again, we are not in a position now to make any salary rises. That's all what I can say about this.

Kerem Tezcan: Thank you.

Mikhail Ganelin: Good day, gentlemen. I have a couple of questions. The first one is about your growth rate. We see that your passenger traffic and turnover have accelerated quite significantly starting from Q4 2018 and we continue seeing this growth in the first two months of this year. What was the reason for this growth? Was it strategically the right move because we see that at the same time the load factor declined substantially? And you opened a lot of new destinations to the cities which are not, as I understand, traffic intensive (e.g. Osh, Ljubljana) amid the tough environment for airlines related to the oil price. So, was it a strategic move and what can be expected this year? You still forecast a 10% growth in turnover which means some deceleration compared to the first month. Is it correct? That is my first question.

Andrey Panov: Let me start answering your question and then Ivan Batanov will continue. I think that the question is whether we should open new destinations or not. For us, it is quite obvious that, yes, we need to open new destinations and some of them will be opened during the winter season and some – during the summer season. We are not moving all openings from summer to winter anyway. In terms of our growing traffic, we should say that we are using our aircraft more intensively. In general, it will have the consequence of decreasing CASK overall in the year and we believe it will have a positive effect. But as for why the growth cannot be 15% throughout the year, it is, I think, quite obvious – because in summer we use our aircraft to its maximum capacity and it is hard to increase the usage even more. Ivan, please.

Ivan Batanov: I would probably add a few words. You have mentioned destinations like Ljubljana. I will not agree that these destinations are quite weak, because, for example, in case of Ljubljana, we already upgraded the capacity on this route from Sukhoi Superjet to Airbus A320 because the focus at the moment of the route network development and the choice of new destinations was not just on point-to-point but on transit traffic. The main focus was on transit traffic. And on destinations like Ljubljana, transit flow accounts for half of the traffic. I believe, our decision on new destinations during this winter season was absolutely great. I do believe in these new destinations.

Mikhail Ganelin: Ljubljana is just an example. Thank you for answering my first question. My second question is how you plan to increase your profitability this year. Do you expect to make your free cash flow positive given it was negative last year? What measures are you going to take to improve your financials compared to last year because last year you could not pass, for example, fuel cost on passengers because of Pobeda and Rossiya Airlines? What measures are you going to take this year to make the picture better? Or does it depend completely on external factors and you cannot do anything anymore? Thank you.

Ivan Batanov: In terms of revenue, what we have already achieved is that we have increased our fares by the amount of the inflation rate in 2018, i.e. around 5%. Plus Aeroflot has just announced an increase in fuel surcharges. It is valid for the sales starting last Monday for the travel period from 1 April. It is another RUB 200 for domestic destinations. This is additional revenue that would allow us to make our flights more profitable.

Andrey Chikhanchin: If we are talking about the cost base, we are still working on our cost-cutting programme, which we started in 2018. We have some internal measures, where we can save, so these two measures, on the revenue side and the cost side, will help us increase profitability. If you are talking about CASK, fuel CASK is not expected to substantially increase.

Mikhail Ganelin: Thank you very much.

Alexey Ryabushko: Thank you very much for the presentation. Just several quick questions. First, you cited a number of 4 million spare seats in the industry. Can you give us the total number of seats in the industry from which these 4 million are spare? What was this number starting last year? Just to give us some perspective if this number is increasing or decreasing. Second, I misheard about the IFRS, can you please repeat more clearly the numbers of total assets and total liability. Third, if we compare the route fleet addition schedule to nine months, we will see that you added five more planes to arrive into 2019. Can you please specify to what airline these planes are supposed to go? The last question is the following. You cited flat tariffs for the Far East as one of the reasons for pressure on profitability. Can you also specify if these tickets are supposed to be partly compensated by the government? Is it your initiative to offer these flat-fare tickets? Thank you very much.

Andrey Napolnov: Alexey, a few comments on the questions. Regarding the number of seats which we have in the industry, I do not have the information at hand with me. However, it's possible to divide the market numbers by the average load factor (that would be approximately the number of seats airlines are offering) and then make calculations you need depending on the quarter. Regarding the IFRS statements, I would like just to reiterate the numbers we have announced – RUB 645 bn reflected as debt (in liabilities) and RUB 485 bn in assets. We have a dedicated note on debt in the IFRS statement, so you can double-check and find some extra information there. As for five planes, yes, five planes are to be received according to our plans. There will be nine planes for Pobeda Airline and as for the other brands, there will be some net phase-out. But again we need to take into account utilisation, as it is a very important efficiency initiative that we have in the Company, so capacity will be growing. In terms of the Far East question, we have not said or at least we did not imply that this affects profitability negatively. We have been saying that the introduction of flat fares had some dilution effect on yields. Definitely, if you have been selling these tickets at the price determined by the revenue management system last year and now you sell just a flat fare, you have contribution to the yield. Whether it is compensated by some budget funding or not – that is a different story. Flat fares are fully financed by Aeroflot.

Alexey Ryabushko: Yes. Thank you very much.

Matvey Tayts: Thank you for the presentation. My question is about the RPK yields. In your nine-month presentation and during the year, you reported this blended yield for international and domestic flights. So, what is your FY 2018 blended RPK yield for domestic and international flights?

Ivan Batanov: Thank you for the question. Let me comment on it. Speaking about the twelve-month yields, the growth rate for domestic flights was at the level of 1.7%, with the amount of 3.47 RUB in 2018. For international, the growth rate was at the level of 9.1% and the amount for 2018 was 3.92 RUB, with the total increase of 6% and the amount at 3.73 RUB. This is for the yields.

Andrey Napolnov: Matvey, I wanted to clarify on blended yields as well. Just to make it clear, we always try to highlight the scheduled yields because that is what we manage and control. In the charter programme, it is not yield-based operations because fares are based on flight hours and

there are some retainers. However, we have a lot of questions from analysts that is why we offer full transparency and publish this information so that you can make the required calculations.

Matvey Tayts: So the numbers you just mentioned are blended yields, right?

Andrey Napolnov: Yes. You have them in the appendix to the presentation and may compare with the scheduled ones.

Matvey Tayts: Okay. Great, thank you.

Andrey Napolnov: We would like to thank everyone for joining the call today. If you have any follow-up questions, please feel free to contact us after the call. Thank you very much again.