



**Aircraft Fleet Operated
by Russian Airlines**

Key Trends

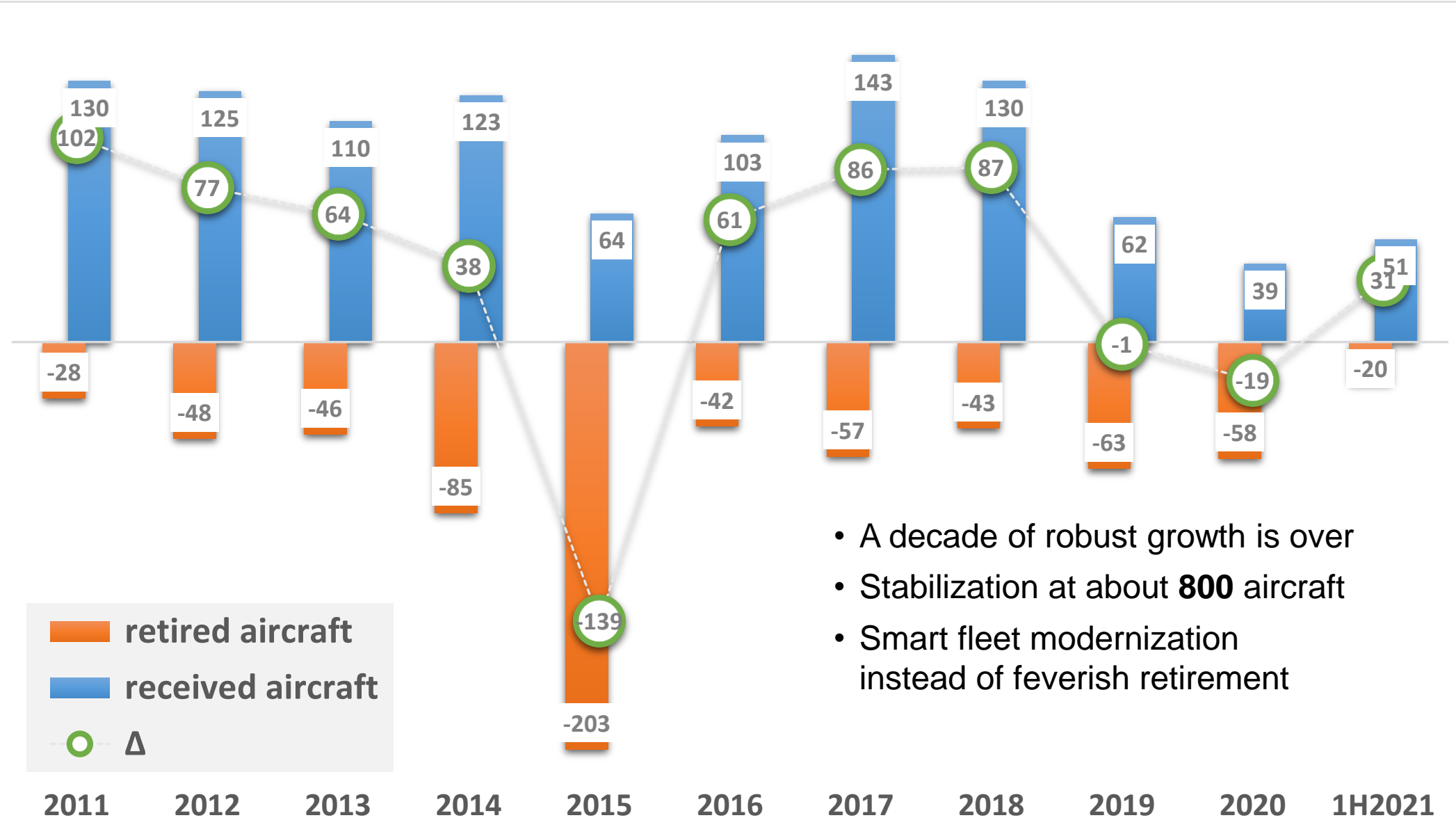
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Aircraft deliveries and retirements



- A decade of robust growth is over
- Stabilization at about **800** aircraft
- Smart fleet modernization instead of feverish retirement

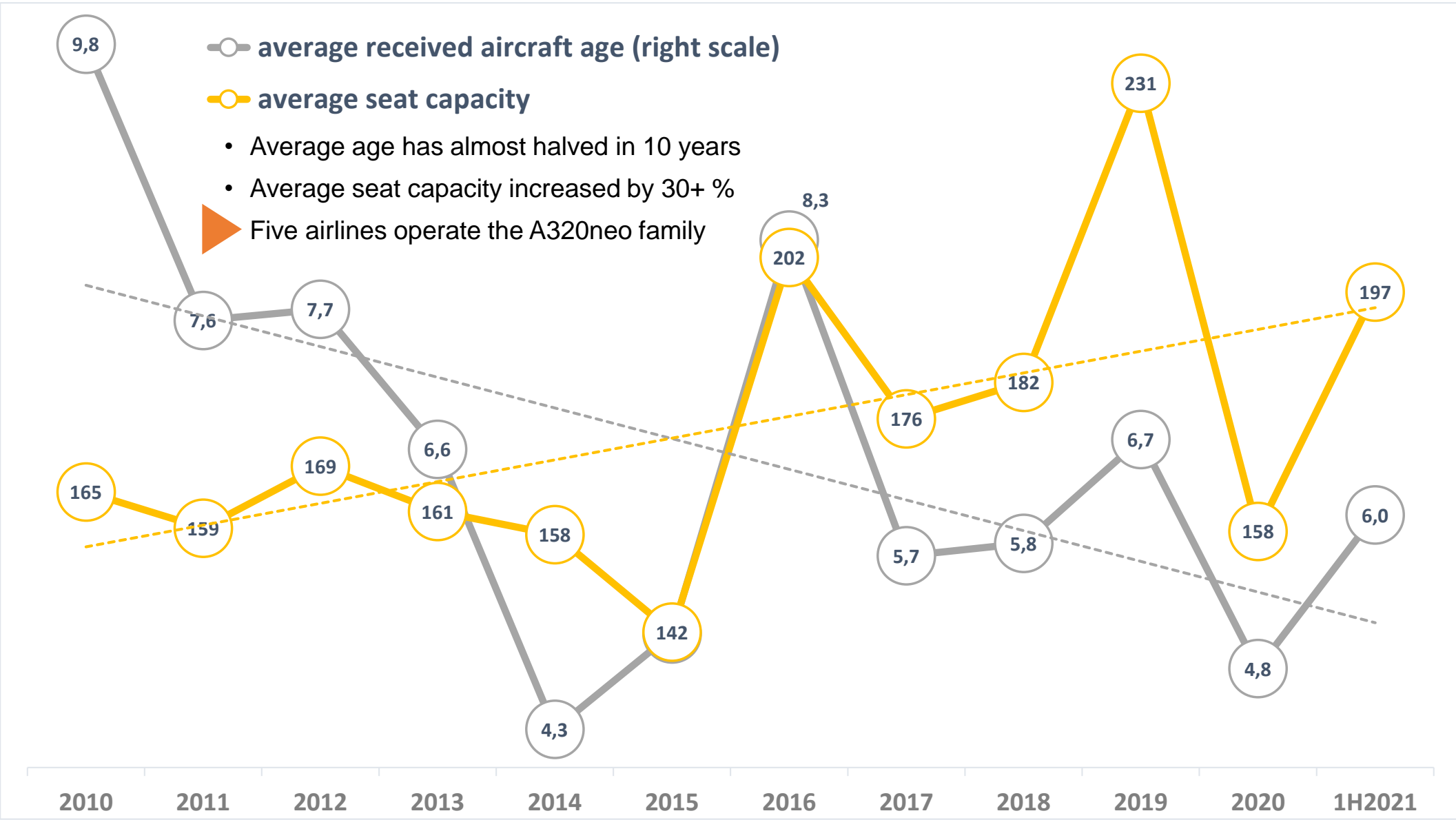
keeping
fit

Macroeconomic situation in Russia

- **Decrease in effective demand for air transportation:**
 - Real disposable income of the population: minus 10% compared to 2013
 - Inflation: plus 70% compared to 2013
 - Dollar exchange rate: plus 150% compared to 2013
- **Decreased airline revenues:**
 - Profitability on domestic routes is traditionally lower than on international routes
 - Reduced demand in premium classes due to the transition of the corporate segment to online
- **Increased airline costs:**
 - Increase in jet fuel prices: plus 18% from January 2021
 - Expected growth in airport and air navigation charges due to a sharp drop in revenues from foreign airlines and international flights; 1H2021 compared to the 1H2019:
 - transit flights — minus 40%
 - international flights — minus 60%
 - domestic flights — plus 20%
- **Problems with staff:** more intensive work does not lead to an adequate increase in wages

▶ **Russian airlines respond to all challenges by reducing CASK using denser cabin configurations**

Deliveries: aircraft age & seat capacity



**focus
on unit
cost**

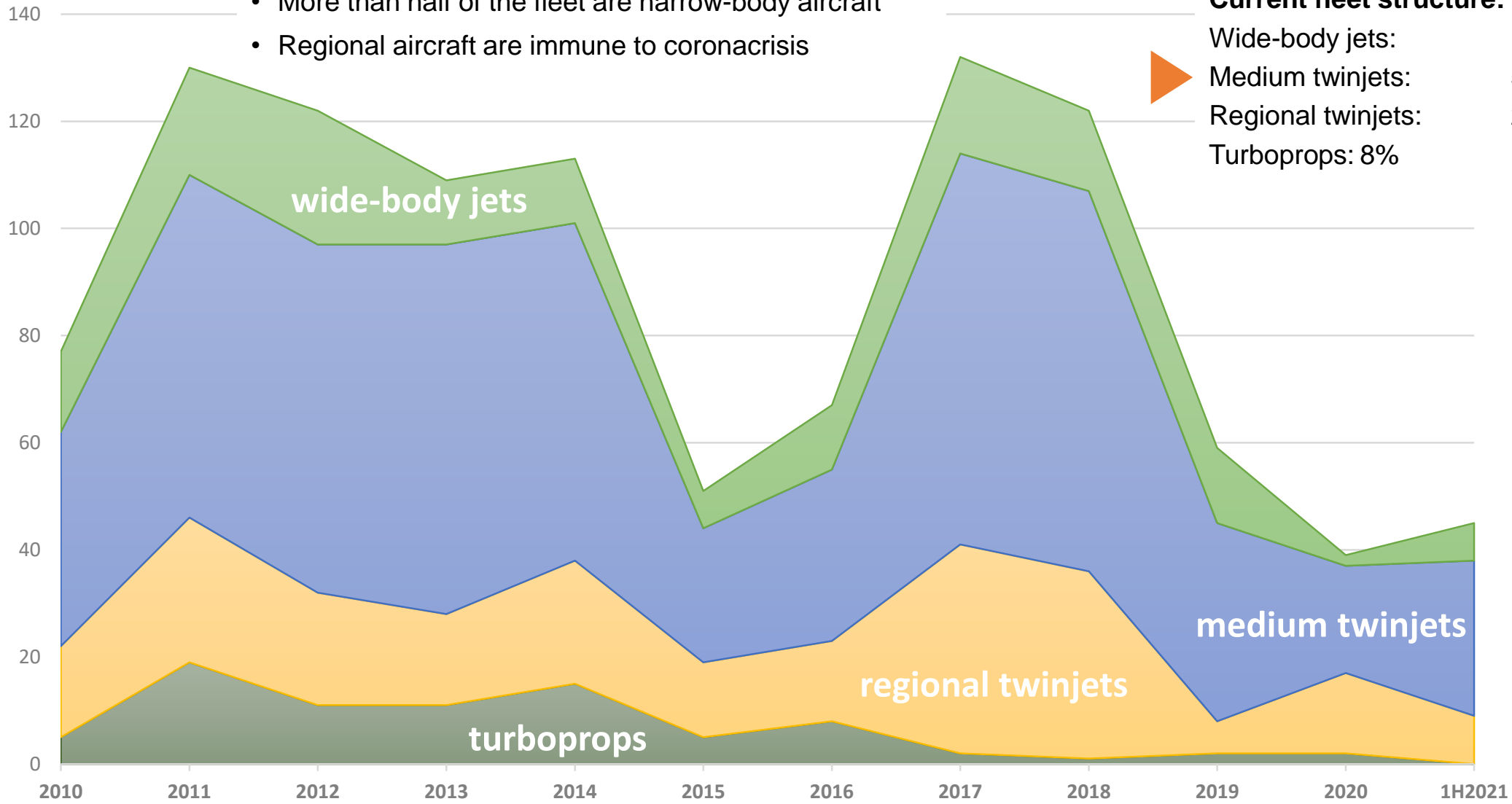
State support

- **Subsidizing air travel is becoming a backbone factor of the Russian civil aviation:**
 - Regional flights (both from the federal and regional budgets)
 - Flights to/from/within the Far Eastern Federal District
- **The mechanisms of mass state support have already been exhausted:**
 - VAT almost everywhere 0% (excluding most flights to Moscow)
 - Increased refund of excise tax on jet fuel
- **New measures of state support** are shifting towards local routes, support for mobility in the Far Eastern Federal District in general and hard-to-reach areas in particular
- Preferences in subsidizing flights on **Superjet**
- **Superjet marks the boundary:** flights on aircraft with a capacity of less than 100 seats are **deliberately unprofitable** in the current Russian conditions

▶ Should we expect subsidies for medium-haul flights for the development of the **MS-21** program?

Fleet structure: deliveries by segments

- Shrinking long-haul wide-body aircraft market
- More than half of the fleet are narrow-body aircraft
- Regional aircraft are immune to coronacrisis



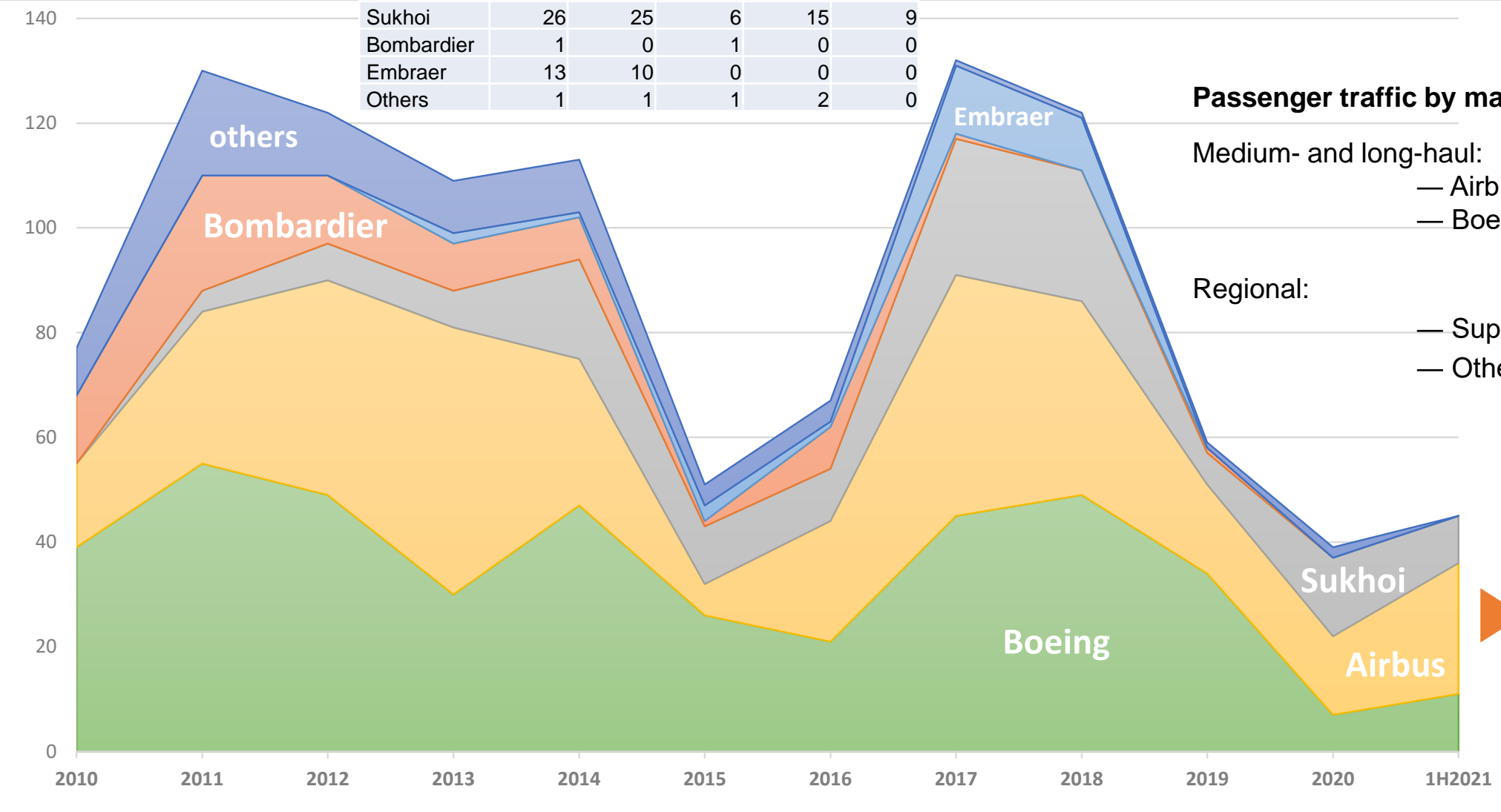
Current fleet structure:

Wide-body jets:	15%
Medium twinjets:	55%
Regional twinjets:	22%
Turboprops:	8%

less wide-bodies, more multi-purpose fleet

Fleet structure: deliveries by manufacturers

	2017	2018	2019	2020	1H2021
Boeing	45	49	34	7	11
Airbus	46	37	17	15	25
Sukhoi	26	25	6	15	9
Bombardier	1	0	1	0	0
Embraer	13	10	0	0	0
Others	1	1	1	2	0



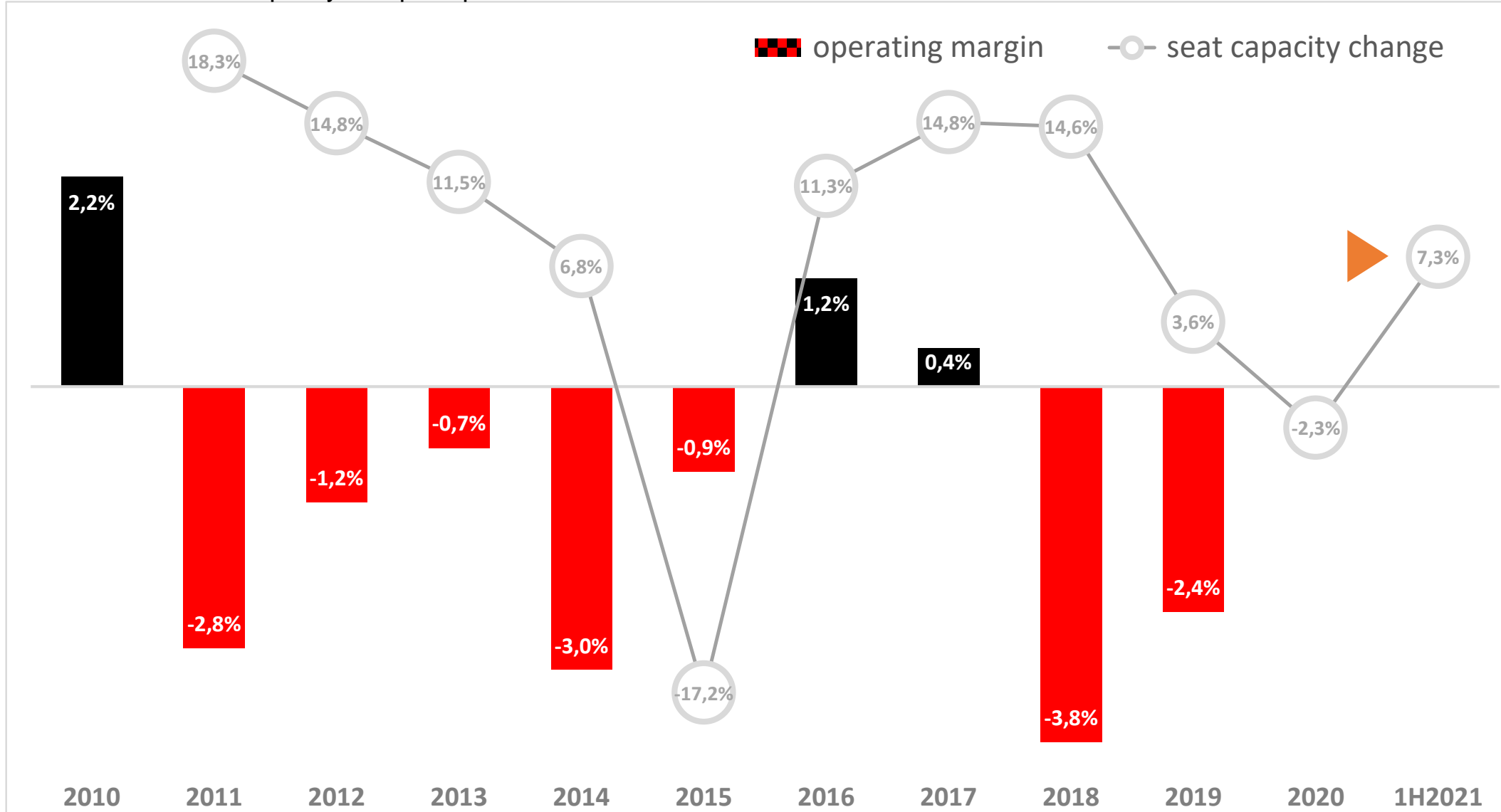
Passenger traffic by market segments:

- Medium- and long-haul: **90%**
 - Airbus: 50%
 - Boeing: 50%
- Regional: **10%**
 - Superjet: 50%
 - Others: 50%

S — Sukhoi;
S — Subsides

Operating margin and seat capacity

- Airlines continue moving towards the lower price segment
- Low capacity discipline promises new financial risks for airlines



**citius,
altius,
fortius**

Outlook for the MRO industry

- A **capacious domestic market** and a relatively high — by world standards — **government adequacy** helped Russian airlines to **survive**, but pandemic and lockdowns are unlikely to end in the next 2-3 years
- During the coronavirus crisis, airlines carried out a **smart modernization of the fleet**, total **fleet size** has stabilized at around **800 aircraft**
- The **average aircraft age** has stabilized at **12-13 years**.
- **Corporate demand** for travel will **never return** to pre-crisis levels, either in terms of volumes or budgets
- The market will continue to “**grow down**”: the low-end segment is expanding.
- Increasing costs, decreasing revenues require a decrease in unit cost:
 - more efficient **aircraft** of a new generation
 - **increase in seat capacity** instead of an increase in the number of aircraft
 - **increasing the range of narrow-body** instead of operating wide-body
- The hits of the coming years are universal “**workhorses**”: narrowbodies with a capacity of **220-250 seats** and extended range (A321LR/XLR); regional aircraft with a capacity of **130-150 seats** (crossovers in Embraer's terminology)
- ▶ The **MRO industry** is facing a **stabilization** of the volume of work and, consequently, a **reduction in income growth** due to the stabilization of the number of the aircraft fleet, its modernization and earlier replacement of aircraft
- **New measures of state support** are now focused on the segment of local and regional flights: there will be modernization and growth of the aircraft fleet in the segment of aircraft up to 20 seats (L-410) and heavy helicopters (Mi-8AMT/MTV), in the future — in the segment of large turboprop (Il-114 and foreign-built instead of the An-24/26), as well as the medium-haul jet **MS-21**

Q&A

- ▶ Thank you for the attention