

Aeroflot Group

Aeroflot Group Q1 2019 IFRS Financial Results

Conference call held on 31 May 2019 at 01:00 PM MSK

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:

- Mikhail Ganelin, ATON
- Artem Yamschikov, Renaissance Capital
- Matvey Tayts, Sova Capital
- Kerem Tezcan, Citi Group
- Alexander Prutkin, VTB Capital
- Robert Bonte-Friedheim, Millennium Partners

Operator: Ladies and gentlemen, welcome to Aeroflot Group Q1 2019 IFRS Results conference call. I want now to hand you over to your host, Mr Andrey Napolnov, Head of IR. Sir, please, the floor is yours.

Andrey Napolnov: Good afternoon, ladies and gentlemen. Thank you for joining us for the call to discuss Q1 2019 financial results. Today, we have the following speakers on the call: Deputy CEO for Commerce and Finance Andrey Chikhanchin, Deputy CEO for Strategy and Marketing Andrey Panov, Director of Revenue Management and Network Planning Department Ivan Batanov, Head of IFRS Reporting Artem Glaznev, and myself. I would like to remind you that the press release, IFRS statements, and the presentation are available at our website in the Investor Relations section. Before we begin, I would like, as usual, to draw your attention to the fact that some information on the call may contain forward-looking statements regarding future events and performance, and actual results may differ materially from those expressed or implied in the statements made during the call due to known and unknown risks and uncertainties. For more information, please refer to the disclaimer statement at the second slide of the presentation. Now, I would like to pass the floor to Andrey Panov who will discuss market trends and operational results.

Andrey Panov: Hello everyone. Let us start with the overall market. In Q1 2019, the market continued to grow, with the number of passengers served expanding by 10%. We witnessed acceleration of growth in both international and domestic segments from January to March, and we continue to see it in April and May.

Trends in the market are mixed: on the one hand, expansion continues mainly on the back of higher capacity which stimulates the market, growth of LCCs, and moderate pricing trends. On the other hand, select groups of carriers are moderating passenger numbers.

In Q1 2019, Utair decreased passenger number by 3.4% and capacity by 9.4%, with most of the contraction taking place in Vnukovo, Moscow, the airport from which Pobeda operates.

An overall decrease in passenger traffic served by foreign carriers (-1.7% in Q1) houses a mixed bag of trends with active expansion of carriers in the CIS, decrease of passenger traffic served by Middle Eastern carriers, and modest single-digit growth in frequencies and capacity by European airlines.

In general, competition in the industry stays elevated mostly driven by Russian carriers that have received a lot of international designations. Again, I think that this time of decreasing capacity and number of passengers served by international carriers illustrates that with high competition on this market and their cost position they could not compete with Russian airlines.

If we talk about Aeroflot vs the market, Aeroflot Group was growing above the market in Q1 2019, which is a combination of Pobeda and Aeroflot airlines growth.

Looking at absolute PAX growth, Aeroflot Group added 1.8 million passengers y-o-y leading the industry and growing the market share by 2.4% to 45.4% in Q1 2019.

The market share on a “pure O&D market” basis amounted to 42.8%.

Now, let us move to the next slide, Aeroflot Group Multi-Brand Strategy.

In 3M 2019, we have seen growth in all key brands in line with our strategic approach: Aeroflot (+14%), Aurora (+2%), Rossiya (+4%), and Pobeda (+46%). It is very significant growth, which is hard to do operationally, but the airline is doing great. Growth was driven by expansion of Aeroflot airline and LCC Pobeda, which added around 1.7 million passengers in the period combined.

Aeroflot airline passenger numbers were driven by additional routes opened in Winter 2018/2019 schedule and in summer, as well as growth in international transit in line with our long-term strategy (11% of additional 1.1 million PAX served by Aeroflot airline in Q1 2019).

As already mentioned, Pobeda expanded by 46%, adding 600 thousand passengers in the quarter.

After moving Rossiya airline from Vnukovo to Sheremetyevo, we actually see greater efficiency of the carrier and enhanced connectivity to larger Aeroflot network, which translates into better results. For instance, passenger load factor on comparable routes grew by 5 p.p. Rossiya’s main focus now shifts to “flat fare” destinations in the Far East of Russia and to opening new select destinations to improve the efficiency of the network.

We go to the next slide, Aeroflot Airline Domestic and International Transit. In 2019, we continued to grow transit passenger volumes in line with the existing long-term strategy.

In Q1 2019, the number of international-to-international transit passengers increased by 10.9% y-o-y on the back of better connectivity triggered by higher frequency of flights and route network expansion.

As an example, higher frequency to Phuket allowed us to increase transit to/from the destination by 1.6 times, while tactical adjustments to the schedule helped optimise specific connections to/from European destinations.

Overall, we see a very active competition in the transit segment, with Asia to Europe being the most rapidly developing segment where Asian, European and Middle Eastern super-connectors operate with certain overcapacity vs the market.

Aeroflot continues to refine the schedule and to improve connectivity to offer an even better product to transit passengers and keep the lead on the markets where the Company's position is the strongest.

Pobeda Airline continues its huge and quite rapid expansion in 2019.

During the last twelve months, the airline received 10 aircraft and increased total fleet to 28 planes. Backed by efficient utilisation of Boeing 737 (as you know, Pobeda is the world champion in terms of utilisation), ASK was up by an impressive 53%.

In Q1 2019, passenger numbers grew by 46% and hit 2 million against a 92.5% passenger load factor, which is an impressive result for a low Winter season. Though it will not be the same during the whole year, in Q1 2019 Pobeda was No. 3 in Russia.

The airline network in the Summer season comprises 108 routes with 62 unique ones for the Group.

We can summarise this year's key network developments as follows:

- More international flights mainly from Moscow (in Italy – Bari, Cagliari, Catania, and a number of points in Turkey).
- Continued expansion in St Petersburg and Sochi with 14 and 12 routes now operational from the respective base cities.
- More regional and inter-regional flights (20 additional routes serviced from cities excluding Moscow, St Petersburg and Sochi). Unsurprisingly, these flights are quite successful even during the low season. I can once again remind you that our target for Pobeda is 25–30 million passengers in 2023. I think that so far the airline is delivering what was expected from it.

Now we move to the next section, and I pass the floor to Ivan Batanov.

Ivan Batanov: Thank you, Andrey. Let me move to the next slide and start with the Group Network development. In the beginning of the year, we continued to improve network quality by focusing on frequencies and connectivity and expanding to new markets with a high point-to-point and transfer potential.

In Q1 2019, the total number of the Group's flights expanded by 8.1%, with Europe and Middle East and Africa as the two most actively growing regions supported by additional destinations opening and flight frequency increases (for instance, growing frequency between Moscow and Dubai, Moscow and Istanbul, etc.).

North and Central America saw lower flight frequency between Moscow and New York (two flights per day in the Winter season vs three in the Summer season), which was adjusted back to Summer 2018 levels starting this Summer season.

The overall expansion of our route network is aimed at supporting our international-to-international transit strategy.

Let us move to the next slide and speak about the yields.

In Q1 2019, despite a low Winter season, we managed to increase scheduled yield by 4.9% while PLF immaterially decreased by 0.6 p.p., with RASK gaining 4.4%. Positive RASK dynamics amid a 17.5% increase in capacity in a competitive environment is a truly remarkable achievement of the Group.

In the domestic segment, yields were 9.7% higher y-o-y. Stronger pricing was reflective of gradual inflation linked to an increase in fares starting from January 2019 as well as fuel surcharge adjustments in 2018.

Slower Q1 growth of international vs domestic yields can be explained by the following factors.

The first one is the impact of competition. While the overall number of passengers served by foreign carriers in Q1 2019 slightly declined, we saw airlines expanding capacity on a number of routes and transfer carriers entering the market (for instance, Oman Air). In order to achieve optimal RASK, we had to respond to shifts in commercial policy of foreign carriers, offering additional promotions in the international segment. We also saw Russian carriers receive more international designations, which resulted in an increased competition on international routes (for instance, Russian carriers received designations on the routes to Nice, Tenerife, Tashkent, Athens, Madrid, etc.).

As for Pobeda effect, contribution of the LCC's international RPK to the Group's RPK almost doubled to 6.1%. The LCC's growing share diluted the Group's yield growth by 0.9 p.p. as Pobeda has a lower average yield.

Last, but not least is the regional difference in yield dynamics. Low yield growth implies decline in real terms. However, on some markets not only did we cover currency change, but also materially increased RASK. Asian and US markets which are key elements of our transit strategy posted good results in Q1 2019.

In 2019, substantial support for the yields comes from the fuel surcharge increase in 2018. In Q2 2019, we continued to adjust fuel surcharges upwards, offering another hike in the domestic segment from 1 April.

On top of fuel surcharge hikes, we are also implementing and scaling ancillary revenue projects, which include paid business-class upgrades and seat selection launched in 2018. These have already shown tangible results in Q1 2019, and we expect them to bring a sizable contribution to the top line in twelve months of this year as we continue to roll out the projects.

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

Andrey Chikhanchin: Hello, everyone. Let us move to the Aeroflot Group Fleet Breakdown.

As of 31 March 2019, the Group had 371 aircraft in the fleet deployed by its airlines. In Q1 2019, the Group expanded its capacity by seven aircraft, including two wide bodies (Boeing 777) and five narrow bodies in the medium-haul segment.

Key changes in the aircraft fleet for the three months of 2019 by airline: two aircraft added by Aeroflot, one aircraft added by Rossiya, and four aircraft added by Pobeda.

Let us move to the next slide, Fleet Expansion Strategy.

According to our plans for 2019, we anticipate fleet expansion by five aircraft in FY 2019.

Let us move to the financial performance.

16.2% PAX growth and a 16.7% RPK increase explain most of the revenue and cost dynamics.

On top of the volume growth, we succeeded in expanding yields, which is particularly important in the environment of continued fuel pressure.

As we discussed during previous calls, fuel was still very expensive in Q1 2019. Coupled with negative EUR/USD y-o-y trend, this resulted in another soft quarter.

In Q1 2019, in line with the reporting requirements, we introduced IFRS 16 that eliminates the classification of leases as either operating or finance leases required by IAS 17. Instead, we introduced a single lease accounting model. The standard implementation required us to recognise, first, assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value, and, second, depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income.

Let us have a closer look at the results on the next slide.

In Q1 2019, the Group's revenue grew by 23.3% y-o-y and amounted to RUB 138 bn led by the expansion of scheduled operations, which generated additional revenue of RUB 22 bn.

Q1 revenue growth was strong y-o-y despite a lower season and an aggressive competition, which was particularly visible in the international segment.

We were able to realise a positive currency effect of RUB 7 bn due to weaker currency and RUB 2 bn on pricing due to an increase of fares. An additional contribution to revenue was generated by ancillary revenue projects which are gradually scaling up on a large number of destinations.

Now let us talk about operating costs. As we have mentioned, substantial growth in OPEX was mainly driven by a 17% increase in capacity.

Fuel remained one of the key contributors to OPEX growth mainly due to rouble devaluation rather than a Brent price change.

FX trend is also an explanation to the key lines with an FX component, including maintenance and aircraft and passenger servicing.

At the same time, key P&L lines were affected by accounting and operational factors.

In addition to strict cost control, immaterial growth in the staff cost line and inflation in aircraft servicing expenses, are at the same time linked to an increase in third-party handling services replacing in-house servicing (as a reminder, our domestic flights in Terminal B are serviced by Sheremetyevo Handling).

Lease, amortisation, maintenance and other lines were affected by IFRS 16. Only short-term immaterial lease contracts are not capitalised. Changes in the approach to lease accounting resulted in an adjustment of maintenance and other expenses lines due to the capitalisation of provisions for scheduled maintenance related to lease previously classified as operating lease.

Andrey Chikhanchin: We present results based on a fully retrospective approach so you may compare the Q1 2019 reported results with the Q1 2018 results under IFRS 16. Total OPEX is up by 25%.

The next slide is titled Group Unit Costs. Moving on to the unit cost analysis, we may conclude that CASK increased by 6.4% as around 50% of the costs are denominated in USD and EUR, which gained 16% and 8% vs RUB. We estimate that FX accounts for around 60% of the CASK increase. On top of that, we have seen a continued growth of fares in the airports, an increase in LIBOR by 0.8 p.p. in Q1 2019 y-o-y and other minor factors. It is worth mentioning that the gap between the CASK and RASK inflation decreased from 8 p.p. in Q4 2018 to as little as 2 p.p. in Q1 2019.

Fuel Cost Management. Jet fuel price was extremely high in 2018 and, starting from November 2018, has been decreasing month-on-month. Despite a correction of the fuel price from RUB 50,000 to RUB 44,000 in

Q1 2019, it was still 10% higher than in Q1 2018. We are entering a period of the extremely high comps from the 2018 summer. No one has a crystal ball and knows what is going to happen with jet fuel in the coming months, and our initial approach has been quite conservative.

Let us move to the EBITDA evolution. In Q1 2019, we generated RUB 21 bn in EBITDA, up by 21.3% y-o-y. The key drivers behind the changes in EBITDA are as follows: a positive volume and price effect on revenue amounting to RUB 18.6 bn that outpaced the growth in costs by RUB 17.3 bn, which implies that the volume growth was not dilutive for our business on the operational level; and a positive net FX effect on revenue and costs in the amount of RUB 2.4 bn resulting from a weaker rouble vs US dollar and euro.

Let us move to Pobeda's financial results. The active expansion of Pobeda in Q1 2019 and addition of 52.6% y-o-y in ASK did not dilute RASK, which grew by an impressive 7.8% y-o-y amid the 92.5% load factor. The IFRS 16 implementation had impact on the standalone P&L of Pobeda as well. As part of the Finance income / expense line, a net FX gain from a revaluation of lease liabilities in the amount of RUB 1.3 bn was reflected in Q1 2019. This FX gain positively influences the standalone Net income of the subsidiary and is eliminated at the Group level by means of hedge accounting. Since the nature of the aforementioned FX gain is non-cash, we recommend to focus on the EBITDA and operating profit figures as better indicators of financial result in the low-cost carrier segment of our business. In the future, this adjustment will be made on a company basis and the net income figure will be more representative.

Leverage and Liquidity. The presentation of our debt profile has materially changed under IFRS 16. From now on, our debt portfolio includes all leased aircraft, which is reflected in the higher levels of debt. The change in debt under IFRS 16 is an accounting change not associated with a real increase in the Company's liabilities or a change in its financial position. The business model of the Group and its contractual obligations have not changed. Net debt as of 31 March 2019 decreased by 6% on the back of the revaluation of lease liabilities due to a RUB appreciation during Q1 2019 and growth in cash position.

Adoption of IFRS 16, the last slide. Now, I want to pass the floor to Artem Glaznev, Head of the IFRS Division.

Artem Glaznev: Hello everybody. The new accounting standard IFRS 16 is applicable from 2019. The Aeroflot Group uses a fully retrospective approach when implementing IFRS 16. Lease liabilities are recognised in the financial accounts at the present value of the contractually agreed lease payments for leases with a term of more than twelve months. We adopted hedge accounting for the leases that had been previously classified as operating leases, and as we announced, the effect on net income due to the IFRS 16 adoption has been quite limited (about RUB 1 bn).

Effect on the financial position. Our assets increased by RUB 659 bn to RUB 976 bn, and our liabilities increased by RUB 768 bn to RUB 1,039 bn. The total effect is reflected in our financial position and split between short- and long-term liabilities. That is all.

Andrey Napolnov: Yes, now we can move on to the Q&A session.

Mikhail Ganelin: Good day, gentlemen. Thank you for the presentation. I have two questions. The first one is about your outlook on passenger turnover growth. Initially, you guided, as I remember, a 10% growth for this year, and in fact, we see a substantially higher growth in the first three months. The question is, do you expect that this year Aeroflot's passenger turnover will be well above your guidance? How do you see your market share? As far as I remember, the Federal Antimonopoly Service is not happy when Aeroflot's market share is close to 50%. Do you plan to stick to this market share so that you do not exceed 50%? This is my first question.

My second question is about your fuel price. What is the current price in the market right now – in April and May? Is it in line with Q1 2019 or going lower? Thank you.

Andrey Panov: It is Andrey Panov. I will answer the first question. We do not have any plans to update our 9–10% growth target for this year. If you refer to this contradiction that in Q1 2019 we had 15%+ growth, it is actually a consequence of a low base from Q1 2018. Overall, our target is still 9%. It means that we do not expect significant growth of our market share, because if you look at the current figures, the growth of other airlines is also quite substantial. Even if we speak about Utair, where the number of passengers had decreased, it looks like in April, they also started to accelerate the passenger traffic. Overall, we think that we are quite comfortable this year, unless any of the big players have big troubles. But it does not look like this – now at least. This is our answer to the first question. Andrey Chikhanchin will answer the second.

Andrey Chikhanchin: As regards the fuel price, reportedly, the price in April is almost the same as was in March. It is mostly stable. As I mentioned earlier, if we compare Q1 2019 to Q1 2018, the growth rate is about 10%.

Mikhail Ganelin: But if we look at slide 20, the main hike last year happened exactly in April and May. If the prices remain stable, it means that the situation is improving for Aeroflot starting from April–May compared to the last year. Am I right?

Andrey Chikhanchin: If it is true, it will be good for Aeroflot, of course.

Mikhail Ganelin: Thank you.

Artem Yamschikov: Good day and thank you for the presentation. Two questions from my side. The first is about the 0% VAT on domestic flights not using Moscow airports. Yesterday, the law was approved by the Federation Council. How do you plan to take advantage of this measure? Do you plan to add or allocate capacity more aggressively to regional routes outside Moscow this summer and what companies of the Group could be more aggressive on this front?

The second question is about operating leases and LIBOR. Could you please remind us what share of your lease contracts is linked to LIBOR and, given that LIBOR has been falling since the beginning of the year, could you please provide some rough estimates of by how much your monthly lease payments can change on average if LIBOR declines by, say, 50 b.p.? That is it.

Andrey Panov: It is Andrey Panov, and I will answer your first question. It is not a huge surprise that there will be a 0% VAT on regional flights. We have a network plan for this year and are not going to change it significantly. Aeroflot as an airline company has a very limited number of this kind of routes – five or so. Ivan Batanov can tell more about the exact figure, but it is negligible in the end. It can be that this law has a significant impact on Rossiya because of its flights from St Petersburg. It can also be beneficial for Pobeda. But then, there is a market, there is competition, and everyone will have this 0% VAT. We just need to see what will happen in the market – whether the prices go down or are stable. If they are stable, it will be good for at least some part of our business. But this year, we have a very detailed and specific plan for the network and are not going to change everything in one moment. Next year, we will see what the results are for these regional flights and then possibly make some changes accordingly.

Andrey Panov: So this for the first question. Second, Andrey Chikhanchin.

Andrey Chikhanchin: We are talking about LIBOR. So, about 50% of our contracts is connected with LIBOR. If you are talking about figures, what the impact of the growing LIBOR was, I only have figures to compare the

Q1 2018 and Q1 2019, the growth of payments is about USD 5 m, if you compare the two quarters y-o-y. This is the impact of the growing LIBOR.

Artem Yamschikov: And that is for the full quarter, right?

Andrey Chikhanchin: It is for the full quarter compared with Q1 2018.

Artem Yamschikov: Ok, that is clear, thank you.

Matvey Tayts: Hello, thank you for your call. My question is about the balance sheet. You have some reserves for obligations, almost RUB 200 bn. Do you have any guidance on what this amount will be by the end of the year? Where do you see these numbers? Will they be similar or different? The way I see it, when you calculate net debt, you do not count this number. Why did you not include it in the net debt? Because you have some related finance cost to these obligations as well. Can you please elaborate a little more on this item? Thank you.

Andrey Napolnov: Matvey, this item is technically related to the fact that we capitalised the lease that was previously classified as operating lease, so now it covers all lease, including finance lease and operating lease. We had this line in the balance sheet before, but only for the contracts that we previously accounted for as finance lease obligations. I am addressing the issue why it was not included in debt. It was not included in the debt, when we only had the finance lease in the balance sheet. The same applies to cases, when we added operating lease to liabilities and assets. With regard to the amount expected by the year-end, we definitely have a business plan and models, but it is too early to give a number. It definitely changes, first of all, with the volume (if we add more aircraft). Fleet expansion is limited this year, as we discussed. We have five aircraft to be added this year and we have already added them, which means that from the volume factor there should not be much change. We will see whether there will be other factors like FX.

Matvey Tayts: The same question about net debt as you report. What number do you expect roughly by the end of the year? Is it going to decrease because of the lower number of aircraft that you are planning to receive compared to the previous year, or is it going to be somewhere where it is now?

Andrey Napolnov: Matvey, the issue is as follows. As we mentioned, we have received five aircraft year to date that you see in the balance sheet as of 31 March 2019. We also have some deliveries and some phase-outs for the rest of the year, but net-net it will not be material as you see in the slide on the fleet. The addition of the fleet that we already have means that the most important factor will be the FX rate. If the FX rate changes, then the obligations will be revalued and the liability will change. But as we utilise hedge accounting from January 2019 for all leases, including the one that was capitalised, it means that this currency change will be absorbed in the equity capital and will not materially affect P&L.

Matvey Tayts: But if we assume flat FX rate, total net debt will roughly be at the same level that you have right now, correct?

Andrey Napolnov: Roughly yes, but I suggest that we discuss this in detail in a follow-up call as this is a technical issue.

Matvey Tayts: One more question on the international RPK yields, if we look at numbers we see that in euro terms they dropped by 4% y-o-y in Q1. What is the current situation on these international yields in FX terms? Are they still below the 2018 level for the same period, where do you see the recovery, what kind of dynamics do you expect from the RPK yields internationally in FX terms? Thank you.

Ivan Batanov: Ok, let me answer this question. For Aeroflot Airline we see positive yield dynamics in international regions. If we are talking about international yields, true, they have decreased in USD terms, but due to the FX rate, we have positive dynamics in roubles. As to what we can see for the next quarters, first of all we are very much positive in terms of forwards, we see some positive trends in terms of forward bookings over the next couple of months, except probably June, because June has a high base effect of the previous June when we had the World Cup. We definitely believe that good trends in forward bookings will result in better positions in terms of yields.

Matvey Tayts: Ok, thank you very much.

Kerem Tezcan: Thank you very for the presentation. I have a follow-up question, because some of my questions have already been asked. First of all, I also could not understand about this provision, this RUB 221 bn of provision. I heard what you said about net debt, but my question is since you provision this amounts, does it mean that your total maintenance expenses, cash maintenance expenses below EBIT line will be lower going forward given that you provision that amount? That is the first question.

The second question. We know that you are not hedging the fuel, but since IMO 2020 is coming and will be effective starting from next year, do you have any plans to hedge jet fuel because, as we expect, the IMO 2020 will be putting pressure on jet fuel.

And my third question is about how yields look like. You pretty much already explained it, but I would like to ask which regions and what airlines, either Russian airlines flying internationally or other airlines in the region such as Emirates, Qatar, Turkish Airlines have been putting pressure on you in terms of pricing? Thank you.

Andrey Napolnov: Kerem, thank you for your questions. Regarding these reserves for obligations, what you see in the balance sheet and the impact of IFRS16 and maintenance on P&L. You are correctly mentioning that in the P&L the maintenance line has changed. You can just compare Q1 2018 restated and Q1 2018 before restatement, you can see that the maintenance line has decreased by 4 bn roughly, because we now capitalise some of the maintenance in the balance sheet. And yes, going forward it should be like that. We have included detailed information about approach to maintenance in the notes to the financial statements. Since it's a very technical question that everyone is interested in I suggest to discuss it on follow-up call dedicated to IFRS16 or individually.

I suggest that we move to the next questions.

Andrey Chikhanchin: It is about hedge and IMO 2020. We are carefully monitoring fuel prices and communicating with market experts. Based on some estimates the crack spread may show double-digit growth. At the same time, crack spread was only 20% of total jet fuel price. So, the impact on fuel cost will be limited, according to our expectations by about 2%. And we also see that crack spreads are not expected to change in all markets. As our airline business is based on oil production economy, we are more affected by oil price and FX factors. This does not mean that we do not consider this potential risk as important, but as 2018 has shown, Brent and the FX factors are our key determinants.

Our third question was about other airlines. Ivan can address the third question.

Ivan Batanov: Absolutely. Let me talk more about the yields. Your question was about the split between the domestic and international. In the domestic segment, we had the yield increase by 10% and RASK by 9%. So, most important tailwinds here were the increase in fares in line with inflation, fuel surcharge, and active revenue management. But we also had headwinds: competition from the domestic airlines. We have not seen much capacity added in the domestic market, but we still believe that there is a lot of excess capacity.

Therefore we can see too many discounted tickets in the market. So, there is also dilution we see from Pobeda: 20% of the domestic RPK, an increase of 2 p.p y-o-y.

In the international segment, the yields have grown by 2% and RASK by the same 2%. Factors that were supporting yield growth here were the adjustment of fares on selected routes, rouble vs euro depreciation by 8%, US dollar depreciation was fast and helped increase the yields to the US and in some Asian markets faster.

There were some negative factors too. The first and most important as you correctly pointed out was pressure from increased competition, but we believe that most competition is coming from the domestic airlines as I told you before. We see a lot of designations passed to domestic airlines that helped them increase quite significantly the frequency and open new destinations to Europe. We have also seen indirect competition from the charter segment. Also, as I said before, overcapacity is a key important marker here. In Europe, yield is down 2% in rouble terms. Also the passenger load factor of Aeroflot main line decreased 0.6 p.p, as we sold less expensive seats. We believe that all fundamental reasons for yield increase are still in place, and airlines will continue to gradually transfer the fuel cost into the yields, and as I explained there is a strong potential for further yield increase.

Kerem Tezcan: Ok, thank you so much.

Alexander Prutkin: Hello, thank you for taking my questions, and congratulations with strong results. My first question, can you please clarify what is behind the 50% increase y-o-y in maintenance in Q1 2019. My second question, do you think that a 10% increase in domestic yields is more or less sustainable for next quarters of this year? An my last question is can you please comment on restatement of other operating income in P&L for the Q1 2018, it was about RUB 82 m when it was reported and now it stands at around RUB 3 bn. Thank you.

Andrey Chikhanchin: With regard to IFRS 16, maybe it is better to make a follow-up call with those who are interested in details, because there are lots of questions about what happened with the figures in Q1 2018 and Q1 2019 and how to compare them and I think it is better to make one call with our head of IFRS. It will be more helpful for all of you.

Andrey Napolnov: And about MRO. It is also an IFRS 16 question, but here the line includes the leasing items that we did not include in the balance sheet, for example some offices, spare parts, technical stuff like that. There is 50% increase, but for the most part it is an FX related increase. Also volume factor (ask up by 17%). This is a very small line in the P&L now, so maybe we can look at it in detail later. And regarding the domestic yields, Ivan, please.

Ivan Batanov: Yes, let me comment on this. As I said earlier, the increase in yields was mostly driven by fare increases last year and this year, and the several fuel surcharge hikes. I believe it is a good fundamental base for further increase in yields this year, with the exception probably of June, because of the high base effect due to the last year's World Cup. In June, we do not expect the last year's high yields, there will probably be zero increase.

Alexander Prutkin: Ok, thank you very much. That is it from me.

Robert Bonte-Friedheim: Good afternoon. Congratulations for your results and thank you for your presentation. As everyone, I am struggling a bit to understand the impact of IFRS 16. First question, will the negative equity on your balance affect your ability to pay dividends this year? And the second question just following up on Matvey and Kerem's question on the capitalised reserve of aircraft maintenance on the

balance sheet. If I follow Andrey's suggestion, the difference between the restated aircraft maintenance in Q1 2018 and the published maintenance is RUB 4.4 bn, which I presume is the capitalised amount. Can you say how much aircraft maintenance expense was capitalised in Q1 2019? Thank you for taking the questions.

Andrey Chikhanchin: I will answer about dividends. There is no effect of the negative equity on the dividend policy or the payout ratio. We are still in a position to pay according to our approved dividend policy, there are no changes.

Robert Bonte-Friedheim: Perfect, thank you.

Artem Glaznev: And about the number of contracts that were capitalised. The number of contracts that were capitalised is about 1,000 as at the end of Q1 2019.

Robert Bonte-Friedheim: No, it is not again, I think Andrey just suggested that we compare the Q1 2018 aircraft maintenance expense, the one published last year, and the restated one. The difference there is RUB 4.4 bn, which I assume is capitalised now, so it is below net profit. That was in Q1 2018. I am just wondering how much aircraft maintenance expense was capitalised in Q1 2019?

Andrey Napolnov: Yes, Robert, you are raising a very important question, how Q1 2019 looks without IFRS 16. As you know, there are two types of transition to new standards – full retrospective and modified. Since we used a full retrospective approach, we cannot simply compare apples to apples, Q1 2019 under the current standard (IFRS16) and the previous one (IAS17). To do that we gonna need to go through preparation of the accounts once again. That is the main point, but I suggest that we discuss these questions together with you and address all the questions, as proposed by our CFO, after this call, because these are technical issues of IFRS 16 implementation, which are disclosed in the statements, but need further explanation.

Robert Bonte-Friedheim: Ok, perfect, thank you very much for taking the question. Look forward to that, Andrey.

Andrey Napolnov: Thank you very much for participating in the call. If you have any follow-up questions, please let us know, and those who are interested in the IFRS 16 details, we are ready to have a dedicated call. Thank you very much.