

Aeroflot Group

Aeroflot Group Q2 and 6M 2020 IFRS Financial Results

Conference call held on 31 August 2020 at 4:00 PM MSK

Edited Transcript

Speakers:

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

Participants asking questions:

- Ivan Postevoy, VTB Capital
- Maxim Nekrasov, Goldman Sachs
- Fedor Kornachev, Sberbank
- Jakub Caithaml, Wood & Company
- Artem Yamschikov, Renaissance Capital
- Igor Goncharov, Gazprom Bank
- Matvey Tayts, SOVA Capital

Operator: Good day and welcome to the Aeroflot Group Q2 2020 IFRS Financial Results conference call. Today's call is being recorded. At this time, I would like to turn the conference over to Andrey Napolnov. Sir, please go ahead.

Andrey Napolnov: Good afternoon, everyone, and thank you for joining us on the call to discuss Aeroflot Group's Q2 2020 financial results. 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 and myself. I would like to remind you that the press release and the IFRS statements are available on our website, so you can look at these materials while we are having our call. Before we start, I would also like to draw your attention to the fact that some information on the call may contain forward-looking statements regarding future events or performance. Actual results may differ materially from those expressed or implied in the statements.

Let us start with the key highlights to be discussed during the presentation. As we all know, since late February results have been under a significant effect of COVID-19 and unprecedented global pressure on demand and financial and operating performance of Aeroflot Group. In 6M 2020, the number of passengers decreased by 54% y-o-y. Thanks to a swift reaction to adjusting demand we cut the capacity to save costs at a comparable pace of around 50% y-o-y alongside the introduction of cost-saving and cash-preservative measures. This helped Aeroflot go through the toughest months of the year (April and May) and gradually scale back operations starting from June.

To discuss these operating trends of 1H and Q2 2020, I would like to pass the floor to Andrey Panov. Andrey, please.

Andrey Panov: Hello everyone. Let us start with an overview of the Russian market. You can see on slide 5 that, following the trends in global aviation heavily impacted by COVID-19, the Russian market posted a 54% y-o-y decline in passenger traffic in 6M 2020. In total, the industry lost approximately 35 million PAX, with foreign airlines showing much more significant declines over domestic players. This is obvious because international traffic almost completely disappeared. These declines were primarily driven by the

international segment, where operations were suspended since the end of March after the government introduced a blanket ban on international flights with very few exceptions. Domestic operations volume, despite being depressed throughout April and May (two months of the most severe restrictions domestically), still showed only a 43% decline and started to gradually recover from June.

On the next slide, we see that the reduction in the volumes, which started in March following the introduction of significant national and international restrictions on travel, extended into the following months, with April and May being the period of minimal demand. In those months, declines reached over 90%, with load factors at the level of around 40%.

Starting from June, we have been seeing a gradual demand recovery and better load factors as restrictions on movement domestically are eased, with even better figures as we are moving through a seasonally strong period of Q3.

On the next slide, the domestic segment shows a gradual recovery. We believe that the sizable domestic market is one of the key competitive advantages and strengths of Aeroflot's investment case, especially in the current circumstances. As you can observe, the domestic segment of the market is making a visible recovery. As of the beginning of August, the data shows that the industry is close to the levels of August 2019 in terms of passenger traffic. The airlines of Aeroflot Group also show a visible recovery of domestic traffic in July and August. At the same time, total PAX traffic of the largest Russian airports at the beginning of August still stays 30–40% lower y-o-y due to slow reopening of the international segment.

Let us go to the next slide. You can easily spot that Pobeda is on the bright side. Not only did it manage to post the lowest level of decline in 6M 2020, but it also delivered a 2% growth in passenger traffic in July. We will discuss this in detail on the next slide.

So, Pobeda Airlines. I would like to remind you that we stopped the operations in April and May and resumed them in June. You can see that in June, Pobeda had almost 50% of the previous year in terms of passenger traffic, and, as already mentioned, had more in July than in 2019. This result was achieved on the back of resilient demand for domestic air transportation services after the lockdown and efficient capacity management. While the international segment remained closed in July, Pobeda's domestic PAX traffic growth reached 27%, and load factor stayed above 94%. Going forward, Pobeda will be in a position to capitalise not only on the Moscow-originating segment of the market, but on region-to-region connections as well, leveraging its value proposition appealing to cost-conscious passengers.

Now, let us move to the next slides of the presentation. We will speak about our new strategy, which was approved by the Board of Directors a month ago. We started to develop this strategy during the last months of the previous year. Now, we have this new approved strategy, which continues the previous one, but has more ambitious targets that we set for ourselves. We aim to achieve the following key strategic goals by 2028: we would like to carry 130 million PAX, have Pobeda LCC as the key driver for the growth with 55–65 million PAX, and see Aeroflot Airline improve its value proposition for passengers and become a pure premium airline (Skytrax 5-star product level). The Group is planning to expand its fleet up to 600 aircraft. If we speak about the split of 130 million PAX among airlines, it will be 35–40 million PAX for Aeroflot, 55–65 million PAX for Pobeda, and 20–30 million PAX for Rossiya.

Let us go to the next slide. Here we will talk about how the Group will look at the end of this 2028 strategic planning period. Streamlining the Group's value proposition with an increased focus on the low-cost carrier (LCC) segment and further improvement of Aeroflot Airline's product together with expected changes in the fleet structure will allow the Group to increase specialisation of each brand within the Group. Aeroflot Airline is expected to focus mainly on high yield medium-haul flights with a strong demand for premium service from Moscow and long-haul flights. Pobeda will operate existing medium-haul flights in the low-cost segment and add more domestic and international routes with demand for low-cost travel, which will allow it to become the largest carrier in Russia. Rossiya is to focus on inter-regional flights and

key tourist destinations. In addition to that, it will fulfil the Group's social responsibility commitments by operating all socially important routes.

In terms of expected capital expenditures related to updated strategy, we view it as a logical continuation of our previous efforts in terms of building a multi-brand structure and specialising each brand on a specific segment and therefore do not expect material increases in CAPEX vs. our normalised level of expenditures each year. Key investments will be made in refitting the existing fleet of wide-body jets to ensure commonality with the new A350 cabin (which was announced earlier) and in transferring narrow bodies from Aeroflot to subsidiaries, plus a number of OPEX adjustments.

Now, three slides about our vision for each airline.

As a flagship carrier of the Group, Aeroflot will further focus on enhancing its premium level of service while optimising fleet, opening additional international destinations and improving the efficiency of operations. Low-yield destinations will be transferred to Pobeda, and Aeroflot will focus on destinations with high demand for business class in the medium-haul segment, while launching new routes in the long-haul segment as demand for premium product in this part of the market is growing. In order to boost the airline's efficiency, Aeroflot will decrease the number of aircraft types in the fleet, focusing only on several types of aircraft needed to serve targeted market segments. Russian-manufactured aircraft will be transferred to Rossiya, and Boeing 737s – to Pobeda. Apart from point-to-point services in both domestic and international segments, an important part of business will be done in the transit segment, where Aeroflot will continue to connect Asian and European destinations leveraging its leading positions in the segment and additionally capitalising on the improved product offered.

Pobeda. Our vision for 2028. Pobeda was established five years ago and became the only successful LCC in Russia, and the key driver of Aeroflot Group's growth in the recent years thanks to its unique and timely value proposition for cost-conscious customers. It is worth saying that our decision to launch an LCC was not a defensive action against LCC competition (like in many other markets), but a decision to stimulate the Russian market and capitalise on its potential. The management team has developed the best-in-class business model with substantial network and capacity resulting in 35% PAX CAGR in 2015–2019 while preserving a consistently high load factor in line with global peers. The low-cost carrier segment in Russia is an under-penetrated market compared to other regions. We believe that this provides room for further significant growth in the future. The increase of Pobeda Airline's operations and its role within Aeroflot Group are expected to allow the Group to reduce the average economy class ticket price on domestic routes and to significantly stimulate the overall market (backed by the low CASK of Pobeda).

Rossiya Airline is going to become the largest carrier in Russia on routes bypassing Moscow. It will establish a centre of competence for Russian-manufactured aircraft development, as all domestically-built aircraft of the Group will be concentrated in Rossiya. Rossiya will also fulfil the important social mission of the Group, servicing all socially important routes and ensuring connectivity of remote regions of Russia to other parts of the country. While doing that, the airline will also bring additional feeder traffic to Aeroflot flights originating from Moscow.

Here I will stop with Aeroflot Group's new strategy and pass the floor to Ivan Batanov.

Ivan Batanov: Thank you, Andrey, and hello everyone. Let us start with Aeroflot Group Scheduled Flights Revenue Units on slide 17. Managing revenues in the COVID environment is quite a challenging task as customer behaviour and demand patterns significantly change forecasting potential of airlines' systems. Pressure on the yields due to overcapacity was quite obvious; however, as we stated on the previous call, the focus in recent months (particularly in April and May) was covering direct costs and generating some extra margin on top of it. RASK dynamics were in the negative territory due to a very substantial PLF decline of 11.1 pp. The key factor of such a substantial decline over 6M was one-way load in Q2 2020, when most people took one-way flights instead of round trips. Currently, we can mention high demand

for domestic leisure destinations and strong bookings to already reopened international points (the United Kingdom and Turkey). As we navigate through Q3 2020, we see that the current environment is characterised by much shorter booking depth compared to normal levels on the domestic market and a lack of clarity on further reopening of the international segment, which, combined together, give us quite low visibility for the current and upcoming quarters.

Let us move to the next slide and look at network adjustments. We need to say that in 6M 2020, the number of scheduled flights of network airlines decreased by 45%. Most of the decrease was attributable to the international segment, with smaller-scale declines for the domestic operations. After the April–May period, which was characterised by the most severe restrictions, Aeroflot Group started to increase the number of flights in the subsequent months on the back of easing restrictions and restoration of demand in the domestic segment. In August, we have seen further development of the network, with Aeroflot performing around 400 flights per day.

Let us move to the next slide and look at the operating numbers. As discussed previously, we are witnessing a gradual recovery of passenger operations, with the Group's domestic load factor reaching 80%+ levels in July and passenger traffic showing the smallest decrease since the beginning of the crisis. Notwithstanding the pressure in the passenger transportation segment, cargo demand remains quite strong. In order not to lose our belly cargo volumes completely, we have successfully operated a number of wide-body aircraft for cargo transportation, transporting the goods in cargo compartments and in cabins of Boeing 777s and Airbus A330s. Thanks to positive cargo yield trends, this helped us support our top and bottom lines in 1H 2020.

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

Andrey Chikhanchin: Thank you, Ivan. Hello everybody once again. Let us move to a fleet update. In 6M 2020, we operated 360 aircraft, 5 aircraft fewer than in 6M 2019. Currently, part of the Group's fleet is temporarily grounded. We made a substantial effort to negotiate with our partners and to achieve good restructuring conditions with respect to our fleet. Since negotiations are still underway with some of our partners, we are not ready to share any particular delivery plan numbers, but I believe that excessive capacity because of deliveries should not be a concern for the market. 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 next slide with 6M financial highlights. On the back of softening demand due to COVID-19, we experienced a 52% decrease in revenue in the first six months of 2020, which was slightly better than the decrease in PAX and RPK traffic. Operating expenses decreased as well, though at a slower pace (-34%). These factors negatively influenced 6M EBITDA and the bottom line. This result was driven by a significant deterioration of performance in Q2 2020.

Let us move to the next slide with revenue dynamics decomposition. The Group's total revenue amounted to RUB 149 bn in 6M 2020, down by 52% y-o-y. The obvious negative impact of weaker demand on volumes in 1H 2020 was recorded in every geographical segment of the market. The pricing in the meantime held relatively steady. The cargo segment, as my colleagues have already mentioned, performed very successfully and brought in additional revenue thanks to our timely decision to operate passenger aircraft as cargo ones. Operating cargo flights fully covers servicing these flights and leases of the respective aircraft. It is definitely a very positive development. Starting from June, we are seeing a gradual recovery in demand and passenger flows, which is also reflected in positive revenue dynamics vs. April and May.

Operating costs. In the current environment, our key focus is cost decrease to extract additional cost efficiencies and support the liquidity of the Group. The cost structure of the Group implies that approximately 60% of the costs are variable and 40% of the costs are fixed. In 6M 2020, all key cost lines

were down on the back of a lower variable component, as well as some additional optimisations in fixed and quasi-fixed costs. Depreciation and amortisation grew due to revaluation of reserves for aircraft redelivery on the back of the weaker rouble. Other expenses in Q2 and 6M 2020 were positive because short-term and immaterial lease, catering and other expenses were offset by a RUB 7.9 bn government subsidy for lost traffic due to COVID-19.

Next slide – Group unit costs. CASK in 6M 2020 in general and in Q2 2020 in particular is not a relevant metric, as about 40% of the Group costs are fixed, which implies significant growth in CASK on the back of capacity falling disproportionately faster than costs.

Fuel cost management. Fuel price dynamics in 6M 2020 were quite beneficial, decreasing by 13.1% for Aeroflot Airline on the back of significant pressure on oil prices driven by fears of softening global demand for energy products. The most significant adjustment was recorded in Q2 (-45.4%), and as we moved into Q3 the fuel price regained some of the ground, reaching about RUB 28,000 per tonne in July 2020, which still marks an about 36% decrease y-o-y. So far, realised upside from the low fuel price has been limited due to very thin operations during Q2. But as we gradually restore flights, should the price remain below last year's numbers, this may be supportive for us in 2H 2020.

Let us talk about Pobeda's financial results. In the face of the extremely complicated situation in the industry, Pobeda also experienced some pressure on its operations in 6M 2020. As LCCs tend to have a higher proportion of variable operating costs because of, among other factors, 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, resuming operations in the domestic segment from June 2020 and immediately achieving a c. 50% capacity recovery vs. June 2019. In July 2020, Pobeda was the only carrier that managed to show positive dynamics in passenger traffic vs. the corresponding month of last year, maintaining a load factor of above 94%, which puts the airline in a good position to substantially recover operations in Q3 2020.

Next slide, please. Leverage and liquidity. With the main focus on securing additional liquidity in the face of a significant pressure on sales, the Group drew down part of available credit lines in 6M 2020, increasing the borrowings level to RUB 64 bn. Lease liabilities went up mostly due to paper revaluation linked to a 13% weaker rouble as at 30 June 2020 vs. 31 December 2019, while the number of aircraft in the fleet has not materially changed. At the same time, cash preservation measures and additional financing in 6M 2020 allowed us to accumulate cash. Cash position in July was further reinforced, reaching RUB 57 bn at the end of the month, with in excess of RUB 111 bn available in undrawn credit lines. In August, we also signed an agreement for a RUB 39 bn credit line backed by government guarantees, which gave us an additional level of security on the back of gradually resuming operations, which require additional cash to be spent.

Next slide – Aeroflot's steps to navigate the COVID-19 crisis. The management team is taking all necessary steps to minimise the financial consequences of the COVID-19 impact on the Group's operations and cash outflows from the Group and to optimise cash position. As a result, the Group has provided the steps outlined on the slide – from reducing fixed costs and optimising flight program to avoid cash burn to introducing vouchers and using passenger aircraft for cargo flights. These steps helped the Group provide liquidity in Q2 2020 and resulted in a 3x decrease in monthly operating expenses and a c. 2x decrease in capital expenditures compared to pre-coronavirus monthly operating expenses and the CAPEX plan in 2019. Moreover, Aeroflot Group has received state support in the form of a state subsidy of RUB 7.9 bn and state guarantees for RUB 70 bn loans.

I think that is all for my part. We are ready for the Q&A session. Thank you.

Operator: Our first question will come from Ivan Postevoy with VTB Capital.

Ivan Postevoy: Good afternoon everyone. Thank you for your presentation. I have three questions. I think it is better to go through them one by one. The first question is when will you start to transfer your SSJ and 737 aircraft from Aeroflot to Rossiya and Pobeda, and when do you plan to finish this transfer?

Andrey Chikhanchin: Thank you for your first question. Our plan is to start moving our SSJ and 737 aircraft this or next year depending on the company, and we plan to finish this process in two or three years.

Ivan Postevoy: Thank you. My second question is what type of aircraft will you order for Pobeda to reach your target?

Andrey Chikhanchin: It is 737. As I have mentioned earlier, we are moving all these aircraft from Aeroflot.

Ivan Postevoy: Apart from this movement from Aeroflot, will you order more 737 from Boeing? For example, 737 Max.

Andrey Chikhanchin: You know there is still some problem with 737 Max, and they do not have the special licence and certification. So for now, we stick to 737 that we have in our Group fleet.

Ivan Postevoy: The third question is about your operations. Why did the main company – Aeroflot Airlines – underperform the industry in July? According to the numbers, it demonstrated a 70% decline vs. a 50% decline for the industry.

Andrey Chikhanchin: Thank you for your question. I think it is due to the proportion of international and domestic flights, which is normal. Other players have more domestic routes than Aeroflot. About half of Aeroflot's flights are international. It is as simple as that.

Ivan Postevoy: OK, thank you. That is it from me.

Maxim Nekrasov: Good afternoon. Thank you very much for the presentation. I have a couple of questions. My first question is regarding your expectations about recovery in the international segment. What are your current views? And what is the outlook for yield dynamic, if you could share it with us?

Andrey Panov: Thank you for your question. Let us start from the international flights in general. As you know, we have only four markets now, of which Turkey and the UK are of significance for us. Turkey has proved a successful story – as soon as air traffic was opened, numbers grew considerably. Usually, tickets for summer are bought with a big lag – sales of tickets for August or the end of July usually happen in May or June. This time, we did not have such a lag, we started selling tickets immediately. In general, there is a huge demand from passengers for this international route. The main question is when will the borders open? Of course, we can make predictions, but there are a lot of assumptions. We do not know how things will develop, etc. Talking about direct international flights (and by direct I mean flights from Russia to foreign countries) and connection traffic from Russian cities to foreign countries, if the borders open early next year or at the end of this year, then the traffic will hopefully be restored by the beginning of the next summer season or around this time. If we talk about transit traffic, it is a more complicated story and we think that this will happen only in 2022.

Now about yields. The domestic market showed resilience and, as we guided at the previous call, relatively quickly recovered in terms of PAX. At the same time we have seen stronger competition domestically. It obviously happened because airlines removed their planes from international routes where they cannot fly and deployed these capacities on domestic flights. Our focus in rebuilding the network was more on the cash flows. We hope for gradual improvement in yields in mid-term, depending on the market, but it is not what is going to happen overnight. We think that the restoration of yields will come a bit after the PAX numbers catch up with the levels of 2019.

Maxim Nekrasov: OK, thank you very much, very clear. I also have a couple of questions about Aurora Airlines. There had been press releases that it may be sold and it is not part of your strategy. Can you comment on this please?

Andrey Chikhanchin: Thank you for your question. Aurora is not very material for Aeroflot Group, it carried about 1.7 million PAX in 2019, so the effect of the company is not so big for the Group. As of now, there is no final decision about selling Aurora, we are still in discussions, so the decision has not yet been made. But anyway, it is not a material part of the Group.

Maxim Nekrasov: OK, understood. And my last question is regarding the share issue. Maybe you could comment on the possible timing, the amount of share issue as well as any indication of the price.

Andrey Chikhanchin: We cannot give you any price indication. It will be a price based on the market situation, which will be disclosed later. I cannot give you any detailed comment on the question. But we are still waiting for the EGM decision.

Maxim Nekrasov: OK, thank you very much.

Fedor Kornachev: Hello. A couple of questions from my side as well. The first question is rather technical. In your other revenue, we can see that in Q2, when the majority of planes were grounded, you still recorded some RUB 3 bn of airline agreements revenue. I just wonder what it could represent. This is the first question. And the second one is not that technical. I am just trying to understand whether in your operating expenses in Q2, when the majority of the fleet was grounded, there were some items that you decided to, let put it like this, to postpone. Should we expect some turnaround, because, for example, you delayed some maintenance or something like this to later periods to preserve some cash in this tough environment? Should we expect some additional costs to be recorded in future periods simply because you were targeting to postpone some OPEX to future periods in Q2 2020?

Andrey Chikhanchin: Thank you for your questions. Let us start from the first one, about other revenue. Of course there were some flights, they did not stop completely. There were some EU flights, from European countries to Asia, and so on. It is not very big number, but there were some flights. So I think that it is the only comment that I can give you regarding this question.

If we are talking about MRO, of course, there are some processes that we cannot stop, so we have to have some MRO activities, but some are connected to the flight hours, so if the planes are grounded, we do not do anything with them. Of course, some costs will be postponed to the next period, but it is not big figures which could be material to our statements.

Fedor Kornachev: OK, understood, thank you.

Jakub Caithaml: Hello, gentlemen. This is Jakub from Wood. Thank you very much for the presentation. Three questions from my side. I was wondering if you could share roughly what share of the flights that you have been operating throughout this summer is covering the variable cost, the positive contribution flights.

Andrey Napolnov: Jakub, thank you for your question. Definitely, I would say that even in the lowest periods of this year, such as April and May, we have been targeting to cover direct costs, the costs of operating these flights. We obviously needed to maintain some connectivity between the regions, because there was demand, but there were also financial reasons. Even in the lowest period of the year, we covered these variable costs. Right now, I think all variable costs of the flights operated are covered by the revenues.

Jakub Caithaml: Understood, thank you very much. Then two questions on the current cash position and cash movements. First, I wanted to ask if you could clarify how much of the credit lines that you show in

the presentation is already committed and ready to be drawn right away. The second question is also on the cash flow – if you could kindly walk us through the running costs and possible one-off items like PDPs or possibly payments which may have been deferred and are to be made which will take place between June 2020 and June 2021, i.e. for the next twelve months, both with respect to outflows and inflows. That would be much appreciated. That is it for my questions, thank you very much.

Andrey Napolnov: Thank you, Jakub. Regarding liquidity, I would say that we have definitely achieved a lot of progress in arranging the credit lines and credit facilities from the banks. Most of our lines are not committed because we do not pay a special fee, but now we have obtained state guarantees, signed agreements backed by these guarantees. Let us say, for the current environment we have substantial liquidity resources at this point. On to your second question, about one-off lines, the cash flows and expected outflows regarding, for example, the PDPs. I don't know if we can call it a one-off, as it is something that can be more or less predicted, but the biggest question that we have is definitely the PDP. You can see in the financial statements that we have quite sizable short-term PDPs to be returned to the company. At the same time, these refunds together with payments that we need to make for the aircraft we had ordered, the wide bodies that you have seen in our financial statements – this all depends on the result of the negotiations about the delivery times and schedules. Right now it is quite complicated to forecast the exact timing of these predelivery payments and the schedule, but they will definitely come back to the company and provide positive liquidity that will support the company in the future.

Artem Yamschikov: Hello everyone. Thank you for the presentation. I have two questions. The first one is technical and regarding your operating cash flow. As I see, you had a notable positive effect from the decrease in accounts receivable and prepayments of over RUB 35 bn in 1H 2020. On the other hand, there was also a notable decrease in accounts payable. Could you please provide more details on these lines and what was the nature of these items? That is my first question.

Andrey Napolnov: Artem, thank you very much for your question. Basically, the easiest line to explain is inventories, because it has not changed. Then we have accounts payable, and here there are two key explanations. One is that we have definitely scaled down our operations, so it means that we had less payments to our counterparties (for refuelling, airports, etc.). On the other hand, you can also compare the unearned revenue line, and there is a link between accounts payable and this line in the balance sheet. If you compare unearned revenue that we used to have as at the end of June 2019, it was ca. RUB 80 bn, and now it is RUB 50 bn. It also reflects reduced size of operations (and bookings).

As for accounts receivable, here we have two key reasons, I would say. One is the overall decrease in receivables for key lines and key counterparties, and the second explanation is the increase in VAT received vs. what we received in 2H 2019.

Artem Yamschikov: That is clear, thank you. My second question is regarding Pobeda's strategy and its expansion. How would you comment on the argument that insufficient infrastructure in Russia – the absence of low-cost secondary airports and terminals – could be a significant drag on Pobeda's expansion going forward and its target to increase the scale of operations significantly over the next ten years.

Andrey Panov: Thank you for your question. I think you need to look at what Pobeda is now and the trends in Europe in terms of low-cost airlines. If you look at all the major airports, whenever you have slots available in this airport, low cost airlines try to fly there. Even in Frankfurt when it was fully busy, even after Lufthansa pushed to cancel some slots, there will be low cost airlines to fill this gap. It is hard to say now that in Europe low-cost airlines fly only to secondary airports. But let us get back to Pobeda. The result that Pobeda achieved was the lowest CASK among these size (over 10 million PAX) airlines and of course lowest CASK in Russia. It is all despite the fact that you are right and there are no secondary airports. Still, costs of operations for Pobeda are significantly lower than for all other airlines. It is due to its operational efficiency. It is also important that when Pobeda starts operating new routes, the number

of passengers on these routes increases significantly. All airports understand it. For airports, it is beneficial to have Pobeda start flying there. They are trying to attract Pobeda to their airports. So I think that yes, there are no secondary airports but it will not stop Pobeda for the next many years. This is our view on the issue.

Artem Yamschikov: Clear, thank you very much.

Igor Goncharov: Thank you very much for the opportunity. Just two rather tactical questions. One is in relation to the share issue. Clearly, you have the EGM scheduled for 11 September, then details will be defined by the Board of Directors. I was wondering do you have any timeline as to when the Board of Directors may take place and when we might know the details of the share issue price, and the size. That is number one. Number two is in relation to the subsidies. You highlighted that you had received RUB 7.9 bn from the government as subsidies. Do you expect any more subsidies to arrive this year? That is it from my side. Thank you.

Andrey Chikhanchin: Thank you for your question. As for timeline, I cannot give you any specific details. Yes, we are waiting for the EGM decision as you have mentioned and then we will wait for the right market to make this deal. Technically, the maximum number is 1.7 billion additional shares. But this is the upper end. This does not mean we will issue exactly this number of shares. So, we are still thinking about the volume and we will look at the market and make a decision later. This is regarding the shares. The second question was about ...

Igor Goncharov: ... about additional subsidies this year.

Andrey Chikhanchin: Yes... Unfortunately, it is not for us to decide. Yes, there may be some discussion at the government level, but we do not have any additional information about more subsidies.

Igor Goncharov: Thank you very much, very clear.

Matvey Tayts: Good afternoon, thank you for the presentation. My question is about lease payments. We see that the principal element of lease payments is one third of what you paid in Q1, and interest on the lease payment contracts has also decreased substantially. So, the question is for how long will we see such low amount of payments for lease, how does it impact your debt, what are the details of the restructuring for the lease contracts. This is the first question. Second one is about the price of expansion domestically. We see very strong numbers by Pobeda. Can you provide any guidance in terms of the RPK yields? In Q3, what type of dynamics do you expect y-o-y for such a fast growth in the domestic segment? And also, with regard to the additional shares' placement, you have said that the price will be the market price. Does this mean it will be linked to the actual price of the stock, or, as we saw in the materials for EGM, it will be established by independent appraisers? If it is not the stock price in the market, then, what type of methodology do they use? Can you please share, if you can, any information on how they will calculate this share price? Just to understand better the potential range for this very important number. Thank you very much, that is all from me.

Andrey Napolnov: Thank you, Matvey, I will answer the question. So, regarding the lease payments I would say that it is very difficult to provide the exact timing and exact amounts of lease payments and exact schedule, because we are currently in the process of negotiations with our partners, and I think, these negotiations have yielded some fruit and we are very grateful to our partners. As we have mentioned, we have agreed to postpone some of the payments. We have signed some contracts, and some contracts are in the process of signing right now. So, I think we will be able to show the full picture once we have done all our homework.

Ivan Postevoy: Thank you for taking another question. I just want to recheck your answer on the question related to the price of the stock issue. Am I right that it will be the market price, as you said?

Andrey Napolnov: Ivan, yes. I think there maybe were some problems with the line or just misunderstanding. What we wanted to say is that any transaction will be conducted on the market terms and we will be open to existing and new investors. And we did not imply that it will be just market price or something else. It is just going to be some price we cannot disclose, comment or whatever, it is not decided. We just can say that it is a market deal and everything will be conducted on market terms. Including the price determination.

Ivan Postevoy: Thank you, clear.

Andrey Napolnov: So, thank you very much for the call. If you have any follow-up questions, we will be able to answer them as usual. Thanks a lot, and goodbye!