

Aeroflot Group

Aeroflot Group Q1 2020 IFRS Financial Results

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Edited Transcript

Speakers:

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

Participants asking questions:

- Maxim Nekrasov, Goldman Sachs
- Ivan Postevoy, VTB Capital
- Elena Jouronova, JP Morgan
- Igor Goncharov, Gazprom Bank
- Mikhail Ganelin, ATON
- Matvey Tayts, SOVA Capital

Operator: Good day and welcome to the Aeroflot Group Q1 2020 IFRS Financial Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Andrey Napolnov, Head of IR. Please go ahead, sir.

Andrey Napolnov: Good afternoon, everyone. Thank you for joining us on the call to discuss Aeroflot Group's Q1 2020 financial results. Today, we have the following speakers on the call: Deputy CEO for Commerce and Finance Andrey Chikhanchin, Deputy CEO for Strategy, Service and Marketing Andrey Panov and Director of the Revenue Management Department Ivan Batanov. Let me remind you that the press release and the financial statements are available on our website, in the IR section, and the webcast presentation will be available in the IR section after the call. Before we start, I would like to draw your attention to the fact that some information, particularly in the current environment, may and will contain forward-looking statements regarding future events or performance. Actual results may differ materially from those expressed or implied in the statements made in the conference call due to known and unknown risks and uncertainties.

Let us start with the key highlights to be discussed during the presentation. Q1 2020 began with continued improvement in the results, similar to what we saw last year. Unfortunately, since late February the results have been significantly affected by COVID-19 spread and unprecedented global pressure on demand and the financial and operating performance of the Group. At least we faced the crisis in better shape after the year of improvements. Although PAX decreased by 12% y-o-y, we managed to grow the yield in the quarter, and thanks to a swift reaction to adjusting demand cut part of the capacity to save costs, which resulted in the comparable level of adjusted net loss vs. Q1 2019. We will discuss both operating and financial trends of the quarter and the following months in more detail throughout the presentation.

Now I would like to pass the floor to Andrey Panov to discuss market conditions and operating performance of the Group in the quarter.

Andrey Panov: Thank you, Andrey. Hello, everyone. Let us start from slide 5 and discuss what is going on on the Russian market. Following the trends in global aviation heavily impacted by COVID-19, the Russian

market posted a 7.1% y-o-y decline in passenger traffic in Q1. This decline was primarily impacted by the international segment, while the volumes of domestic operations for the quarter were more or less in line with the previous year. We believe that it is an important fact to understand about the Russian market and Aeroflot in particular. This different speed of decline is explained by the fact that international restrictions commenced in late January and early February, and became substantially stricter by the end of March, when all international flights were suspended. As we all remember, it started in China, so we moved to Europe and of course it had a lot of impact on our operations. What we saw on the market is that some airlines, including some carriers of Aeroflot Group, were partially relocating capacity to the domestic market to compensate for the loss in the international traffic. Since Aeroflot Group has higher exposure to the international segment than domestic carriers do in general, the decline in the Group's PAX was higher.

Let us move to the next slide where you can see the impact of the virus starting from March. The beginning of the year (first two months) was quite ordinary and the market was OK, despite the loss of traffic to and from China, which put pressure on the growth already in February. The decline became more pronounced in March and a disaster in April. As you can see, we had a 90% decline in traffic, capacity, and everything.

Let us now move to the next slide, which we believe to be quite important. Here you can see the dynamics of our total, domestic, and international PAX figures. We believe that sizeable domestic market is one of the key competitive advantages and strengths of Aeroflot's investment case, especially in the days of the virus. In fact, not too many carriers globally have an opportunity to leverage this advantage, just because the domestic market is not always present for airlines. On the one hand, we believe (and that is in line with IATA forecast) that the domestic market will recover faster than the international one. On the other hand, travelling domestically is to a large extent a necessity, and Russian travellers opting for domestic holidays instead of international is a fact already proven during the previous crisis in aviation in 2014–2015. I would like you to look at this chart. In March, we in Russia have quite a holiday, International Women's Day, and a lot of people travel during these days. You see that there was some significant substitution (*of international demand with domestic one*) during these days, and I would like to remind you that it was approximately when the Russian government started to put restrictions on travel. Here you can see quite pronounced substitution (*of international demand with domestic one*).

Let us move to the next slide. I will speak shortly about different airlines in our portfolio. Out of all airlines of the Aeroflot Group, only Pobeda demonstrated growth in the number of passengers in Q1 2020, while other airlines posted a 15–20% decline. As you can see here, the decline was much more pronounced in April, even for Pobeda, but we will discuss Pobeda on the next slide. You can also see that Aurora, our small company in the Far East, had a lower decline in PAX than other airlines. This is quite natural – as you probably know, COVID-19 impacted the capitals first, including Moscow. Since Aurora is a regional airline operating in the Far East, the decline was lower. Probably, some of you know that Aeroflot was not the airline No. 1 during some moments of the crisis. The reason is that the crisis mostly affected the Moscow Region and there was still some activity in the regions.

Let us move to Pobeda. I think that it is very important to understand what is going on with Pobeda. The airline continued its amazing growth in Q1 2020, and it was a 22% y-o-y increase. Despite external pressure, the company managed to increase passenger traffic by 3% in March. Even in March, the passenger load factor was great for the Russian market – 84.2%. In April, Pobeda decided to suspend all of its flights to preserve cash and secure operating expenses economy. The reason was quite obvious – the share of fixed costs for Pobeda is much lower than for legacy airlines, they have small headquarters and they decided it would be better financially to stop operations. As you probably know, they resumed operations in June – actually, it was 31 May. It is really early to speak about the first results, but I can tell you that they are selling tickets at the prices which are lower than a year before, but the first flights had

a load factor of much higher than 90%. It gives us some hope that Pobeda will manage to resume operations at a quite fast pace with significant positive results.

At this point, I will pass the floor to Ivan Batanov. Thank you.

Ivan Batanov: Hello everyone. Let us move to the next section, Network and Schedule Overview. I suggest we start with Aeroflot Group Scheduled Flights Revenue Units this time. In terms of revenue management, we had a successful start of 2020. We maintained positive pricing trends of 2019 and continued to increase yields. As a result of that, we posted a 3.2% increase in yield in Q1 2020 (0.1% for the domestic and 6.2% for the international segment). RASK dynamics was negative due to a very substantial PLF decline of 6.9 pp, the key factor being definitely COVID-19. From the operational perspective, we could not avoid lower loads in the turbulent environment of March, as they came not from the weaker advance bookings, but from last-minute cancellations. Even almost immediate manual adjustment in capacity did not bring the load factors back to the normalised levels. In the environment of declining PAX and material decrease in capacity, operating yield is not as important as it usually is. However, I would like to highlight that when performing our operations we targeted at least to cover the direct costs of the flights we operate, as every penny matters to us. It was possible due to the inelasticity of demand in April and May.

Let us move to the next slide, which is devoted to network adjustments. In Q1 2020, the number of scheduled flights of network airlines decreased by 7.5%. Most of the decrease was attributable to the international segment with a smaller scale decline for domestic operations. In April, the pressure in both segments mounted and Aeroflot Group operated only a limited number of flights (ca. 10% vs. business as usual), mostly domestic, as international operations were limited to repatriation flights.

Let us look at the next slide and the operating numbers for Q1 and Q2 2020. Our key focus in the COVID-19 environment in March and April was to optimise schedule to service the existing demand (or whatever was left of it) in the most efficient way. As I have mentioned, the international network was closed with only a limited number of allowed repatriation flights performed, while the domestic capacity was also down by close to 80% in April. Lower than normalised loads in March and April is not a surprise, but they should be regarded in the context of only limited capacity operated (which means that the Group had already minimised variable costs). In the second half of May, we can already see the improving loads on the domestic network – it is still below 2019, but materially higher than the 35% we saw in April, which gives us more confidence while we are working on the programme to revive our network.

I suggest we look at the next slide, China Case, because it is a very good example of the domestic segment reopening. In June, we start to rebuild our network from the domestic segment. Pobeda Airline, for instance, is taking off on 1 June. Our belief in the domestic market is based not only on our modelling assumptions or IATA forecasts, but also on the recent data from China, which proves that the domestic market recovers quite fast. We are working on the plan to manage the recovery in the most efficient way. Definitely, we will begin with reopening services to cities with limited frequency and only then gradually increase the number of flights per week or day. Sizeable markets will be prioritised. On top of that, we have planned new domestic cities in our network for summer 2020, including Chita, Orsk, Yaroslavl, and some other so that we exploit all opportunities in Q3 2020. To stimulate bookings (and we believe that it yields some results), we have amended the terms and conditions of the fares so that passengers can easily change the tickets.

The next slide is focused on cargo. Notwithstanding the pressure in the passenger transportation segment, cargo demand remained quite strong. In order not to lose our belly cargo volumes completely, we operated 18 aircraft solely for cargo transportation, transporting the goods in cargo compartments and in cabins of Boeing 777s and Airbus A330s. Preparation of aircraft for cargo transportation is quick and does not require material investment while allowing to increase cargo capacity by ca. 30% per plane. In April, we transported around nine tonnes of cargo, which is ca. 33% of the usual April volumes, keeping

around 60% of the volumes domestically and 20% internationally. Due to positive cargo yield trends (particularly in the international markets), we saw not a decline, but some growth in cargo revenue in April and May.

That is all from me, and I pass the floor to Andrey Chikhanchin.

Andrey Chikhanchin: Thank you, Ivan. Hello everybody. Let us move to the fleet update. In Q1 2020, we operated 361 aircraft, 10 aircraft fewer than in Q1 2019. Currently, a part of the Group's fleet is temporarily grounded, and the grounded aircraft are rotated. From Q1 additions you may conclude that we are very conservative with the fleet, and our goal to take 30 aircraft this year is no longer relevant. We are in the process of negotiations with our partners and not ready to share any particular delivery plan, but I believe that excessive capacity because of deliveries should not be a concern for the market. Negotiations on A350 are also underway. Given the current market situation, it makes more sense to at least partially postpone some of these deliveries and to receive these aircraft closer to summer 2021 rather than have many of these aircraft on the ground for a long time. We are certain that any changes in the delivery and PDP schedule will not result in any funding gap. Overall, we think that our reaction to the pressure on demand in terms of fleet management has been quite adequate and we have achieved improvements since our previous call.

Let us move to the financial performance and highlights of Q1 2020. On the back of softening demand due to COVID-19, we experienced a 10% decrease in revenue in the quarter, which was better than the decrease in PAX and RPK traffic. Operating expenses decreased as well though at a slower pace due to the significant volume of last-minute cancellations in March. Together with weak revenue, it further increased the operating loss in the traditionally loss-making quarter of the year and put pressure on EBITDA and the bottom line. Rouble devaluation in the period led to the revaluation of the Group's debt portfolio. Due to a decrease in foreign currency-denominated revenue, part of this revaluation is reflected in P&L in the amount of RUB 6.7 bn, according to the current accounting policy. This is a non-cash revaluation which is not associated with a real cash outflow of the Group. Without this paper adjustment, net loss in Q1 2020 is comparable to the previous year's level, which was RUB 15,746 m.

Let us move to the revenue dynamics decomposition. The Group's total revenue amounted to RUB 124 bn in Q1, down by 10% y-o-y. The obvious negative impact of weaker demand on volumes in Q1 was somewhat offset by better pricing trends, especially in the first months of 2020. Cargo segment performed very successfully and brought in additional revenue thanks to our timely decision to operate passenger aircraft as cargo ones. We will talk about this a little bit later. Despite a particular weakness of passenger transportation operations expected in Q2 2020, we anticipate that cargo operations will support revenue, of course. Operating cargo flights fully covers servicing these flights for sure and leases of these particular aircraft. It is definitely a very positive development.

Operating Costs. In the current environment, our key focus is cost decrease to extract additional cost efficiencies and bolster the liquidity of the Group. The cost structure of the Group implies that approximately 60% of costs are variable and 40% of costs are fixed. In Q1 2020, variable costs were down on the back of ca. 5% less flight hours and 5% ASK decrease y-o-y. As total operating expenses were also down by 5% in Q1 it illustrates that we already managed to decrease fixed costs as well, though we have just started optimisations late in the quarter. The most significant contributors to cost declines among variable and partially fixed costs were fuel costs, aircraft, traffic and passenger servicing expenses, etc.

Fuel Cost Management. Fuel price in Q1 2020 was quite beneficial decreasing by 5.5% for Aeroflot airline on the back of significant pressure on oil prices driven by fears of global softening demand for energy products. As we moved into Q2, fuel price adjusted further reaching RUB 30,700 per tonne in April 2020, which marks a 30% decrease y-o-y. We have seen the continuing fuel trend in May. Unfortunately, we

have not been operating a lot of flights in April and May, so realised upside from low fuel is limited, but reduced jet, if it stays below 2019 numbers, may be somewhat supportive for us in 2020.

Let us move to Pobeda's financial results. Despite the extremely complicated situation in the industry, Pobeda even improved results in Q1 2020. I believe that a 33% growth in revenue is not a surprise on the back of a 23% increase in ASK. However, lower cost base resulting in improved operating profit and net income is particularly impressive in the context of the results and low season of Q1, which is normally a loss-making quarter. As low-cost companies (LCCs) tend to have a higher proportion of variable operating costs (among other factors) because of a higher share of fuel in OPEX and in anticipation of a wider lockdown in Russia, Pobeda suspended its operations for the months of April and May, partly resuming domestic flights in June.

Leverage and Liquidity. That is a very important slide. With the main focus on securing additional liquidity in the face of significant pressure on sales, the Group drew down part of available credit lines in Q1 2020 increasing the borrowing level to RUB 46 bn. Lease liabilities went up mostly due to paper revaluation linked to a 26% weaker rouble as at 31 March 2020 vs. 31 December 2019, while the number of aircraft in the fleet has not changed materially during Q1. At the same time, cash preservation measures and additional financing in Q1 allowed us to accumulate cash. Cash position in April was further reinforced reaching RUB 50 bn at the end of the month with over RUB 60 bn available in undrawn credit lines.

Aeroflot's Steps to Navigate COVID-19 Crisis. As the situation in the industry is extremely complicated, the management team is taking all possible steps to minimise the financial consequences of this heavy turbulence caused by COVID-19. The Group optimises key fixed cost lines, including lease costs, SG&A, IT costs, etc. Variable costs are also down, I would say due to timely steps taken to reduce capacity. As one of the key cash preservation measures, vouchers have been introduced as a compensation means for tickets to avoid the outflow of cash from the Company. On the operational side, we are planning to open new domestic routes this year in order to utilise as many aircraft as possible and have already placed a stronger focus on cargo.

Based on our regular flying programme, and on our financial planning, we expected to burn about RUB 65 bn of cash through April (total cash outflow, including cash costs, interest on lease payments accounted as interest expense in P&L, and indirect taxes). Due to the actions we have taken, including the launch of extra cost-cutting measures, we have managed to bring the rate of cash outflow for the Group down by about three times. During recent weeks, we have made a further improvement on a weekly basis. Clearly, one of the primary factors behind that is reducing our capacity, which resulted in an immediate decrease in variable costs and material optimisation of fixed costs. We have also adjusted our CAPEX vs. the projections announced in 2019 to approximately half of the normal basis. Material support also comes from the state: we applied for and received a RUB 8 bn subsidy.

Finally, concluding our call, I would like to state that Q2 2020 is expected to be significantly worse than Q1 (in terms of the financial results and loss we are to generate) given the substantial decline in passenger capacity and traffic and despite some relief from various management actions that we have already taken and are planning to take. As we are moving closer to Q3, we are planning to take advantage of all opportunities offered by the market. That concludes the presentation. Operator, we can start taking questions. Thank you.

Operator: Thank you. We will continue with Maxim Nekrasov, Goldman Sachs. Please, go ahead.

Maxim Nekrasov: Good afternoon, gentlemen. Thank you very much for the presentation. I have a few questions, if I may. The first one is relatively simple. It is about dividends. I understand that the situation is quite challenging, but what are your thoughts regarding the dividends for 2019 and whether they should be paid this year? The second question is regarding your views on the recovery path for the international

and domestic segments going forward. The third question is on the trends you see in terms of future bookings.

Andrey Chikhanchin: This is Andrey Chikhanchin. I will take the first question. This is a very interesting question about the dividends we should pay for 2019. This question is already under discussion. We are waiting for a decision from the government. As the present situation is not normal, I think, the decision should be according to the situation. There is no final decision on what we should do, but we are waiting for a formalised decision of the government.

Ivan Batanov: This is Ivan Batanov. Let me answer the two remaining questions. With regard to the expected recovery pattern for domestic and international segments in 2020, we believe that the year's lowest volumes were in April and May. We intend to start gradually increasing the domestic capacity in June, as the market is expected to show the first signs of recovery. We are not ready to guide you on the expected numbers of flights to be operated in June, as this is an extraordinary situation for the airline. We conduct daily and weekly analyses and may adjust the decisions very quickly based on the demand, loads and financials. We are not planning to fly at a loss, and the flights should at least cover the direct costs. By late autumn, the domestic volumes will hopefully recover to normal levels, supported by our passengers travelling more domestically than internationally, and delayed demand. International flights are expected to be launched in Q3 2020. The exact time depends on the reopening of the borders, but that is the countries' mutual process. We will definitely not postpone the relaunch of flights and, with necessary demand and economic conditions in place, we rather do it sooner than later. We will prioritise all sizeable markets and the gradual frequency build-up. With regard to the third question, forward bookings almost disappeared in April and early May, as most of the flights for the upcoming weeks were cancelled. We are definitely inspired by the fact that the interest in airline tickets is increasing. Google Trends shows that the number of searches for flight-related information has surged 30% m-o-m by the end of May. It partially translated into some improvement in sales m-o-m – I would say, into a material one, even adjusting for seasonal factors. But the base of the previous weeks is low and sales are still significantly lower than the normalised levels. We hope and expect to see some improvement in bookings once we open most flights. We also introduced a number of amendments to the fares, as I said before, to stimulate sales, which has produced some positive results.

Maxim Nekrasov: I understand. Thank you very much.

Ivan Postevoy: Good afternoon, everyone. Thanks for the presentation. I have three questions. First, could you please tell us about your cargo segment? What are your expectations of its yields and volumes in Q2 and Q3? Second, to what extent will the yields grow in Q2? As I understand, the domestic yields are higher y-o-y. Third, what is your CAPEX plan for 2021 in comparison to 2019? Thank you.

Andrey Napolnov: I will address the question regarding the cargo. We all know that the cargo segment is performing positively globally. From our side, it was very important to make a timely decision to deploy more aircraft to operate more cargo flights. As you see from the operating numbers we presented, in March and April (and that trend continued into May) we had a bit lower volumes, but due to the positive yield trend in cargo, especially in the international segment, we see positive trends on the revenue side. I would say that it is too early to give you exact numbers, as we only have preliminary figures for cargo revenue, but they were definitely growing in April. We hope that this trend will continue in Q2. The extra revenue helps us cover only a minor part of the costs (total cash burn), but it produces some positive inflow to the Company.

Regarding the yields, the situation is as follows. In the current environment, when a lot of operational management is done manually, the yield is not that important per se. We are rather focused on covering direct costs or improving cash flows and liquidity. Basically, we are comparing costs and revenues. It goes without saying that we may need to increase the amount of promo and introduce special fares to

stimulate passengers in the very beginning, especially at the first stage of the recovery, but what happens later depends on demand and supply balance. June will be a very good month to give us an indication of how it goes. The yield trend development will be seen quite soon. On the other hand, the situation with yields will also depend on competition and what other carriers do, including carriers' domestic operations. We hope for some gradual improvement in yields but it is something that will not happen overnight.

Andrey Chikhanchin: And of course it depends on the restrictions, which we already have in different regions and cities. The restrictions can move in different ways. When we start flying normally, we will certainly see some movements in yields. Now, we are only making the first steps towards opening the domestic market.

Ivan Postevoy: Thank you. And the third question is on your CAPEX plan for 2021 in comparison to 2019.

Andrey Chikhanchin: There are no 2021 plans right now, as we are trying to make plans for 2020. It is not the time for 2021 CAPEX yet. We will see it closer to 2H 2020.

Ivan Postevoy: OK, I got it. Thanks.

Elena Jouronova: Hello everyone. I have a few questions, I will ask them one by one. The first question, what was roughly your cash burn in April and May and what is your current net debt position as of the end of May. I am sorry if I have missed that in the main speaker's presentation.

Andrey Napolnov: Yes, regarding the cash burn, we did have it on the slides. In a normal environment, we burn RUB 65 bn. In fact, it is not burning per se, but our cash outflow, which in normal times is compensated by revenue. Essentially, we do not have cash burn. However, in order to compare apples to apples, we compare the outflows for recent months and the normalised cash outflow, which, as we highlighted during the presentation, includes some indirect costs like VAT that comes back to the Company thanks to the VAT system. Therefore, you should not compare these numbers with the costs, and I believe analysts understand that. The RUB 65 bn that we usually burn is currently down by around three times now, and also, as we mentioned during the call, in recent weeks we have been seeing improvements on a weekly basis, which means that cost measures are bearing fruit.

Elena Jouronova: OK, thank you. My second question is about specific costs related to COVID-19, as you resume your flights. Is there an additional cost resulting from aircraft health and safety checks, special sanitising, or employee masks – any colour on the COVID-related costs, how much would that be for you?

Andrey Napolnov: The masks, disinfecting, etc. is certainly an extra cost. But given the current pressure and the overall situation, these costs are immaterial. We do not have any precise number at hand, but I do not think that it should be included in your models, as it is really a very small number.

Elena Jouronova: Thank you. The other question was about pre-delivery payments that you were supposed to start returning if you are getting the A350 aircraft. What is the current status of that? Since you are delaying the purchase or delivery of the aircraft until next year, are you getting the pre-delivery payments back this year or not?

Andrey Chikhanchin: This question is under discussion right now, as I mentioned in the main presentation. I cannot give you any colour right now. We are still in talks with Airbus and we are trying to do our best to have a win-win situation in this case.

Elena Jouronova: Another question. You mentioned a couple of times that as you resume the flights and restart the network, you will aim to fly only if it covers your direct costs. Can you give us an idea of what load factors give you that conviction that you can fly and cover your direct costs?

Andrey Napolnov: Yes, Elena. Let me share some thoughts on that. In aviation, we have a break-even factor, and usually in a normal environment it is very easy to calculate what a break-even factor for the

airline is. However, sometimes airlines can have flights with somewhat lower load factors, but that are still profitable, etc. It depends on the yields we charge, and it also depends on the components of these direct costs, including, for example, fuel. Companies cannot charge any yield. It depends on the demand, competition, and what passengers can afford. At the same time, if, for example, jet fuel price is going down, you can play with these factors and do it with different load factors. As we mentioned, we have seen some gradual improvement in load factors, but they are still way below normalised levels unfortunately.

Elena Jouronova: OK, thank you very much.

Igor Goncharov: Thank you very much for the opportunity. I wanted to follow up on your dynamics in May and early June. We have seen in your quarterly results and in the presentation as well that you have reduced the PAX in April by 92%. What was approximately the reduction in May in terms of domestic PAX and volumes?

The second question is in relation to Pobeda's relaunch. To what extent have you relaunched or reactivated Pobeda's capacity at present? If you take the first week of June, the planned flights for this week and the flights in the comparable period last year, what would be the relationship? What percentage of Pobeda's flight capacity has been currently activated? Thank you very much.

Ivan Batanov: Let me answer the first question. With regard to the target for May, it has not been finalised as the month has not closed yet. Approximately, the figures will be similar to what we had in April.

Andrey Panov: Pobeda started with approximately, let's say, five aircraft, but the plan is to put most of the aircraft into service very soon. Of course, they will be looking at actual bookings and passengers flown, but, as I mentioned earlier, the first flights were quite promising, and if things continue like this, then hopefully by the end of summer most of the planes will be flying.

Mikhail Ganelin: This is Mikhail Ganelin from ATON. I have one question. We see that airlines globally suffer from this crisis dramatically, not just Aeroflot, but all others worldwide. And we see that there is a strong support from governments like in the case of Lufthansa and Air France. Have you been talking with the government about larger-scale support for Aeroflot and the industry in general, not only in terms of subsidies, but also capital injection and similar things? Thank you.

Andrey Chikhanchin: There are some ongoing discussions with the government involving Aeroflot and other companies as well. No specific decisions have been made yet, everything is still under discussion.

Mikhail Ganelin: Thank you.

Igor Goncharov: Thank you very much for the opportunity. A follow-up question on dividends. I understand the decision is yet to be made, but when can we approximately expect news on that, for example, the Board of Directors recommendation on dividends. Thank you.

Andrey Napolnov: Igor, we usually have our Annual General Meeting of Shareholders (AGM) at the end of June. Before that, we have a meeting of the Board of Directors that makes its recommendation on dividend payments to the AGM. Once we announce the AGM, the Board, which will be announcing the AGM, will provide its recommendation on dividend. Basically, in June, the Board should decide on the dividends.

Igor Goncharov: Thank you very much.

Matvey Tayts: Hello everyone, thank you very much for the presentation. My question is with regard to the restructuring of leasing. What percentage of your principal payouts and interest payout on the lease contracts will be restructured in Q2 and Q3?

Second question, how do you plan to recognise the restructuring of the interest payments on the lease contracts? Are they going to appear in the P&L and you will just have them non-cash and add to the debt, or you will just adjust the actual numbers you pay in the P&L? Thank you.

Andrey Chikhanchin: Thank you for your questions. As regards the structure of the fleet obligations and what we have already achieved, we discuss with all of our lease companies, trying to find solutions with each of them. These solutions will differ depending on the company, but each one will help restructure our lease payments and provide relief to our cash flow. There is no universal restructuring scheme, it will be based on case by case decisions. I do not have any specific figures on the table with regard to your question.

As for how it comes and goes in the P&L or other part of the statements, I think that there will be some follow-up questions, and Andrey Napolnov will answer them.

Matvey Taysts: OK, thank you. And one more question, about your plan on fleet expansion. Is it correct that you do not plan to add any new aircraft this year, but plans for a decrease of the fleet because you have a natural outflow of aircraft are still in place? Meaning that you will have less aircraft in your fleet by the end of the year. Thank you. I do not have the presentation, maybe it was there.

Andrey Chikhanchin: Yes, I mentioned it in the main presentation. We are already holding talks, difficult discussions with the lease companies and production companies, trying to find solutions. We cannot give you a final decision yet, but we are trying to move deliveries to later periods this year or next year. We are trying to move them to next summer, but this is still in progress.

Matvey Taysts: OK, thank you very much.

Ivan Postevoy: Thank you for taking the question. I have one more on Pobeda. Why is it planning to focus on regional routes in summer? Are they not less lucrative than Moscow routes, and will it be the strategy going forward? Thank you.

Andrey Panov: Can you repeat your question please. You think that Pobeda is focusing on regional routes?

Ivan Postevoy: Yes, there was a press release saying that Pobeda will focus on regional routes. My understanding is that regional routes are less profitable than routes from Moscow. Why is Pobeda doing that and will it be its strategy going forward?

Andrey Panov: Let me explain that. First, if you count the number of routes, Pobeda has always had a large number of routes that do not touch Moscow. Last year, I will not give you an exact figure, but it was a significant part of the operations. Second, some regions have restrictions on flights from Moscow, and it is probably the second reason why they could have more regional flights. Besides, there are regional routes that are quite profitable and comparable to Moscow routes. Obviously, it depends on the competitive situation. If you take the Moscow–Yekaterinburg route, it could be ten airlines performing a total of 50 flights daily. Maybe not 50, that sounds closer to Moscow–St Petersburg, but still a lot of flights.

In the long term, Pobeda will still have its main base in Vnukovo, and when the market fully recovers for Pobeda next year, I think Vnukovo will still be No. 1 airport for it.

Ivan Postevoy: OK, thank you.

Andrey Napolnov: I would like to thank everyone for participating in the call, and if you have any follow-up questions, please let us know. Thank you and goodbye.