

Aeroflot Group 12M 2019 IFRS Financial Results

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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:

- Matvey Tayts, Sova Capital
- Maxim Nekrasov, Goldman Sachs
- Elena Jouronova, J.P. Morgan
- Igor Goncharov, Gazprombank
- Mikhail Ganelin, Aton

Operator: Good day and welcome to the Aeroflot Group 12M 2019 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 Investor Relations. Sir, please go ahead.

Andrey Napolnov: Good afternoon. Thank you for joining us on the call to discuss Aeroflot Group's 12M and Q4 2019 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, Director of Revenue Management and Network Planning Ivan Batanov, Head of IFRS Artem Glaznev and myself. We are going to have the presentation and then the Q&A session. Before we begin, I would like to remind you that the press release, the IFRS statements and the Excel Databook are available on our website, in the IR section, and the webcast presentation will be available on the website after the call. Also, I would like to draw your attention to the disclaimer about forward-looking statements and future performance that may differ from projected results due to known and unknown risks and uncertainties.

To kick off the presentation, I would like to summarise the key achievements of 2019. The overall operational growth has been quite strong during 12M 2019. Capacity increase of 10% helped to boost passenger traffic numbers by 9% in line with what we have guided, while keeping yields in the positive territory (an increase of 2% for blended yields) despite higher competition in the international segment from local carriers. In addition, an increase in PAX translated in revenue growth and, importantly, improvement in net income. Net income available for dividends almost doubled vs. 2018 income. To discuss these operational trends, I would like to pass the floor to Andrey Panov. Andrey, please.

Andrey Panov: Hello, everyone. We are on slide 5. Russian market continued its growth at the pace of 7.5% y-o-y in 2019 in line with our expectations for the year that Andrey has already mentioned and aligned with our long-term projection of 6–7% CAGR. In 2019, both domestic and international segments were posting strong growth and the international segment was expanding by 9% supported by the performance of Russian carriers, which added 16% of PAX in the segment. Alongside with Ural Airlines adding 18% PAX in the segment, smaller companies like Nordwind or Azur Air grew by 33% and were also important contributors to the growth.

Foreign carriers decreased PAX numbers throughout 2019 by 8%, only showing a modest growth of 4% in Q4 2019. However, this does not mean that all foreign companies adjusted their exposure to Russia: CIS

companies, for instance Uzbekistan Airlines and Belavia, increased PAX numbers while focusing mainly on routes to regional cities in Russia.

The domestic segment added 6% of PAX in 12M 2019 y-o-y, and the key growing companies were the Aeroflot Group (due to active expansion of Pobeda) and S7 Airlines. Ural Airlines decreased PAX numbers in the segment in 2019 in favour of international flights. Utair was growing mostly in the local, regional flights segment. It is important to mention continued acceleration of S7 expansion in their hub in Novosibirsk, which outpaced Domodedovo in terms of the number of seats added according to available databases.

I should also say that in 2019, Aeroflot slightly increased its market share, excluding international transfer, to 39%.

Let us go to the next slide. In 12M 2019, in line with our strategic approach, we have seen growth in all our key brands. Aeroflot was growing on the back of further expansion in the international transit segment amid new routes opened in 2018 maturing and contributing significant network effect in the following year.

Rossiya Airlines finalised an important project of reallocating its scheduled operations to the Sheremetyevo Airport in Q4 2018. We saw positive results of this in 2019, particularly in the long-haul segment with improving PLFs. In Q4 2019, the Company adjusted its narrow-body programme in Sheremetyevo, keeping only long-haul flights to the Far East of Russia and select international destinations further streamlining the company's value proposition. Rossiya is now operating in three different segments, which are focusing on different types of passengers and geographies: scheduled international and domestic operations from St Petersburg, long-haul operations from Sheremetyevo, and the charter programme from Vnukovo.

Pobeda led the Group with a 43% growth, or 3.1 million PAX added in absolute terms, showing outstanding results, which we will discuss on the next slide.

And, finally, our Far Eastern regional subsidiary Aurora was developing in line with our expectations, posting double-digit growth of PAX in the international segment amid increasing capacity on routes to Japan backed by the facilitation of visa process.

Let us go to the next slide, slide 7, and talk about Pobeda. Pobeda continues its remarkable growth backed by capacity addition in 2019. It was able to maintain efficiency throughout the year, keeping PLF at consistently high levels amid growing yields. This allowed the company to end the year with PAX numbers exceeding 10 million passengers and an amazingly high PLF of 94%.

As the record shows, from its inception, Pobeda has been actively stimulating the market and the process continues even in its fifth year of operation. Let me give you some numbers. In 2019, Pobeda added 2.5 million PAX in the domestic segment, which represents 60% of the total market addition. In Q4 2019, the market added 660,000 PAX, while Pobeda increased the number of passengers on domestic routes by 690,000 PAX fully covering total growth of the industry.

Now, let us move to the next slide and discuss Aeroflot's domestic and international transit. In 2019, we have continued to grow transit passenger volumes in line with our strategy. Reallocation of scheduled flights of Rossiya Airlines to Sheremetyevo at the end of 2018 yielded positive results on the transit front in 2019: additional synergies were created with Aeroflot network, which helped to connect Rossiya's passengers to a broader network of the Group's flagship carrier.

In 2019, Aeroflot transported 5.3 million PAX on international-to-international transit routes, while Rossiya contributed more than 200,000 transit PAX, bringing the overall growth of the Group's transit passenger flows to +13% y-o-y.

I should also mention that the pace of growth for 12M 2019 was also affected by a number of quite specific factors, which influenced mostly the second half of the year. This includes calendarisation of holidays in Israel, one of our main short-haul destinations, and the situation in Hong Kong, as well as adjustment of long-haul capacity in the low season (Q4 2019).

The growth in transit segment remains within our plan and, hopefully, will be reinforced in 2020 by additional long-haul routes, which we will discuss in a moment.

Thank you and I am now passing the floor to Ivan Batanov to talk about our network.

Ivan Batanov: Good afternoon everyone. Let us start with the Aeroflot Group network update.

Development of the network according to the depth principle remains Aeroflot's priority. However, as we have already gained scale in key markets, we are increasing our focus on other less sizable markets.

Most of the recent additions to the network took place in Winter 2018/2019, with a minor expansion in Summer 2019, particularly with Marseille and Palma de Mallorca. As opposed to significant additions of new routes a year ago, in 2019, we focused a lot of efforts on rolling out the routes opened earlier and pushed lots of them closer to maturity stage. A number of routes reached remarkable results, significantly improving PLFs and the overall economics as well as their contribution to network synergies, particularly, Ljubljana and domestic Caucasus region to name a few.

Exceptional results were recorded by Rossiya Airlines with the Moscow-Denpasar route: starting from low PLFs in the beginning, the company managed to improve the loads by more than 25 pp in 12M 2019 with significant progress in profitability of the route. That is a very quick ramp-up of the long-haul route due to the familiarity and size of the market both for Russian and transfer tourists.

In 2020, according to our new plans, we see more long-haul destinations added to Aeroflot's route network. These destinations are not the easiest ones from rolling out perspective and the efforts expected to be invested, and, for sure, we do not anticipate any immediate results. With the brand new Airbus A350 aircraft propelling Aeroflot's value proposition to the new heights, our offer will be very competitive compared to other transfer carriers.

Now let us move on to the yields and RASK dynamics that summarise the results of revenue management activities this year and in Q4 2019.

A 2% increase in the Group's 12M 2019 yield was driven by the domestic segment (+7.3%), while international yields have been slightly down by 1.7%. During the year, we have improved our yield performance with key improvement in Q4 2019: domestic yield growth accelerated to 8% and international yield turned positive despite currency trends that did not favour the revenue side.

Let us summarise factors that have determined the full year and Q4 dynamics. With regard to domestic yields, in most cases flying domestically is a necessity, which might be due to business trips, visiting friends or relatives or taking affordable vacations, and with the existing demand and rational approach to capacity in the domestic sector we managed to increase yields – that is a fundamental explanation. The technical explanation is about inflation-based adjustment associated with the need to compensate extra fuel costs due to high jet price. We also noticed a positive contribution of ancillaries on the back of active revenue management and an upsale to higher booking classes.

Softer performance of international yields is mainly attributed to an inorganic increase in capacity by some players and the FX trends. As we stated in the market section of the presentation, Russian carriers' annual growth of 16% in the international segment was too fast not to disrupt pricing, while the smaller airlines have been growing twice as fast. At the same time, we have seen rouble appreciation vs. euro (2% in 2019), which together with the competitors' capacity explain a 2% decline in international yield.

In Q4 2019, we managed to improve international yields and had even higher RASK. The key challenge for euro-denominated fares was a 7% y-o-y appreciation of rouble vs. euro, but at the same time, much stronger rouble produced extra international demand. Market trends contributed to the improvement: we posted improvements in the key regions that have pressured our operations for most of the year, including European yield returning to positive territory.

At the next slide – as a reminder illustrating the base effect – we show yield growth in 2019 and 2018 by month. Through Q4 2019, we have posted strong yields by Aeroflot Airline despite the already high base of 2018.

After almost two years of consecutive increase in yields, we believe that we have set a high base. We will definitely continue to exploit all the opportunities provided by the market, but the current agenda of the global aviation market and capacity redeployment by global carriers in respective markets present a strong headwind for the airlines from the revenue management perspective.

Now, let me hand over to Andrey Chikhanchin.

Andrey Chikhanchin: Thank you, Ivan. Hello everyone. Let us talk about the fleet plan on slide 14. The Group's fleet amounted to 359 aircraft at the end of 2019. Net decrease of 7 aircraft in 2019 is primarily explained by the transfer of a number of deliveries intended for Q4 2019 to 2020, especially 10 Sukhoi Superjets.

In 2020, we expect a net addition of 31 aircraft plus transfers of deliveries from Q4 2019, as I have mentioned earlier, and minus one Airbus A330 phased out ahead of schedule in Q4 2019, which in total gives us a net addition of 42 aircraft.

We are also taking delivery of 11 Airbus A350 aircraft in 2020. The first one has already been delivered to Sheremetyevo, with the first commercial flight scheduled for 6 March. The A350 aircraft will substitute the A330s leaving the fleet. The new aircraft will be more spacious (316 seats in A350 vs. less than 300 seats in A330), more fuel efficient and will offer an unrivalled long-haul experience to our customers.

Airbus A350 addition is quite sizable, but it roughly matches the number of A330s that will leave our fleet.

Moving on to slide 16, financial highlights. In both Q4 and 12M 2019, we have posted an improvement in all financial metrics across the board. Net income grew more than twice notwithstanding major headwinds during the year such as the challenging Q1 2019 (especially, from the macro perspective), elevated jet fuel price during the year, and very tough y-o-y comps in June and July, as Ivan has mentioned earlier.

A net loss of ca. RUB 16 bn in Q4 2018 was decreased to RUB 6.8 bn in Q4 2019, which is slightly above the historical average for the last quarter of the year. The improvement in Q4 2019 was crucial for improving the full-year performance, and better results in the quarter were recorded on the operational level, including better EBITDA and margins.

Despite a number of one-offs during 2019 and challenging external conditions, the management did every single effort for the results of the year to be strong.

The next slide is on Revenue Growth Decomposition. The Group's total revenue amounted to RUB 680 bn in 12M 2019, up 11% y-o-y. The increase was largely driven by scheduled PAX volume of ca. RUB 40 bn, but we have also been able to realise a positive currency effect of RUB 4 bn and RUB 20 bn on pricing. An additional contribution to revenue was generated by ancillary revenue projects, which show positive reception of our passengers.

As for OPEX, its growth in 12M 2019 is mainly driven by a 10% increase in capacity. The main pressure came from factors outside the Group's control, such as aircraft, traffic and passenger servicing expense

increase in 12M 2019 by ca. RUB 19 bn, however, the management has put a lot of effort in controlling this line to a certain extent, which resulted in a slower pace of growth in Q4 2019 y-o-y. Tighter control was also imposed on staff and SG&A costs, however, staff expense increase accelerated in Q4 2019 on the back of profit-sharing accruals for all employees linked to the improved results of the year.

Maintenance decreased in Q4 2019 as there was a number of extra expenses in 9M 2019 related to interior upgrades to maintain service standards and one-off costs on redelivery checks, which we mentioned on our previous call and which did not happen in Q4 2019.

After a thorough analysis, we have taken a decision to capitalise ca. RUB 1 bn of maintenance related to the renovation of interiors. With a reduced fuel bill and lower operating expense growth, we achieved a total OPEX increase of 2% in Q4 2019.

Group unit cost, the next slide. Based on the unit cost analysis, we may conclude that CASK decreased by 1.7% in Q4 2019 resulting in only 1.6% increase in CASK in 12M, which is the first decrease in CASK over the past 24 months. We have to keep in mind that the decrease in CASK in Q4 was primarily driven by fuel CASK adjustment.

Around 50% of costs are denominated in hard currencies, mostly in US dollars, which gained about 3% in 12M 2019 and lost about 4% in Q4 2019 y-o-y, which also influenced CASK dynamics.

It is worth mentioning that the gap between CASK and RASK dynamics observed in Q4 2019 (+4.1 pp) is the first positive gap in the last eight quarters. This allowed us to realise a positive operational leverage and increase margins in the last quarter of 2019.

Moving on to EBITDA Evolution. In 12M 2019, we generated RUB 169 bn worth of EBITDA, up 11.5% y-o-y. The key drivers of changes in EBITDA included higher net volume and price effect on revenue vs. costs, and a positive net FX effect on revenue and costs.

Let us move to Pobeda Financial Results. An impressive 9% RASK increase amid stable PLF, 42% ASK growth and controllable CASK inflation of just 4% resulted in EBITDA increase to RUB 17.9 bn. Adjusted Net Income (excluding FX gains/losses from revaluation of lease liabilities and the associated deferred tax) in 12M 2019 increased by almost three times y-o-y to RUB 4 bn.

Now, leverage and liquidity. Net debt as of 31 December 2019 decreased by 13% (presented on a comparable basis) on the back of lease repayments and revaluation of lease liabilities due to rouble appreciation during 2019. With the current net debt profile, our leverage is at its best since 2016.

Let us move to slide 2020 Guidance. The 2019 results are in line with the guidance announced earlier during our calls and the CMD. Regarding our 2020 plans, we have disclosed them at the CMD in December. At the same time, we would like to highlight that coronavirus presents a very strong headwind for airlines globally with reduced demand and pressure on load factors. IATA has recently lowered its global growth forecast from 4% increase to 0.6% decline.

I am sure that the market would like to know the scale of the potential impact, but estimating it is much more difficult than the contribution analysis of the share of China, Korea or Italy in our revenues or margins.

Given the ongoing uncertainty regarding the potential impact and duration of the infection, it is rather difficult to provide proper guidance for 2020 at the moment.

Matvey Tayts: Hello. Thank you for this opportunity to ask questions. Congratulations on the strong Q4 results. Hopefully, the rest of the year will be just as good. My questions are, first of all, concerning the

coronavirus situation and the current RPK yields. Could you please clarify as to the current yield environment?

The second question is about the depreciation of lease assets. I see some acceleration of the depreciation charge as the percentage of the total lease liabilities. Are there any clear reasons or outlook going forward for this depreciation in the financials?

The last question is about the compensation for the fuel price that the government promised you last year, but then postponed for some uncertain point in the future. Do you have any expectations as to when Aeroflot may receive these funds and in what amount? Originally, it was expected to be over RUB 20 bn, but then there were some proposals from the Finance Ministry, which mentioned a maximum total payment of RUB 4 bn. Any input on this compensation for the fuel price increase in 2018 will be very helpful. Thank you very much.

Ivan Batanov: Let us start with the coronavirus implications for our current results and forward bookings. We have not seen any impact on January numbers. In fact, the Chinese routes performance was very strong based on the y-o-y numbers owing to the calendarisation of the New Year holidays in China. The first half of February was quite healthy in part due to the fact that stable traffic had some upward pressure on yields, as well as due to holiday calendarisation. However, the second half was softer because of the general decline in demand for the region as well as restrictions taken in China and other countries including Russia for travel to and from China. In general, we would like to highlight that the post-Chinese New Year season is a low season for the market, which means that pressure on small numbers is less noticeable than during the high season.

With regard to forward bookings, what we see in the global market is adjustment of both demand and supply. The demand has materially decreased because of the travel limitations. Supply has also decreased as many carriers in different regions have suspended flights to mainland China, as you know. These optimisations are quite sizable. Some carriers in the Gulf, in particular, have kept the flights to Beijing, but European airlines have cut their operations. The situation is quite difficult. We are not immune to the above trends. The bookings for March are currently significantly lagging the previous year, with roughly a single- to double-digit load factor decline, depending on the route. We believe that the key question with respect to forward bookings is how long it will take to get the situation under full control and how long it will take for the traffic to return to normal levels. We have adjusted capacity, reducing frequency to all points in China until April for now, but we are not planning any flight suspensions like other carriers, and we are closely monitoring demand and supply. Unfortunately, there are also some implications for other destinations in Asia and Europe. We have yet to decide on decreasing operations to other points in Asia or Europe yet, but are closely monitoring the situation in Italy and will most likely propose some capacity reduction on Italian routes for the time being.

Andrey Napolnov: Regarding the second question about depreciation and amortisation, which grew by 19% in 2019. There is a technical explanation here related to the transfer from IAS 17 to IFRS 16 leading to capitalisation of all aircraft on the balance sheet. The older aircraft leaving the fleet have been accounted under historical exchange rate at the time when they entered our fleet, for example at RUB 30 per USD. When these aircraft, which are fully amortised, leave our fleet, and new aircraft are joining the fleet at FX rate is 60 or 65 RUB per USD, the amortisation naturally increases to some extent. I would say we are going to have an inflated level of D&A in the coming years, which will be normalising gradually year by year.

Andrey Chikhanchin: Thank you, Andrey. Regarding the third question about the subsidy for jet fuel, there is no news, the information that we provided during our 9M call has not changed, no new decisions have been taken. As to the amount, the last we heard was RUB 22.4 bn, which has not changed. There was

some information about breaking it down into several payments over a period of two to three years, but no such decision has been made yet.

Matvey Tayts: OK, thank you very much.

Maxim Nekrasov: Good afternoon. Thank you for the presentation. I have a few questions, will go one by one. The first question is on Pobeda. I was wondering if the situation with Max 737 is not resolved this year, how many aircraft do you expect to be added to Pobeda in 2020?

Andrey Chikhanchin: As the situation stands now, we are planning that eleven aircraft will join Pobeda, including four Boeing 737 NG and the rest are Boeing 737 Max. At the moment, we are planning to move four of the Group's 737s and waiting for a decision on the Max aircraft.

Maxim Nekrasov: OK, thank you, understood. My second question is about dividends. With the negative free cash flow last year and the uncertainty around the virus and the demand, what do you think about the dividend payment and whether you will sustain the 50% payout this year.

Andrey Chikhanchin: As you know, according to our dividend policy, our target ratio of payment is 25%, but the final decision will be taken by the Board of Directors and approved by the AGM. As a state-owned company, we need a special decision by the government on the payment ratio. In the previous year, as you know, we paid 50% of net income in dividends.

Maxim Nekrasov: Thank you very much. I also wanted to clarify the previous comment about the booking rate. Do I understand it correctly that it was referring to China? Or is it the decline that you see across the board? Maybe you can specify what decline in the booking rates you see for European destinations so far.

Ivan Batanov: Let me clarify. When I was talking about double-digit decline, I meant China. If we look at European destinations, there are two different stories. We mentioned that the forward booking curve is slightly slowing down, which means that passengers think about changing their travel plans, in particular, when it comes to Italy. As mentioned, in Italy, payloads start to decline, which urged us to consider decreasing capacity.

Maxim Nekrasov: Understood, thank you very much. That is it from my side.

Elena Jouronova: Hi. I have a few questions. Do you think there is a risk that in the airline industry globally supply will not adjust as much as demand? We all know the demand is falling and other international carriers are halting their flights to certain destinations, but they could be actually putting those planes on other destinations, therefore increasing capacity on less affected routes. What are your thoughts on this at the moment and what do you hear from your competitors?

Andrey Panov: We would say that there is extremely high level of uncertainty in general on the market. We understand that some capacity could be relocated to other markets both in Russia and internationally. But the spread of coronavirus was quite fast and this special situation emerged literally in one month. There was not enough time for airlines to move capacities from current routes to different ones. We need time to do it. We still expect a split between grounded aircraft and new destinations. It is very hard to say what the proportion will be. Historically, European and US companies did a lot of grounding. Russian companies prefer to fly. But what will happen this time is not clear. In Russia, so far only China is closed. It is really hard to predict what will happen if other destinations close.

Elena Jouronova: And with regard to domestic market, my understanding is that Russian carriers that cannot fly to China are actually using the aircraft to fly to other destinations, so it is not a capacity reduction *per se*, but a redistribution from one market to another. Is that right?

Andrey Panov: It really depends on the company. With just one flight to China on a narrow body, it is easy to redistribute. But there are airlines that fly extensively to China, and they had charter programmes with Chinese tourists. It is not that easy to find new routes and to start selling tickets especially for airlines that do not know how to do it in retail market. I would expect that this time there will be some grounding. Once again, we will probably see the proportions next month, but it is hard to say taking into account March only, because, I will repeat, it is not easy to launch a new route in 15 days. I think the situation will be clearer in April and May.

Elena Jouronova: Understood. And the final question from me. I appreciate that it is difficult to make any forecasts at this stage, but what is your worst-case scenario for international yield decline this year. Or maybe you can narrow it down to Q2 2020.

Andrey Panov: It is really hard to predict, sorry for repeating it several times. Two weeks ago, nobody even thought about Italy. It was a surprise for the Italian government, for the world and for us. The worst-case scenario is when every country closes borders. Then we will see. It will be interesting not only aviation-wise. It really depends on two factors: how many countries will close their borders and if they will close borders for Russian citizens (this has never happened and hopefully will not happen), and how long the situation will persist – is it just March-April or the whole summer. The result will be dramatically different for these kinds of scenarios. From our point of view, it is hard to forecast, and we don't have enough information. Probably, nobody has enough information to do a solid forecast now.

Elena Jouronova: Yes, I agree with that. A final question from me. You are not hedged for your 2020 fuel costs, right?

Andrey Chikhanchin: No, we are not hedged.

Elena Jouronova: I remember you hedged your fuel cost exposure in 2H 2019. I was wondering if there are plans to do so this year, and if you have hedged already.

Andrey Chikhanchin: No, we are not hedged, but we are always looking at the market and trying to find the right time to make a hedge. It is possible, but it is still under discussion.

Elena Jouronova: OK, thank you very much and good luck.

Igor Goncharov: Thank you very much. Just a follow-up question on China and coronavirus. You mentioned soft demand on this destination in the second half of February already. Is it possible to provide some quantitative indicators as to what extent the demand has declined to this destination in February? You mentioned that in March you see single- to double-digit decline in bookings, but what happened in February? To which extent have you already reduced the capacity to China? Thank you.

Ivan Batanov: Let me start with an update on our China schedule, which we have already implemented. For the current month, we are decreasing the number of flights to Beijing from two daily to one daily. For April, three flights daily had been planned, but have been now decreased to one daily. To Shanghai, we cut down from two flights daily to one. For Guangzhou and Hong Kong, we decreased from daily to four times a week each. As you can see, it is a 50% reduction of capacity to some destinations, and close to 40% reduction for others. This reduction of capacity helped us achieve quite high load factor. We have been having almost full loads after the reduction. On destinations like Hong Kong, we now see that we need further reduction of capacity, but I believe other destinations will not require additional cuts, and we will fly as is.

Andrey Panov: And maybe just one more addition. There are almost no European airlines flying to China. Aeroflot, basically, is the only European airline that still has this route. And we see that the coronavirus situation in China is slowing down, we see fewer and fewer new people infected. Really, it is an

interesting situation, I would say, that we are still flying there and still have ability to transit these passengers.

Igor Goncharov: A follow-up question on this topic. At some point in time, it was mentioned that the Russian airlines not allowed to fly to China may or could receive some compensation for that. Do I understand correctly that Aeroflot is not eligible for this hypothetical compensation because the reduction that you have made was voluntary? Thank you.

Andrey Panov: Basically, we do not know if we are entitled to get this hypothetical compensation. This is an honest answer, more or less the same as to this previous question about subsidies. We just do not know.

Igor Goncharov: Thank you very much.

Mikhail Ganelin: Hello, thank you for the presentation. I have one question about your fleet expansion. You have a very aggressive plan for this year to get more than 50 planes. What is the actual status? Or what is the real number that you plan to get? Do you think that the number of, for example, Sukhoi Superjets will be lower than you planned? And my second question is whether you estimated how your gross debt will increase by the end of this year due to all these fleet acquisitions? Thank you.

Andrey Chikhanchin: Thank you for your questions. As for the debt, before the coronavirus situation we did not expect any rise in the debt ratio. The next months will show what is going to happen by the end of this year. We cannot make any estimates on this side. Talking about aircraft, as we have mentioned, the big portion of deliveries is wide-body aircraft, which comes as a substitution of phased-out A330s. And as for SSJs, we also have them in our budget, so there will not be any special increase in 2020.

Mikhail Ganelin: OK. Thank you. So you plan to get all 22 SSJs this year, right?

Andrey Chikhanchin: Yes, this is our plan, but we do not know how the situation will develop. According to the schedule, yes, we want to have these 22 aircraft. Five of them have already been delivered, they were transferred from Q4 2019, as I mentioned earlier.

Mikhail Ganelin: Thank you. And my next question is about your staff costs, which increased quite materially last year. Could you give us some indication for this year, what do you expect in terms of performance in 2020? Thank you.

Andrey Chikhanchin: We do not expect any material rising of staff costs. Only in line with the growth of the volume of our business. So no material changes expected.

Mikhail Ganelin: Do you think it will be in line with inflation or with volumes growth?

Andrey Chikhanchin: Yes, I think it is mostly in line with the volume of business, not inflation. I think it is something between inflation and growth of our business.

Mikhail Ganelin: Thank you very much.

Andrey Napolnov: Thank you very much for attending the call. Just one final remark. We have seen that some analysts highlighted in the notes the strength of the results. We also had many questions on coronavirus, which means that we all understand that it is a very strong headwind for aviation. At least we face these challenging times after improved results rather than the weak ones. Thanks again for your attention and see you at the next call.