

At the Height of New Frontiers

Strategic Report

Aeroflot is proud of the 95-year history of its brand and is confident about its future. Today Aeroflot is defined by its commitment to innovation and development of digital technologies. Aeroflot's new strategy was adopted after the Company achieved some of its previous key strategic goals ahead of schedule. The new strategy is expected to take Aeroflot to a qualitatively new level of development.

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**Evgeny Ditrich**Chairman of the Board of Directors
PJSC Aeroflot

Message from the Chairman of the Board of Directors

DEAR SHAREHOLDERS!

For Aeroflot, 2018 was a launchpad for future achievements. We have a number of very important goals ahead of us – Aeroflot will play a significant role in implementing projects of national importance.

In 2018, Aeroflot celebrated its 95th anniversary. On 17 March 1923, OJSC Dobrolet (“Russian Voluntary Air Fleet”), Aeroflot’s predecessor, was established. According to its charter, the aim of Dobrolet was to develop civil aviation by “opening routes to carry passengers, mail and cargo”. Aeroflot Group’s 2023 development strategy once again focuses on our historic mission – efficient transport integration of the world’s largest country.

A twofold increase in passenger numbers is one of our key goals. However, the structure of our passenger traffic is equally important to us, particularly the share of interregional passengers. One of President Putin’s May 2018 decrees emphasizes the importance of modernising the existing infrastructure of regional airports and increasing the share of regular interregional routes bypassing Moscow to 50% of the total number of domestic routes.

We have incorporated this into our Strategy-2023, according to which we plan to open four regional bases in Russia and significantly increase our capacities on domestic routes.

Aeroflot is already offering direct flights between major cities in southern Russia, and is planning to launch routes to new regions. This will help achieve the goal set out by the Russian Government of increasing transport mobility by one-third by 2024.

The flat fare programme run by Aeroflot and its subsidiary Rossiya Airlines continues to play an important role in improving transport accessibility, particularly in Russia’s Far East. In 2018, over 2.2 million people used the flat fare to travel between Moscow and cities in the Far East, as well as Simferopol and Kaliningrad. That is 41% more than in 2017.

One of Aeroflot Group’s airlines is Pobeda, a classic low-cost carrier, whose services are in high demand in Russia. Pobeda is not only delivering impressive results in the Russian market – it is also one of the most efficient low-cost carriers in the world. The high levels of demand for Pobeda’s services are due to its pricing policy, which in turn is supported by its high fleet utilisation rate. Pobeda operates an extensive route network, which includes interregional routes. Aeroflot Group’s target growth rates depend to a significant degree on Pobeda’s continued growth and its contribution to increasing transport mobility and accessibility in Russian regions.

In 2018, Aeroflot Group delivered positive net income as a result of an extensive cost-optimisation programme and active revenue and capacity management.

The positive outlook for Aeroflot and the high standards of the company’s corporate governance are widely recognised. In 2018, credit ratings agency Fitch revised PJSC Aeroflot’s rating from “B+” to “BB-” and affirmed its outlook at stable. Aeroflot also received a National Corporate Governance Rating of 7++ from the Russian Institute of Directors. This rating represents Advanced Corporate Management Practices according to the approved National Corporate Governance Rating scale.

Aeroflot is continuously working to improve civil aviation regulation. The Company has lobbied a number of laws that benefit the whole industry, including legislation to support the development of low-cost carriers and the introduction of stricter measures against obstructive passengers.

Aeroflot’s “100 by 100” development strategy was presented to President Vladimir Putin and received his approval.

Aeroflot is an acknowledged leader in the new digital economy that will largely define the future development of Russia. Aeroflot is one of Russia’s best service companies, while the company’s brand is one of the oldest and most recognizable in global aviation.

Ambitious goals have been set for Aeroflot and its subsidiaries, and by achieving them Aeroflot Group acts in the interests of Russia and its citizens. I count on your support in making and implementing decisions that will help unleash the potential of the Aeroflot Group – one of the most important assets of the Russian economy.

**Vitaly Saveliev**Chief Executive Officer
PJSC Aeroflot

Message from the Chief Executive Officer

DEAR SHAREHOLDERS!

In 2018, Aeroflot celebrated its 95th anniversary. We did so as a leading global airline – shortly before the anniversary, Aeroflot was named among the world's 20 largest airline groups by passenger traffic by two authoritative global aviation publications, Air Transport World and Flight Airline Business.

In 2018, we strengthened our position as one of the leading airlines on the international market. Aeroflot was once again named the world's strongest airline brand by Brand Finance. And we also confirmed our prestigious Skytrax 4-Star Airline Rating and Five Star Global Airline status in APEX's Official Airline Ratings.

During the year we implemented a number of initiatives to enhance customer service. They include the introduction of a streaming entertainment system on 26 Airbus A320 family aircraft, updates to our mobile app

and improvement of our onboard catering. We started operating domestic flights from the new terminal B at our Sheremetyevo hub. Widebody Boeing 777-300 aircraft were upgraded to improve service quality and cost efficiency.

Our efforts have been recognised by both passengers and industry experts. We have received over 50 accolades and been rated highly in authoritative industry ratings. Aeroflot won two categories at the prestigious Skytrax World Airline Awards – Best Airline in Eastern Europe and Best Premium Economy Onboard Catering – as well as key categories at the World Travel Awards – Europe's Leading Airline Brand and World's Best Business Class. In 2018, Aeroflot was for the first time named Best Airline in Eastern Europe at the Business Traveller Awards, and its customer service was recognised to be the best among Russian brands according to KPMG.

Throughout the year we continued to increase our operational efficiency. As a result, Aeroflot significantly strengthened its position among the most punctual airlines. In 2018, 82.98% of Aeroflot flights operated according to schedule. According to authoritative UK aviation publication FlightGlobal, Aeroflot was the world's fifth most punctual airline and second in Europe. Punctuality makes trips more comfortable for our passengers and allows us to avoid additional costs, which directly impact our finances.

Our operating results reflect our efforts to grow and develop the company further. In 2018, the airlines of Aeroflot Group carried 55.7 million passengers, up 11.1% year-on-year. Aeroflot, our flagship airline, carried 35.8 million passengers, an 8.9% increase year-on-year. We achieved a number of the goals of our Strategy-2025 well ahead of schedule, and having reassessed our capabilities we have now set ourselves new even more ambitious goals.

In 2018, the Board of Directors approved the Group's new Growth Strategy through 2023, with the title "100 Million Passengers by Our 100th Anniversary" (or "100 by 100"). The Group is now targeting 90-100 million passengers in 2023, when Aeroflot will celebrate its centenary. The strategy calls for the Group's low-cost carrier Pobeda to be a key growth driver. By 2023, Pobeda is expected to carry 25-30 million passengers annually. In the next five years we plan to further develop our Europe-Asia transit service via Moscow. Aeroflot has indisputable competitive advantages in the Europe-Asia transit segment and offers flights up to three hours shorter than peers on these routes. By 2023, we plan to increase our international transit traffic to 10-15 million and strengthen Moscow's status as a global transport hub. Aeroflot Group will open regional hubs across Russia – in Sochi, Ekaterinburg and Novosibirsk, as well as an international hub in Krasnoyarsk. This will help increase connectivity between Russian regions and will support their economic development.

To fulfil these goals Aeroflot needs a modern and reliable fleet. By 2026, Aeroflot Group plans to operate 200 Russian-built Superjet 100 and MC-21 aircraft. Another area of focus is the digitalisation of the Group's airlines.

Aeroflot currently ranks fourth globally in US-based consultancy Bain & Co.'s ranking of digitalisation of airlines. We are implementing major digital projects, including Big Data projects, working with AI technology and expanding our onboard internet programme.

Aeroflot believes that technology is an important tool that will help the Group to enhance customer service and improve cost-effectiveness, and will contribute to a more stable financial position even in a challenging market environment. Digitalisation coupled with an effective cost optimisation programme allowed Aeroflot Group to deliver positive FY 2018 results despite unprecedented fuel price growth and ruble depreciation. The Group's posted IFRS net income of RUB 5.7 billion. Aeroflot has once again demonstrated its ability to deliver growth even in a challenging market environment.

We are optimistic about our future and expect our operational development to have an impact on our financial results. According to the updated Strategy, by 2023, Aeroflot Group's revenue will reach RUB 1.3 trillion, compared to RUB 0.6 trillion in 2018. Together with revenue growth we focus on operating margins. Overall, we can say that one of the key goals of our strategy is to increase shareholder value.

Achieving strategic goals means entering a qualitatively new stage of development and further strengthening the Group's position in the global aviation market. Aeroflot can achieve historic passenger traffic records and give a new impetus to our century-old brand.

Aeroflot Group develops together with the country. We continue to focus on promoting sustainable business practices through our commitment to ESG standards. We support socio-economic growth and technological development and set the pace for the whole industry. Aeroflot plans to continue to deliver on its most important mission: to provide Russian citizens with a modern and reliable fleet. The interests of Russia and its citizens remain Aeroflot's key guidance.

Market Overview

Global airline industry

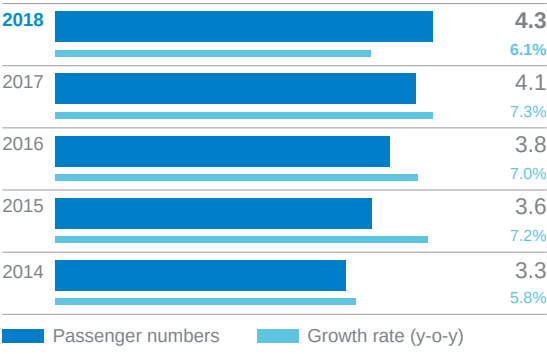
According to the IATA's estimates, the global scheduled passenger traffic grew by 6.1% in 2018 to 4.3 billion people, with the global passenger turnover up 6.5%. The passenger load factor was 81.9%, up 0.4 p. p.

Asia-Pacific was the fastest growing market in 2018, with the passenger turnover up 8.5% year-on-year. Europe ranked second in terms of growth, with its passenger turnover growing by 6.4%. The passenger traffic in Latin and North America rose by 6.0% and 5.0%, respectively. The passenger turnover grew by 4.6% in the Middle East and by 3.6% in Africa.

According to the ICAO, low-cost airlines carried 1.3 billion passengers in 2018, or about 30% of the total global air passenger traffic. Low-cost carriers have strong positions on European market with combined market share of 36%. The segment market shares Latin America (including the Caribbean) North America and Asia-Pacific are 35%, 30% and 29% respectively.

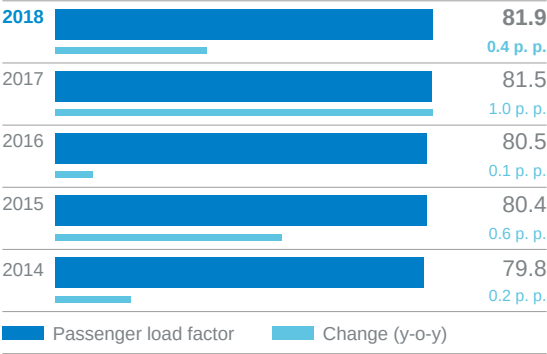
The IATA pre-estimated an increase of 8.7% year-on-year in industry-wide revenue in 2018 to USD 821 billion. Passenger flights consistently account for the bulk of the industry's revenue, their share standing at 68.7%.

Global scheduled passenger traffic (billion PAX)



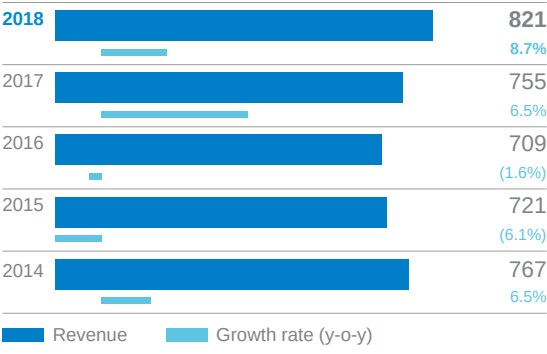
Source: IATA.

Passenger load factor (%)



Source: IATA.

Global revenue (USD billion)



Source: IATA.

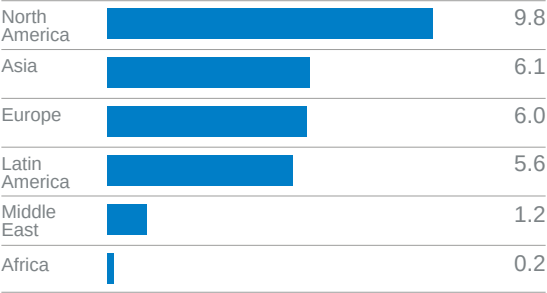
The industry's costs went up by 9.8% to USD 765 billion, largely driven by the substantial increase of oil prices during the year. The average global price per barrel of jet fuel was up 31.3%, putting pressure on the EBIT margin, which was down 0.9 p. p. year-on-year to 6.8%. Profitability levels still vary by region, with the highest level of 9.8% in North America, 6.1% in Asia-Pacific, 6.0% in Europe, 5.6% in Latin America, 1.2% in the Middle East, and 0.6% in Africa. The EBIT margin declined year-on-year across all regions.

Global EBIT margin (%)



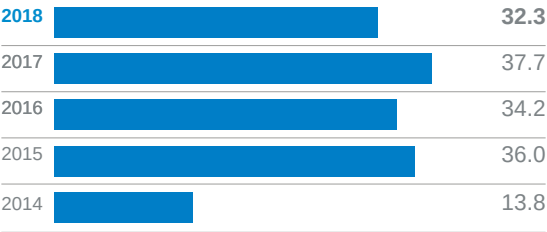
Source: IATA.

Global EBIT margin in 2018 by region (%)



Source: IATA.

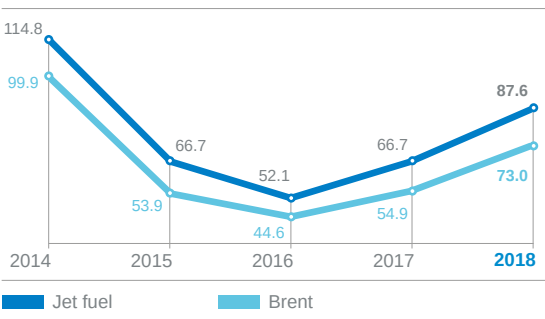
Global net profits (USD billion)



Source: IATA.

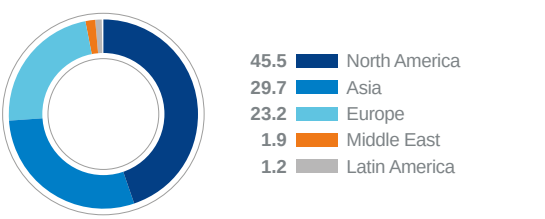
The IATA pre-estimated the 2018 industry net profits at USD 32.3 billion in 2018, or down from USD 37.7 billion last year. North America contributed almost half of the global net profits, while the Africa airline industry was loss-making.

Oil and jet fuel prices (USD per barrel)



Source: IATA.

Global net profits in 2018 by region (%)



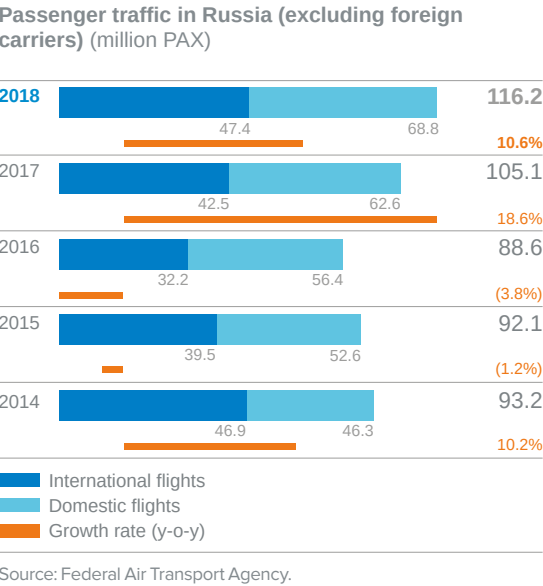
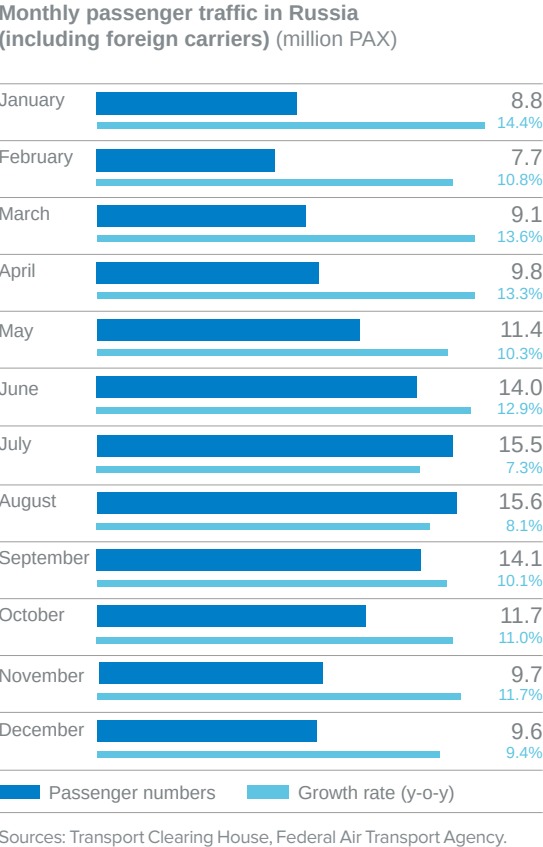
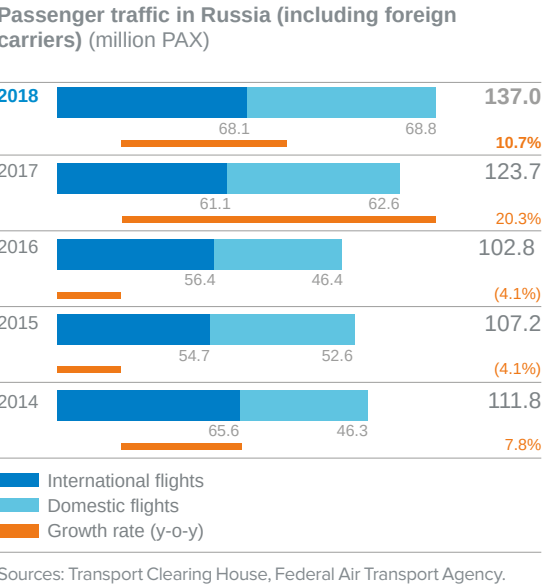
Note. Calculated based on data for regions with positive net profits. Excluding Africa, which generated a net loss of USD 0.4 billion in 2018.
Source: IATA.

Russian airline industry

In 2018, the Russian civil aviation continued to build up its passenger traffic. The total size of the Russian market, including air transportation by foreign carriers from Russian airports, totalled 137.0 million passengers, up 10.7% year-on-year. Russian airlines carried 116.2 million passengers, with their total passenger turnover up 10.6% to 286.9 billion RPK.

Key growth drivers during the year included Russia's economic growth, improved capacities of Russian and foreign carriers, and the growth in the low-cost segment and transfer traffic.

Stronger demand for air transportation during the 2018 World Cup in 11 Russian host cities was a major contribution to the growth of the Russian market. According to a Russian travel agency, the host cities were visited by 6.8 million fans and tourists, including 3.4 million foreigners. The tourist flow grew by about 40.0% in total. However, the number of "unique" tourists who received their FAN IDs was lower as only 1.8 million FAN IDs were issued. Although some fans also used other modes of transport, airports recorded an increase in passenger traffic during the World Cup. In particular, passenger numbers were up 13.8% year-on-year at Sheremetyevo airport, up 17.1% at Vnukovo airport, up 13.3% in Sochi, and up 11.1%–29.2% in other regions of Russia.

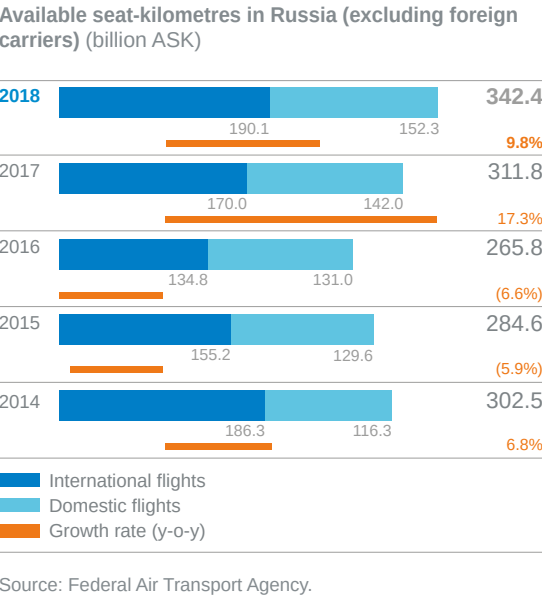
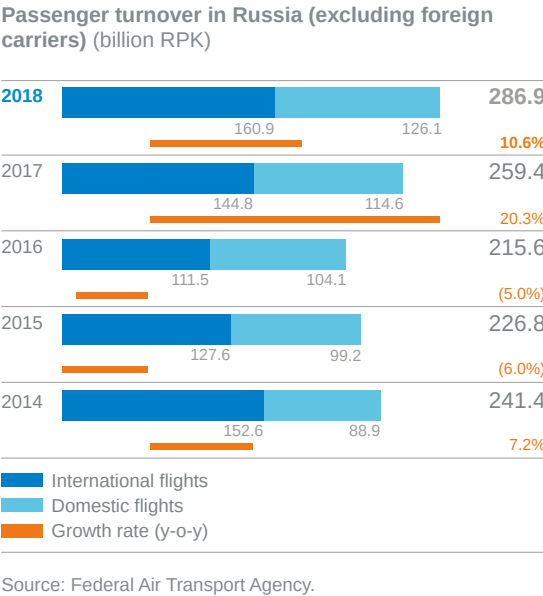


The impact by the championship was especially noticeable in the higher year-on-year growth rates of domestic passenger traffic recorded in June 2018 compared to growth rates in prior and subsequent periods.

68.1 million passengers were carried on international routes in 2018 (including by foreign airlines), up 11.5% year-on-year. The increase in the international traffic was heavily influenced by charter flights to Turkey and the Turkish aviation authorities and air carriers continuing to actively incentivise Russian customers. The average passenger load factor for Russian airlines on international routes was 84.6%, down 0.6 p. p. year-on-year.

In 2018, Russian airlines carried 68.8 million passengers in the domestic market, up 10.0% year-on-year. The average passenger load factor for domestic flights was 82.8%, up 2.1 p. p. year-on-year.

The Russian air passenger market is highly consolidated, with four largest players accounting for 64.6% of the total passenger traffic in 2018. The structure of the Russian market remained virtually unchanged year-on-year.

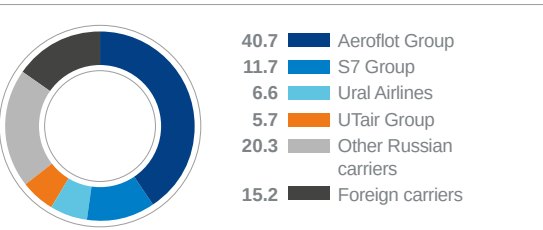


In 2018 Aeroflot Group's market share amounted to 40.7% of the market measured by passenger traffic (40.5% in 2017). Aeroflot Group's “net” market¹ share was 38.4% in 2018.

Aeroflot Group's closest competitors are S7 Group (11.7%), Ural Airlines (6.6%), and UTair Group (5.7%). The market shares of other Russian airlines and foreign carriers were 20.3% and 15.2%, respectively.

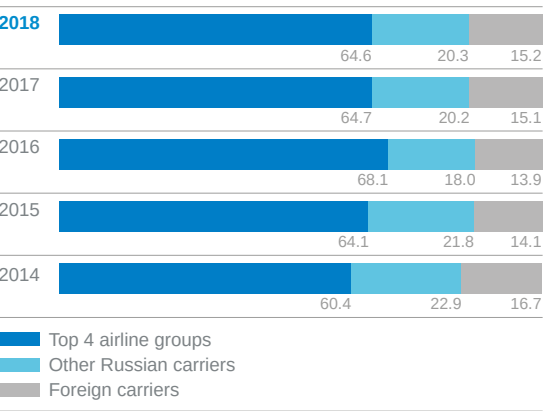
Overall, 2018 was a year characterised by intensified competition. Capacity build-up by foreign carriers had a significant impact on the industry. Foreign carriers started to increase flight frequencies and redeploy capacity previously pulled out of the Russian market as early as in 2017. Despite the market share of the foreigners remained more or less unchanged, market growth implied higher seat capacity and passenger traffic in the segment. Hence, in 2018, foreign airlines carried 20.8 million passengers in the Russian market (up 11.5% year-on-year), which is a material from a five-year low of 14.2 million passengers posted in 2016.

Russian airline industry players by total passenger traffic in 2018 (%)



Sources: Transport Clearing House, Federal Air Transport Agency.

Evolution of key players' market shares (%)



Aeroflot Group's market share evolution (by passenger traffic, including foreign carriers) (%)

	2014	2015	2016	2017	2018
International traffic	26.1	29.3	39.4	36.9	36.3
Domestic traffic	38.0	44.6	44.6	44.1	45.0
Total	31.0	36.8	42.3	40.5	40.7

Aeroflot Group's market share evolution (by passenger traffic, “net” market) (%)

	2014	2015	2016	2017	2018
International traffic	22.6	24.1	33.9	31.7	31.2
Domestic traffic	38.0	44.6	44.6	44.1	45.0
Total	29.1	34.5	40.0	38.2	38.4

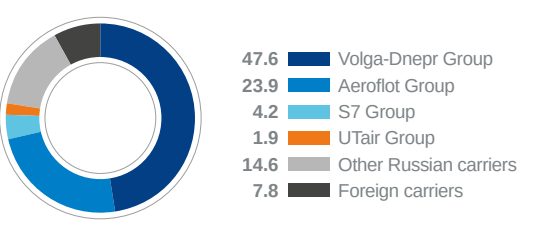
Air cargo market

According to the IATA, the global air cargo market totalled 63.7 million tonnes in 2018, up 3.6% year-on-year. The global cargo turnover increased by 4.1% with the industry's cargo revenue up 14.5% to USD 109.8 billion.

The Russian air cargo market grew by 4.4% year-on-year in 2018 to 1.3 million tonnes, or about 1.9% of the global market. The international cargo traffic accounted for the bulk of the Russian market at 77.0%, having increased by 5.2% to 980.0 thousand tonnes. The domestic cargo traffic was up 1.6% to 292.6 thousand tonnes.

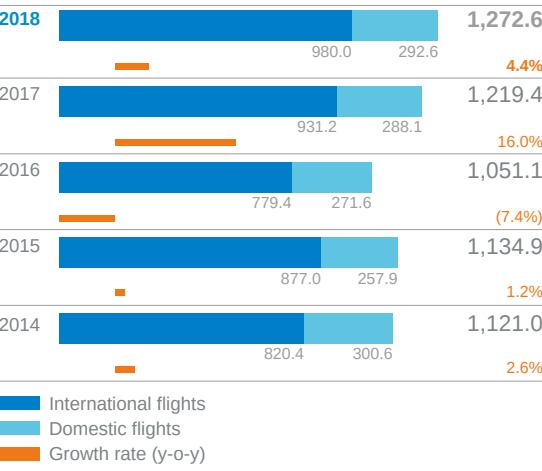
As at the year-end, Volga-Dnepr Group remained the air cargo market leader in Russia (47.6%). Aeroflot Group ranked second with 23.9% (22.4% in 2017). The four largest players account for 77.4% of the total cargo traffic in the Russian market.

Russian air cargo market by volume in 2018 (%)



Sources: Transport Clearing House, Federal Air Transport Agency.

Russian air cargo market volume (including foreign carriers) (thousand tonnes)



Sources: Transport Clearing House, Federal Air Transport Agency.

¹ “Net” market means the passenger traffic including foreign carriers, but excluding transfer passengers on international flights connecting in Moscow, which are not relevant for the Russian O&D market.

Development Strategy

MISSION

We work to ensure that our customers can quickly and comfortably travel great distances, and thus be mobile, meet more often, work successfully, and see the world in all its diversity.

We give our customers a choice through an extensive route network and different carriers operating within our Group, from low-cost to premium class airlines.

AEROFLOT GROUP'S STRATEGIC GOAL

is to strengthen leadership in the global airline industry by seizing opportunities in the Russian and international air transportation markets.

Updated Aeroflot Group Development Strategy

In 2018, the Board of Directors of PJSC Aeroflot approved the new Aeroflot Group Development Strategy 2023 (Minutes No. 5 dated 27 September 2018) as the key goals of the previous strategy, Aeroflot Group Development Strategy 2025, had been achieved ahead of schedule.

The new Aeroflot Group Strategy aims to further strengthen its position in the global air transportation market and to improve social mobility and air transport accessibility across Russian regions.

The Strategy outlines the key growth areas for the Group, its operational and financial performance targets. In line with the Development Strategy and pursuant to the directives of the Russian Government, Aeroflot Group has developed and updates annually its Long-Term Development Programme, which covers management-related activities, goals, and KPIs.

The Group's consolidated IFRS budget and KPIs for the budget year are developed in line with the targets of the Aeroflot Group Strategy and the Long-Term Development Programme.

Key growth areas and goals of Aeroflot Group



PASSENGER TRAFFIC

Carry 90–100 million passengers in 2023

- **Pobeda airline** is a key growth driver leveraging its strong operational efficiency to offer the lowest fares and extensive opportunities for passengers in all income brackets. By 2023, the Group's low-cost carrier is expected to carry 25–30 million passengers a year.
- **Aeroflot airline** will continue to grow as a premium carrier making a stronger focus on the transfer market.
- **Rossiya airline** will continue to expand its regional flights becoming the principal carrier offering flat fares on routes sponsored by the government.
- **Aurora airline** is expected to double its local operations in the Far Eastern Federal District.



INTERNATIONAL TRANSIT

International transit traffic of 10–15 million passengers in 2023

Aeroflot airline intends to leverage its competitive advantages to ramp up its international transit traffic. In particular, Aeroflot has an up to three-hour advantage over its competitors in transit time between Europe and Asia, a key air transportation market, while offering excellent customer experience at the lowest unit costs. It is already the number one carrier by transfer traffic at some routes from large European cities to Asian destinations.



REGIONAL BASES

Launch an international hub in Krasnoyarsk and three new regional bases in Sochi, Yekaterinburg, and Novosibirsk.

Increase regional traffic to 19 million passengers in 2023. Aeroflot Group will make a significant contribution to carrying out the instructions given by the Russian President to the Government to expand the network of scheduled inter-regional passenger routes, bypassing Moscow, to 50% of the total scheduled domestic flights by 2024.



AIRCRAFT FLEET

Bring 200 Russian-built Superjet 100 and MC 21 aircraft online by 2026

Aeroflot Group will work with the United Aircraft Corporation to ensure that all Russian-built aircraft meet the highest international standards of aircraft operations. **The Group will have to operate a total of approximately 520 aircraft** to achieve its target passenger traffic.



DIGITALISATION

Deliver a leading-edge level of digitalisation across Aeroflot Group

Aeroflot will retain its focus on **the extensive integration of cutting-edge digital technology**, including artificial intelligence.

Key initiatives and work streams within the long-term strategy

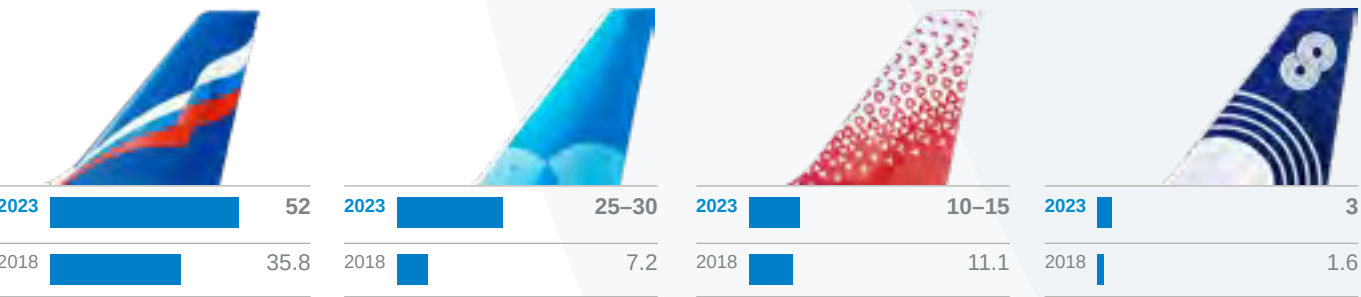
KEY DEVELOPMENT AREAS

-  Develop Aeroflot Group's route network through penetrating new markets and increasing the number of flights
-  Continuously upgrade the fleet
-  Develop Aeroflot Group's operations base
-  Improve the employee performance and labour productivity
-  Support innovative development of Aeroflot Group

DEVELOPMENT SEGMENTS

- Develop the premium passenger segment through improving the passenger experience, flight schedule, and expanding the route network
- Develop the low-cost passenger transportation segment
- Promote transfer traffic, including the international transit traffic
- Support national and regional passenger service programmes sponsored by the Government

Passenger traffic targets across Aeroflot Group



Impact of risks on the Group's strategy

The key potential risks that may affect the Group's development strategy are:

- risk of changes in the external business environment
- risk arising from infrastructure constraints
- macroeconomic risks..

To mitigate the key risks, the medium-term strategy of the Group provides for:

- development of an efficient hub at Moscow Sheremetyevo airport to promote international transfer traffic
- availability of different capacity aircraft in the fleet and a reasonable balance between fleet diversification and standardisation to maximise operational flexibility
- growth planning and control at each of Aeroflot Group companies to maintain the Group's effective presence in all market segments
- monitoring the progress of infrastructure development and new facilities construction at Moscow Sheremetyevo airport
- diversification of revenue streams by currency and geography.

Key programmes supporting the Development Strategy

The **Investment Programme** for 2019 was approved by PJSC Aeroflot's Board of Directors on 13 December 2018 (Minutes No. 10). It is designed to address long-term strategic objectives, improve the operations of business units, and continue the overall dynamic development of the Company's investment activities.

The 2019 Investment Programme focuses on the established investment agenda such as property, plant and equipment, capital construction, and software, and sets new development projects designed to:

- ensure maintenance operations: procurement of tools and equipment to perform maintenance for all types of aircraft; fitting out of hangar facilities
- develop a training platform: purchasing and delivering an FFS A350 flight simulator; purchasing A321 and SSJ100 Door Trainers; upgrading the software for the FFS B737 flight simulator; purchasing airport visuals for the FFS SSJ100 flight simulator, etc.
- upgrade aircraft: ongoing equipment of aircraft with WiFEC; replacement of business class seats aboard Airbus A330s; having wheelchairs aboard Boeing 777 aircraft
- construct new facilities: continued construction of a new hangar for aircraft servicing; designing a building for the training platform; designing a facility for composite materials maintenance and repair, etc.
- develop the IT infrastructure: maintaining the existing and developing new information systems and further business process digitisation; developing digitisation projects; purchasing communication, telephone, and computer equipment

Cost cutting management plan for 2018

An emergency team was set up in 2018 to optimise costs and improve performance.

Emergency measures developed by the team to improve operational performance helped achieve positive financial results for the year despite the strong growth of the average jet fuel prices.

KEY COST CUTTING INITIATIVES INCLUDED:

- reducing selling, general, and administrative expenses
- streamlining the marketing budget
- negotiating discounts and special terms with service providers, including fuel suppliers

- ensure high-quality passenger experience; PJSC Aeroflot's website design; procurement of uniforms for front line employees
- provide software solutions: developing the SAP system; maintaining and developing the Company's website, commercial, operations-related, office, and other systems
- invest in R&D projects under the Group's Innovative Development Programme
- provide other types of investment in property, plant and equipment: running fire safety initiatives, purchasing workwear, ensuring seamless operation of business units.





Aeroflot Group's Innovative Development Programme 2025 was fully aligned with the regulatory guidelines of federal executive authorities and adopted by PJSC Aeroflot's Board of Directors on 25 August 2016.

The Innovative Development Programme covers the main innovation focus areas and activities at PJSC Aeroflot and its Rossiya and Aurora subsidiaries, as well as key mid- and long-term innovation KPIs to 2025. For more details on Aeroflot Group's Innovative Development Programme see the Information Technology and Innovation section.

- postponing further investment in customer service (to avoid any undue increase in operating costs)
- reducing management remuneration, including through releasing funds by early completion of the Long-Term Incentive Programme, etc.

Along with these initiatives, the Company focused on its income, including by optimising the day-to-day management of flight profitability and network operation, improving fares, adjusting the fuel surcharge, enhancing sales and load factor supervision and monitoring, developing additional revenue sources, and adopting operational changes.

Strategy implementation report

	2009	2018	Outlook for 2025
Join the Top 20 global players by passenger traffic	68th globally by passenger traffic	19th globally*	
Join the Top 5 European players by passenger traffic	15th in Europe	5th in Europe*	
Carry over 70 million passengers	11.1 million passengers	55.7 million passengers	
Carry at least 30 million domestic passengers	4.9 million passengers	31.0 million passengers	

* Rating for 2017. Ranked 5th among European traditional carriers.
Sources: Air Transport World's rating, Company data.

Aeroflot Group successfully implemented its Development Strategy 2025 adopted by PJSC Aeroflot's Board of Directors in 2011, having reached a number of milestone targets ahead of schedule. In particular, Aeroflot Group achieved the goal of its Strategy 2025 to become one of the world's largest airlines ahead of schedule: the Group joined Top 20 global air carriers by passenger traffic and Top 5 European traditional air carriers by revenue and passenger traffic.

During the years of the Strategy implementation, Aeroflot Group has built an innovative multi-brand platform providing a wide coverage across market segments and niches and has considerably increased its passenger traffic, including on domestic routes. As a result, the Company has cemented its position in the Russian market and has become a leader in the European

and global airline industry. Analysis of Aeroflot Group's growth trends and changes in external business environment during 2018 proved that the Group was well-positioned to achieve all goals set in its Strategy 2025 ahead of schedule. This, the continuing rapid growth of the Russian airline industry, and a considerable improvement of the global industry's overall performance, helped the Company to raise its strategic goals and projections for 2023.

2018 saw an upward trend in key operational KPIs, in line with the Group's Strategy and mid-term plans, including higher passenger and transfer traffic supported by the expansion of the route network. Aeroflot maintained a focus on low-cost flights, innovative technology, and customer service excellence. With jet fuel prices on the rise, a large-scale cost optimisation programme was launched.

TRANSFERRING LONG-HAUL DOMESTIC FLIGHTS TO TERMINAL B

In 2018, Aeroflot airline moved its domestic flights to the new Terminal B of Sheremetyevo International Airport.

The airline began to gradually transfer the flights in May 2018 and fully completed the transfer in November, by the start of its winter 2018/2019 season. Since the start of the winter season, the terminal has been handling a daily total of about 400 domestic flights.

According to the winter 2018/2019 schedule, Terminal D handled 40 domestic round trip flights: 8 flights to the Russian Far East by Aeroflot airline (3 routes: Vladivostok, Khabarovsk, Petropavlovsk-Kamchatsky) and 32 flights operated jointly with Rossiya airline (11 routes: Sochi, Magadan, Khabarovsk, Krasnodar, Mineralnye Vody, Petropavlovsk-Kamchatsky, Orenburg, Rostov-on-Don, Simferopol, Yuzhno-Sakhalinsk, and Vladivostok).

The new passenger Terminal B at Sheremetyevo airport is located within the northern sector of the airport and has an annual throughput of 20 million passengers. The terminal is connected to the airport's southern sector (Terminals D, E, and F) by passenger and baggage tunnels with automatic trains. Travelling between the airport's terminals takes four minutes. This inter-terminal link enables an extremely fast and efficient connection between different terminals of the airport.

New Terminal B of Sheremetyevo

-  Located within the northern sector of the airport
-  Annual throughput of 20 million passengers
-  The terminal is connected to the airport's southern sector (Terminals D, E, and F) by passenger and baggage tunnels with automatic trains
-  Travelling between the airport's terminals takes four minutes
-  This inter-terminal link enables an extremely fast and efficient connection between different terminals of the airport

TRANSFERRING SCHEDULED FLIGHTS OF ROSSIYA TO SHEREMETYEVO INTERNATIONAL AIRPORT

As part of reinforcing the hub at Sheremetyevo airport, scheduled flights of Rossiya airline under commercial operation of PJSC Aeroflot were transferred from Vnukovo airport to Sheremetyevo International Airport (Terminal D) as of winter 2018/2019. This initiative enhances the transfer potential of Rossiya airline flights through higher connectivity with Aeroflot's core network, thus drastically improving flight planning flexibility for passengers and making flights more cost effective.

SIGNING A CONTRACT FOR 50 LATEST MC-21 AIRCRAFT

In February 2018, PJSC Aeroflot and Rostec Corporation signed a firm contract for 50 Russian-built next generation MC 21 passenger aircraft. Under the contract, Aviacapital-Service (a leasing subsidiary of Rostec) will provide Aeroflot airline with 50 MC 21 300 aircraft on operating lease. The aircraft's configuration for Aeroflot is designed to carry 169 passengers (16 business class and 153 economy class seats). The deal was approved by the Annual General Meeting of Shareholders on 25 June 2018.

Long-term development programme

Aeroflot Group's Long-Term Development Programme (the LDP) was designed in accordance with Instruction of the President of the Russian Federation No. Pr-3086 dated 27 December 2013, and approved by PJSC Aeroflot's Board of Directors on 2 December 2014 (Minutes No. 8). On 13 December 2018 (Minutes No. 10), PJSC Aeroflot's Board of Directors gave a general approval to the main provisions of Aeroflot Group's LDP for 2019–2023 updated to reflect the new Aeroflot Group Development Strategy 2023.

This involved a review of the Programme's key initiatives to support its implementation.

The LDP's key goal is to ensure the Group's long-term sustainable development, strengthen its competitive position, create and develop a competitive edge, and improve performance and financial stability.

THE LONG-TERM DEVELOPMENT PROGRAMME'S KEY OBJECTIVES ARE TO:

- Develop the list of activities to ensure the achievement of the Group's strategic growth targets
- Identify areas and initiatives to improve the Group's competitive edge and performance
- Analyse risks to, and opportunities for, achieving the strategic targets and implementing the LDP initiatives.

The LDP details strategic areas for the Group's development and includes a list of key initiatives and activities aimed at the strategy implementation in the medium term. The LDP complements and expands the key strategic initiatives set out in the Aeroflot Group Development Strategy 2023.

KEY INITIATIVES TO SUPPORT THE LONG-TERM DEVELOPMENT PROGRAMME PROGRESS:

- Develop within Aeroflot Group's multi-brand platform
- Expand the route network and aircraft fleet
- Enhance the production capacity
- Implement Aeroflot Group's Innovative Development Programme
- Implement the investment programme
- Ensure an adequate talent pipeline
- Increase labour productivity.

The 2018 progress on Aeroflot Group's Long-Term Development Programme was audited by an external auditor, Nexia Pacioli. The auditor's opinion was issued on 29 March 2019.

Following the independent audit, the auditor expressed an opinion that the report reflecting the progress on Aeroflot Group's Long-Term Development Programme and achievement of the 2018 target KPIs was reliable in all material respects and was prepared in compliance with Aeroflot Group's Long-Term Development Programme for 2018–2022 which was approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7).

The auditor confirmed the reliability, in all material respects, of the following data in the 2018 LDP progress report:

- Actual KPI performance: 7 out of 11 KPIs were achieved in 2018
- Progress on the initiatives and their current status: most of the initiatives had been completed
- Spending budgets in line with their intended purpose (compensations for the carrier's lost earnings and partial compensations for lease payments made under the Russian-built aircraft operating lease)

KPI system

The 2018 KPI list, weights, and targets for PJSC Aeroflot's CEO, which reflect the Company's KPI system, were approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7), and updated by PJSC Aeroflot's Board of Directors on 26 April 2018 (Minutes No. 13) for the second quarter of 2018 and then on 31 October 2018 (Minutes No. 7) for the third quarter of 2018, in line with Aeroflot Group's adjusted 2018 budget.

2018 KPI targets and actual performance by PJSC Aeroflot's CEO

KPI*	Unit	2017				2018				Reasons for variance (2018A vs 2017P)
		Weight	Plan	Actual	Performance to plan	Weight	Plan	Actual	Performance to plan	
Total Shareholder Return (TSR)	%	10.0	13.5	1.2	8.89	10.0	20	(18)	0.00	Negative macroeconomic impact on Aeroflot Group's operating margins and net income during the year (due to higher fuel costs)
ROIC	%	20.0	14.9	14.9	100.00	20.0	12.9	12.0	93.02	Higher fuel costs
Long-term debt/EBITDAR	—	5.0	0.93	0.86	107.53	5.0	0.75	0.80	93.33	Higher fuel costs
Integrated Innovation Key Performance Indicator (IIKPI)	%	10.0	80	80*	100.00	10.0	100	100**	100.00	
Investment Programme Efficiency	—	5.0	5.22	6.88	131.80	5.0	10.91	20.11	184.33	High returns on the 2018 investment projects and lower capex
CASK	cent per ASK	5.0	4.9	5.32	91.43	5.0	4.9	5.45	88.78	Higher fuel costs and exchange rate fluctuations in 2016–2018 (the target of 4.9 cent per ASK was the lowest value achieved in 2016)
Share of State-Subsidised Funding in Total Funding Secured	%	5.0	0	0	100.00	5.0	0	0	100.00	

* The value shown is the minimal value achieved in 2017.
** According to Minutes No. 1 dated 27 February 2018 of a meeting of Inter-Agency Working Group on Supporting Innovative Development Priorities, the IIKPI bonus can be paid in full if the variance between the target KPI and actual performance does not exceed 10%.
Note. 2017 and 2018 KPIs are calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety KPI.

From 2015 onward, the scope of the CEO's KPI list (with KPI weights and targets) is fully in line with the KPIs of our Long-Term Development Programme and extended to include all members of PJSC Aeroflot's Management Board to provide incentives for the management to pursue Group-wide corporate objectives. The list now also includes individual KPIs for Deputy CEOs and other members of the Management Board, with the aim to improve the Group's overall performance.

The KPIs for other employees of PJSC Aeroflot were approved by the CEO's Order No. 539 dated 29 December 2017; they were updated by the CEO's Order No. 375 dated 14 September 2018 for the second quarter of 2018 and then by the CEO's Order No. 490 dated 17 December 2018 for the third quarter of 2018, in line with Aeroflot Group's adjusted 2018 budget.

KPI*	Unit	2017				2018				Reasons for variance (2018A vs 2017P)
		Weight	Plan	Actual	Performance to plan	Weight	Plan	Actual	Performance to plan	
Punctuality	%	5.0	87.0	90.4	103.91	5.0	87.0	89.9	103.33	Aeroflot Group's initiatives to improve punctuality of aircraft departures include: → joint initiatives of PJSC Aeroflot, its business units, and third-party companies to improve punctuality of arrivals and departures to and from base/non-base airports → air traffic management to improve flight arrival punctuality and, consequently, flight departure punctuality
PJSC Aeroflot's Flight Safety	%	15.0	99.957	99.972	103.49	15.0	99.957	99.974	103.95	Effective flight safety management, including: → implementation of initiatives based on the results of air accident and incident investigations → monitoring of key operational risks and development of up-to-date corrective measures to mitigate them to acceptable exposure → reduction in number of air accidents and incidents associated with errors and violations in flight operations → reduction in the number of close-call incidents (from 2017)
Passenger Load Factor	%	10.0	80.0	82.8	103.50	10.0	82.0	82.7	100.85	Effective measures to increase utilisation of aircraft fleet
Overall Productivity	mn ASK per emp.	10.0	4.235	4.431	104.62	10.0	4.489	4.551	101.38	Higher productivity levels across Aeroflot Group supported by budget-controlled increase in work loads and headcount growth optimisation

Pursuant to the directives of the Russian Government, PJSC Aeroflot's KPI system embraces financial, economic, and industry-specific indicators, including:

- mandatory financial KPIs – Total Shareholder Return (TSR) and ROIC for Aeroflot Group – in line with the KPI Guidelines (Letter of the Federal Agency for State Property Management No. OD-11/22160 dated 26 May 2014)
- Overall Productivity KPI (for Aeroflot Group) – in line with the Russian Government's Directive No. 6362p-P13 dated 24 October 2013
- Share of Supplies from Small and Medium-Sized Businesses, Efficient Energy Use, and Environmental Friendliness KPIs were incorporated into PJSC Aeroflot's KPI system and KPI lists for relevant department heads – in line with the Russian Government's Directive No. 6362p-P13 dated 24 October 2013
- Integrated Innovation Key Performance Indicator (IIKPI) (for Aeroflot Group) – in line with Letter of the Deputy Minister of Economic Development of the Russian Federation No. 3142-OF/D06 dated 24 February 2012 and the Russian Government's Directive No. 1472p-P13 dated 3 March 2016

- Investment Programme Efficiency KPI (for Aeroflot Group) – in line with Directive of the Federal Agency for State Property Management No. PF-11/35029 dated 14 August 2014
- CASK KPI (for Aeroflot Group). As per the resolution of PJSC Aeroflot's Board of Directors dated 20 April 2017 (Minutes No. 14), the Company achieved the CASK reduction target in line with Directives of the Russian Government No. 2303p-P13 dated 16 April 2015 and No. 4750p-P13 dated 4 July 2016. Since 2017, the Company's objective is to maintain the achieved level
- Share of State-Subsidised Funding in Total Funding Secured KPI – in line with paragraph 2 of Instruction of the Russian Prime Minister Dmitry Medvedev No. AD P36-4617 dated 11 July 2015 on including the indicator showing investment capital raised in the private equity market.

As per the resolution of PJSC Aeroflot's Board of Directors adopted in 2017, Aviation Accident with Fatalities (Plane Crash) was set as the disqualification indicator (cancelling the bonus) in the KPI system.



Aeroflot's History

In 1976, Aeroflot carried over 100 million passengers in a year for the first time in the company's history, mainly on domestic routes. In 1990, Aeroflot entered the Guinness Book of Records as the largest airline in the world – that year the number of passengers carried reached 139 million, with 142 representative offices abroad and a fleet consisting of almost 2,000 aircraft.

In 2018, the majority of the Long-Term Development Programme KPIs for PJSC Aeroflot's CEO were met/exceeded as a result of efficient operations. KPI performance was affected by negative macroeconomic factors and higher potential sanctions risks.

Aeroflot Group Development Strategy 2023 involves a considerable increase in operational KPIs and development of new growth areas, including the launch of a new hub and regional bases. In view of these prospects and the significant increase and volatility of fuel costs, the existing financial KPIs – TSR and ROIC – which were earlier adopted as part of Aeroflot Group's Long-Term Development Programme and PJSC Aeroflot's CEO incentives, will not be used in 2019.

To bring the management incentive system in line with Aeroflot Group's short-term strategic priorities, PJSC Aeroflot's Board of Directors approved the following 2019 KPIs for PJSC Aeroflot's CEO (Minutes No. 12 dated 7 February 2019).

The CEO's KPI list and weights for 2019 reflect the Company's profile and strategic priorities and have been approved by the Russian Ministry of Transport, a federal executive body that oversees PJSC Aeroflot's activities.

2019 KPI targets for the CEO of PJSC Aeroflot

KPI	Weight	Unit	Plan
Revenue per Available Seat-Kilometre (RASK)	20%	RUB per ASK	3.76
CASK*	10%	cent per ASK	3.3
Integrated Innovation Key Performance Indicator (IIKPI)**	10%	%	100
Investment Programme Efficiency	5%	–	16.32
Share of State-Subsidised Funding in Total Funding Secured	5%	%	0
Punctuality	10%	%	87.0
PJSC Aeroflot's Flight Safety	20%	%	99.957
Passenger Load Factor	10%	%	82.4
Overall Productivity	10%	mn ASK per emp.	4.739***

* Calculations exclude fuel prices.
** According to Minutes No. 1 dated 27 February 2018 of a meeting of Inter-Agency Working Group on Supporting Innovative Development Priorities, the IIKPI bonus can be paid in full if the variance between the target KPI and actual performance does not exceed 10%.
*** The target is based on the 2019 budget.

Note. KPI performance is assessed on the basis of the Regulations on Bonus Payments to the Managers and Specialists of PJSC Aeroflot. KPIs are calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety KPI.

Multi-brand platform



Aeroflot airline focuses on addressing the needs of the premium passenger segment by offering best-in-class services, a high frequency route network with extensive flight geography, access to the route network of partners from the SkyTeam Alliance, an effective flight schedule, convenient connecting flights for transfer passengers, and a young aircraft fleet.

Positioning	Premium product
Type of flights	Scheduled flights
Business model	<div>→ Hub model</div> <div>→ High frequency of flights</div> <div>→ Economy and business class</div> <div>→ Best-in-class service</div>
Flight range	<div>→ Short-haul flights</div> <div>→ Medium-haul flights</div> <div>→ Long-haul flights</div>
Aircraft fleet	<div>→ Narrow-body aircraft</div> <div>→ Wide-body aircraft</div>
Target group	<div>→ Business</div> <div>→ Visiting friends and relatives</div> <div>→ Leisure</div>
Base airport	Moscow (Sheremetyevo)
Share of international passengers in the airline's passenger traffic	<div><div></div>~50%</div>

Rossiya airline has three focal areas: scheduled flights from Saint Petersburg, scheduled flights from Moscow (mostly flat fares), and charter flights for tour operators. Rossiya's business scheduled flights is governed by Aeroflot, which means that tickets are sold via a shared website and that the two airlines are code sharing, thus ensuring connectivity between their networks.

Regional and charter products in the mid-price segment
Scheduled and charter flights
<div>→ Flights from Saint Petersburg and Moscow (connectivity with Aeroflot's network)</div> <div>→ Flat fares</div> <div>→ Charter flights to the most popular leisure destinations</div> <div>→ Economy and business class</div>
<div>→ Short-haul flights</div> <div>→ Medium-haul flights</div> <div>→ Long-haul flights</div>
<div>→ Narrow-body aircraft</div> <div>→ Wide-body aircraft</div>
<div>→ Visiting friends and relatives</div> <div>→ Leisure</div> <div>→ Business</div>
<div>→ Moscow (Vnukovo, Sheremetyevo)</div> <div>→ Saint Petersburg (Pulkovo)</div>
<div><div></div>~40%</div>

Aeroflot Group's strategic approach continues to be based on multi-brand offering, which helps maximise the coverage of all the key market segments. Each of the Group's airlines targets a dedicated market segment, thereby minimising intra-Group competition. Rossiya's scheduled flights were moved from Vnukovo airport to Aeroflot's hub, Sheremetyevo airport to drive internal synergies through additional transit flows between the route networks of Aeroflot Group airlines.



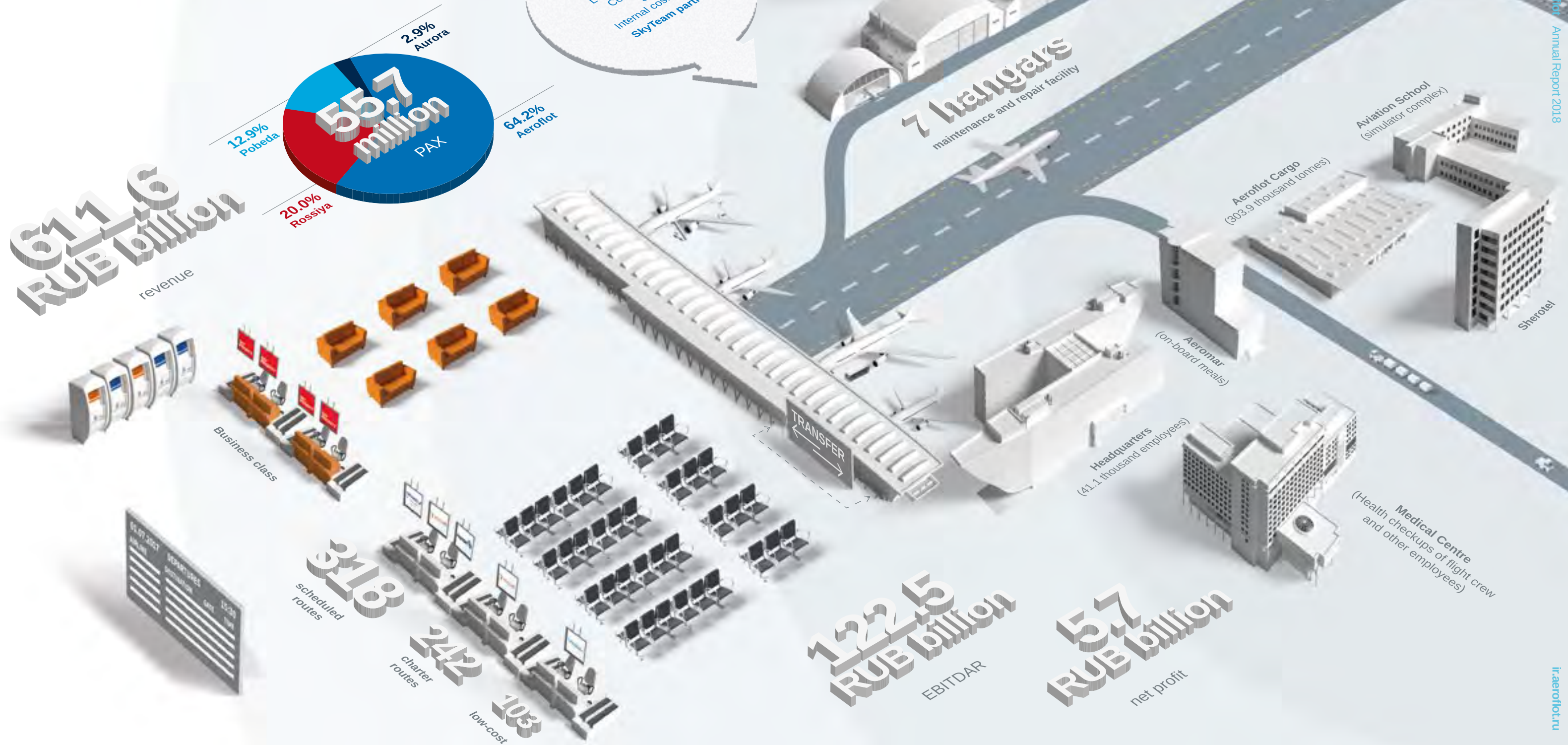
Pobeda airline targets the low-cost segment. Domestic flights from Moscow to Russia's regions, along with inter-regional flights within Russia, make up the bulk of the airline's route network, building stronger ties between Russian regions. The airline also expands its international route network.

Low-cost product
Scheduled flights
<div>→ Direct flights as the bulk of passenger traffic</div> <div>→ Flights between Russia's regions</div> <div>→ High passenger load factor and fleet utilisation</div> <div>→ Economy class only</div>
<div>→ Short-haul flights</div> <div>→ Medium-haul flights</div>
<div>→ Narrow-body aircraft</div>
<div>→ Leisure</div> <div>→ Visiting friends and relatives</div>
<div>→ Moscow (Vnukovo)</div> <div>→ Airports in Russia's regions</div>
<div><div></div>~25%</div>

Aurora airline focuses on local and inter-regional flights in the Far Eastern Federal District, connecting large cities in Russia's Far East and offering flights between major cities and remote towns.

Regional product for Far East
Scheduled flights
<div>→ Passenger flights in the Far East</div> <div>→ Local flights to remote destinations within the region</div> <div>→ Economy and business class</div>
<div>→ Short-haul flights</div> <div>→ Medium-haul flights</div>
<div>→ Narrow-body aircraft, including regional turboprops</div>
<div>→ Visiting friends and relatives</div> <div>→ Business</div>
<div>→ Vladivostok</div> <div>→ Khabarovsk</div> <div>→ Yuzhno-Sakhalinsk</div>
<div><div></div>~25% (Asia Pacific)</div>

Business Model



At the Height of Success

Operating Results

Aeroflot Group is the largest aviation holding in Eastern Europe operating in key market segments: from premium to budget air travel, from long-haul to regional. The low-cost airline created in 2014 allowed the Group to benefit from this market segment and contribute to the improvement of transport accessibility across Russia.

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Operating Highlights

Aeroflot Group: all flights

Item	2014	2015	2016	2017	2018
Passenger traffic, million PAX	34.7	39.4	43.4	50.1	55.7
change, %	10.7	13.4	10.3	15.4	11.1
Passenger turnover, billion RPK	90.1	97.6	112.1	130.2	143.2
change, %	5.6	8.4	14.8	16.2	9.9
Available seat-kilometres, billion ASK	115.8	124.7	137.7	157.2	173.1
change, %	6.2	7.7	10.4	14.2	10.1
Passenger load factor, %	77.8	78.3	81.4	82.8	82.7
change, p. p.	(0.4)	0.5	3.1	1.4	(0.1)
Cargo and mail, thousand tonnes	166.3	156.3	205.8	273.4	303.9
change, %	(18.7)	(6.0)	31.6	32.8	11.2
Revenue tonne-kilometres, billion TKM	8.8	9.5	11.0	13.0	14.2
change, %	1.9	7.0	16.5	17.7	9.5
Flights, thousand	286.7	323.8	331.9	368.5	411.5
change, %	8.2	13.0	2.5	11.0	11.7
Stage length, km	2,593	2,479	2,581	2,598	2,570
change, %	(4.5)	(4.4)	4.1	0.7	(1.1)

Aeroflot Group: domestic flights

Item	2014	2015	2016	2017	2018
Passenger traffic, million PAX	17.6	23.4	25.1	27.6	31.0
change, %	26.0	32.5	7.6	9.7	12.3
Passenger turnover, billion RPK	35.0	44.7	48.7	53.2	59.9
change, %	19.9	27.8	8.9	9.3	12.6
Available seat-kilometres, billion ASK	43.6	56.3	58.3	63.8	70.2
change, %	16.2	29.0	3.7	9.4	10.1
Passenger load factor, %	80.2	79.4	83.5	83.4	85.3
change, p. p.	2.5	(0.8)	4.1	(0.1)	1.9
Cargo and mail, thousand tonnes	82.0	79.1	107.8	120.0	132.7
change, %	(0.9)	(3.4)	36.2	11.3	10.6
Revenue tonne-kilometres, billion TKM	3.5	4.3	4.8	5.3	5.9
change, %	17.4	24.5	11.9	8.9	11.9
Flights, thousand	151.0	195.0	196.0	215.0	238.0
change, %	18.2	29.2	0.5	9.7	10.7
Stage length, km	1,982	1,912	1,935	1,929	1,934
change, %	(4.8)	(3.5)	1.2	(0.4)	0.3

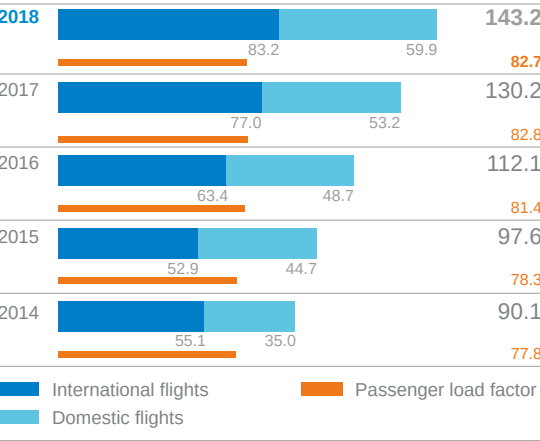
Aeroflot Group: international flights

Item	2014	2015	2016	2017	2018
Passenger traffic, million PAX	17.1	16.0	18.3	22.5	24.7
change, %	(1.7)	(6.2)	14.1	23.3	9.7
Passenger turnover, billion RPK	55.1	52.9	63.4	77.0	83.2
change, %	(1.8)	(3.9)	19.8	21.4	8.1
Available seat-kilometres, billion ASK	72.2	68.5	79.4	93.4	102.8
change, %	1.0	(5.2)	15.8	17.8	10.1
Passenger load factor, %	76.3	77.3	80.0	82.5	80.9
change, p. p.	(2.1)	1.0	2.7	2.5	(1.5)
Cargo and mail, thousand tonnes	84.3	77.2	98.0	153.3	171.1
change, %	(30.8)	(8.5)	27.0	56.5	11.6
Revenue tonne-kilometres, billion TKM	5.3	5.2	6.2	7.7	8.3
change, %	(6.1)	(4.3)	20.3	24.5	7.9
Flights, thousand	135.7	128.8	135.9	153.4	173.4
change, %	(1.0)	(5.1)	5.5	12.9	13.0
Stage length, km	3,223	3,304	3,468	3,416	3,366
change, %	(0.1)	2.5	5.0	(1.5)	(1.5)

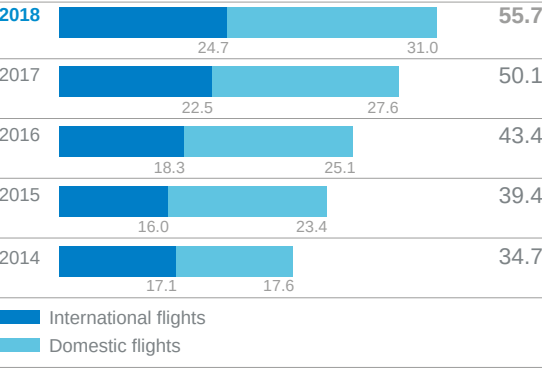
Aeroflot Group

Aeroflot Group carried a total of 55.7 million passengers in 2018, up 11.1% year-on-year, making a total 411,500 flights, or over 1,100 flights per day on average. The Group's capacity grew by 10.1% to 173.1 billion ASK, with the passenger turnover growing by 9.9% to 143.2 billion RPK and the passenger load factor staying almost flat year-on-year at 82.7%, down 0.1 p. p.

Aeroflot Group's passenger turnover (billion RPK) and passenger load factor (%)



Aeroflot Group's passenger traffic (million PAX)



Domestic flights

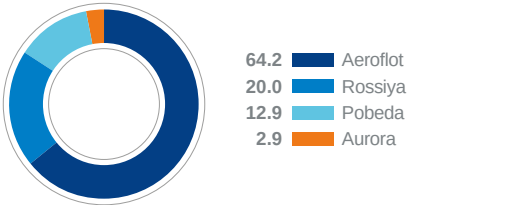
Aeroflot Group's airlines carried 31.0 million passengers on domestic routes in 2018, up 12.3% year-on-year, with the capacity growing by 10.1% to 70.2 billion ASK and the passenger turnover reaching 59.9 billion RPK, up by 12.6%. The passenger load factor was 85.3%, up 1.9 p. p. year-on-year.

The accelerated growth in domestic passenger traffic pushed the share of domestic flights in total passengers carried to 55.6%, up 0.6 p. p. year-on-year. In terms of passenger turnover, domestic flights account for 41.8% of the Group's total due to a lower stage length.

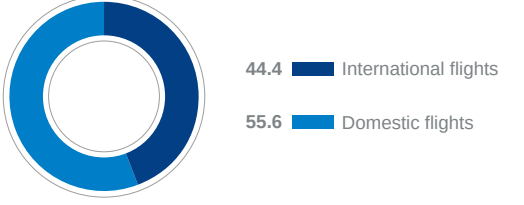
The positive trend in operational performance was driven by a continued increase in demand for domestic flights supported by the Group's route network expansion – new destinations and increased frequencies of flights to the most popular destinations. The development of the low-cost carrier Pobeda which accounted for half of the increase in the Group's domestic passenger traffic also played a major role.

Our stronger performance in the summer was also due to the World Cup held across eleven Russian cities, which led to an accelerated growth and higher passenger loads during the days of the event.

Aeroflot Group's 2018 passenger traffic breakdown by airline (%)



Aeroflot Group's 2018 passenger traffic breakdown by destination (%)



Aeroflot Group's operational performance by region (scheduled and charter flights)

Region	Passenger traffic, million PAX			Passenger turnover, billion RPK			Available seat-kilometres, billion ASK			Passenger load factor, %		
	2017	2018	change, %	2017	2018	change, %	2017	2018	change, %	2017	2018	change, p. p.
Russia	26.7	30.2	13.2	51.4	58.4	13.7	61.9	68.6	10.9	83.0	85.1	2.1
Europe	10.5	12.0	13.6	23.8	27.3	14.5	30.5	36.0	18.0	77.9	75.7	(2.3)
Asia	3.4	3.6	4.7	21.9	23.0	4.7	26.6	28.1	5.8	82.5	81.6	(0.9)
CIS	2.8	3.0	6.0	6.2	6.5	4.0	7.4	7.7	4.1	84.1	84.0	(0.1)
Middle East	1.9	2.1	9.6	5.7	6.3	10.2	7.1	8.1	14.0	80.4	77.7	(2.7)
Americas	1.0	1.0	1.8	8.6	8.7	1.6	10.4	10.7	2.6	82.6	81.8	(0.8)
Total scheduled flights	46.4	51.9	11.8	117.7	130.2	10.6	144.0	159.3	10.7	81.7	81.7	–
Charter flights	3.7	3.8	2.4	12.5	13.0	3.5	13.3	13.8	4.0	94.6	94.1	(0.5)
Total flights	50.1	55.7	11.1	130.2	143.2	9.9	157.2	173.1	10.1	82.8	82.7	(0.1)

International flights

Increased capacity, new flights, the expansion of charter programme, and higher transfer traffic between Europe and Asia backed by the stable demand pushed the Group's international traffic up 9.7% year-on-year to 24.7 million passengers. The capacity grew by 10.1% to 102.8 billion ASK with the passenger turnover going up by 8.1% to 83.2 billion RPK and the passenger load factor for international destinations going down by 1.5 p. p. year-on-year to 80.9%.

The changing competitive environment, in particular, the return of foreign carriers to the Russian market, also influenced Aeroflot's operational performance. While their market share remained flat, the capacity and, accordingly, passenger traffic were up.

In 2018, the strongest growth in scheduled passenger traffic was on European routes due to the launch of flights to new destinations: popular resorts (Verona, Naples, Burgas), business travel destinations (Dublin and Gothenburg), as well as the increased frequencies of flights to best-selling, including among international travellers, destinations (such as Barcelona, Belgrade, Brussels, Lyon, Sofia, Stuttgart, and Tenerife).

The World Cup bolstered the Group's operational performance across international and domestic routes in the summer, with European destinations accounting for the bulk of the passenger traffic.





Aeroflot airline

In 2018, Aeroflot airline carried a total of 35.8 million passengers, up 8.9% year-on-year, making 273,177 flights.

The airline's passenger turnover grew 6.7% to 98.0 billion RPK, backed by a 8.4% capacity growth to 121.7 billion ASK. The passenger load factor declined by 1.3 p. p. to 80.5%.

In 2018, the total number of passengers carried by Aeroflot airline on domestic routes increased by 11.8% year-on-year to 17.5 million. The passenger turnover grew 8.9% to 33.9 billion RPK, with the capacity up by 8.8% to 40.2 billion ASK. The passenger load factor increased by 0.1 p. p. to 84.4%. Domestic flights accounted for 49.1% of Aeroflot airline's total passenger traffic.

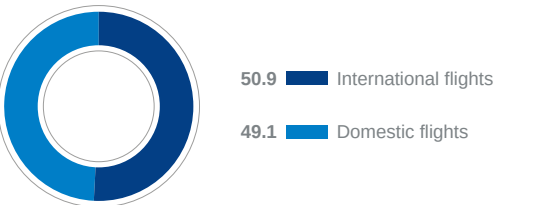
The total number of passengers carried by Aeroflot airline on international routes increased by 6.2% year-on-year in 2018 to 18.2 million. The passenger turnover grew 5.6% to 64.0 billion RPK, with the capacity up by 8.2% to 81.5 billion ASK. The passenger load factor decreased by 2.0 p. p. to 78.6%. International flights accounted for 50.9% of Aeroflot airline's total passenger traffic.

As in prior years, Aeroflot airline's charter operations continue to target athletic teams and official delegations, with 735 charter flights made in 2018.

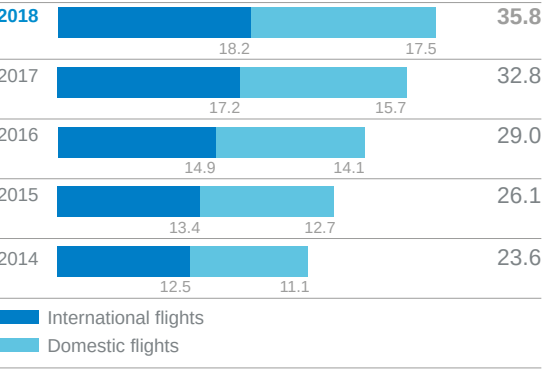
Aeroflot airline implemented a number of high-impact initiatives in 2018 to improve its on-time performance, including through strict enforcement of the boarding rules and baggage requirements.

In 2018, Aeroflot airline's on-time performance was at 82.98%, one of the best scores globally, and the carrier was ranked 5th most punctual airline globally and 2nd in Europe according to the UK's leading aviation publication FlightGlobal.

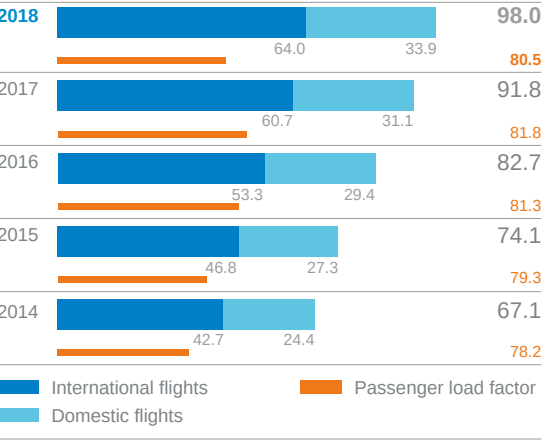
Aeroflot airline's 2018 passenger traffic breakdown by destination (%)



Aeroflot airline's passenger traffic (million PAX)



Aeroflot airline's passenger turnover (billion RPK) and passenger load factor (%)



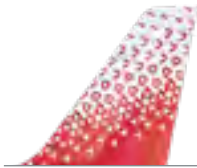
Aeroflot airline's operational performance by region (scheduled and charter flights)

Region	Passenger traffic, million PAX			Passenger turnover, billion RPK			Available seat-kilometres, billion ASK			Passenger load factor, %		
	2017	2018	change, %	2017	2018	change, %	2017	2018	change, %	2017	2018	change, p. p.
Russia	15.7	17.5	11.8	31.1	33.9	8.9	36.9	40.1	8.7	84.4	84.5	0.1
Europe	8.9	9.5	6.6	20.1	21.7	7.6	26.2	29.5	12.7	76.9	73.4	(3.5)
Asia	3.1	3.2	3.8	21.4	22.1	3.5	25.8	26.9	4.0	82.8	82.4	(0.4)
CIS	2.5	2.6	5.6	5.4	5.7	6.1	6.4	6.9	7.0	83.9	83.2	(0.7)
Middle East	1.7	1.9	11.7	5.1	5.8	12.3	6.4	7.4	16.5	80.3	77.4	(2.9)
Americas	1.0	1.0	1.8	8.6	8.7	1.6	10.4	10.7	2.6	82.6	81.8	(0.8)
Total scheduled flights	32.8	35.7	8.8	91.8	97.9	6.7	112.2	121.5	8.3	81.8	80.6	(1.2)
Charter flights	0.01	0.02	96.8	0.03	0.04	68.3	0.09	0.17	96.7	30.3	26.0	(4.4)
Total flights	32.8	35.8	8.9	91.8	98.0	6.7	112.2	121.7	8.4	81.8	80.5	(1.3)

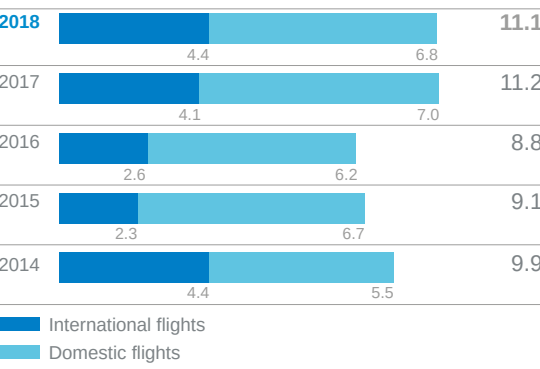
Rossiya airline

In 2018, Rossiya airline, the Group's second largest company, carried 11.1 million passengers, similar to the prior year. Pulkovo airport in Saint Petersburg accounted for most of the passenger traffic – 5.5 million passengers. Rossiya's most popular destinations operated from Saint Petersburg were Moscow (Vnukovo airport) and Russia's Black Sea resorts. The demand for charter flights remained stable, with the carrier slightly increasing its passenger traffic in the segment in 2018 through effective cooperation with Biblio Globus tour operator. Overall, the share of charter operations in Rossiya airline's total passenger traffic is stable at over one third of the total.

In 2018, Rossiya airline served almost 500 thousand transfer passengers at Pulkovo airport. The bulk of the carrier's transfer traffic comes from the programme supporting passenger flows from Russian regions to Europe via Saint Petersburg.

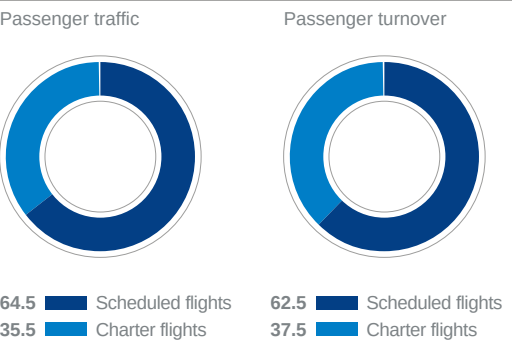


Rossiya airline's passenger traffic (million PAX)



Note. Data for 2014–2016 includes flights of Orenair and Donavia prior to their consolidation into Rossiya airline in 2016.

Rossiya airline's 2018 traffic breakdown by flight type (%)



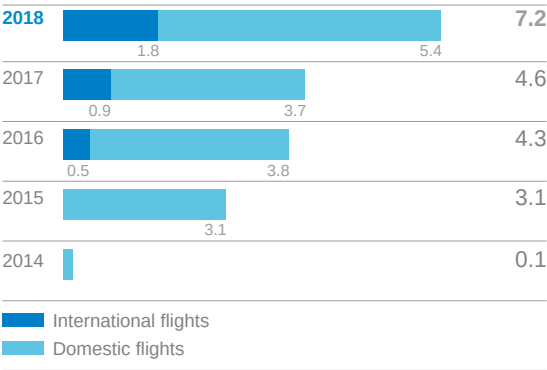
Note. Charter flights mean flights operated for tour operators.



Pobeda airline

In 2018, Pobeda's passenger traffic increased by 56.8% year-on-year to 7.2 million passengers. Eight new Boeing 737-800 aircraft were added to the carrier's fleet, expanding it from sixteen aircraft in early 2018 to twenty-four by 2018 year-end and becoming the primary driver of a 65.4% increase in capacity in 2018. The passenger load factor remained high at 94.1%, down 0.1 p. p. year-on-year, while Pobeda's on-time performance stood at 92.8%.

Pobeda airline's passenger traffic (million PAX)



Pobeda is the market leader across a number of metrics:

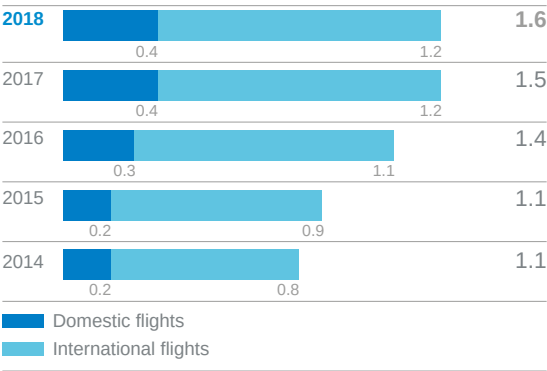
- Boeing 737 NG utilisation globally according to Boeing
- Lowest fares in Russia according to Biletix, Aviasales, and OneTwoTrip
- Passengers carried per aircraft
- Cost per flight hour
- Aircraft turnaround time in airports in Russia



Aurora airline

Aurora airline continued to expand into the Far East and increase the mobility of the population in the region. In 2018, the airline carried 1.6 million passengers, up 4.8% year-on-year. Traffic on local flights to remote destinations was also growing quite rapidly.

Aurora airline's passenger traffic (million PAX)



In 2018, Aurora carried 75,700 passengers on socially important flights within the Sakhalin Region, up 20% year-on-year, and 35 thousand passengers to destinations within the Primorsky Region. Since June 2018 (the commencement of flights), the company carried 19,700 passengers within the Khabarovsk Region. Thus, the total passenger traffic on the local flights (within a region) grew by 31.2% year-on-year to 130,500 passengers (99,500 passengers in 2017).

Cargo and mail operations

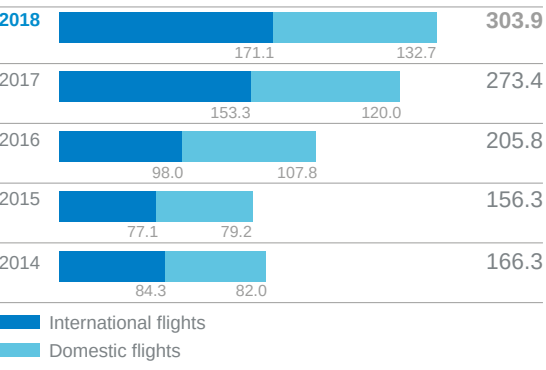
In 2018, Aeroflot Group carried 303,900 tonnes of cargo and mail, up 11.2% year-on-year. Aeroflot Group uses a belly cargo model, transporting cargo and mail in aircraft cargo holds on passenger flights.

In the reporting period, the cargo/mail tonne-kilometres (TKM) increased by 9.5% to 14.2 billion TKM, while the revenue load factor went up by 0.5 p. p. to 69.3%.

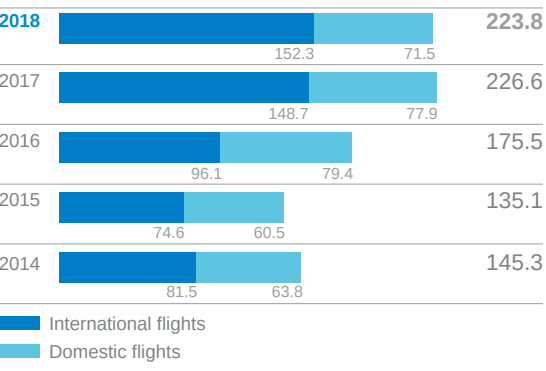
The growth in cargo and mail operations was associated, among other factors, with the expansion of the Group's wide-body aircraft fleet with six high cargo capacity Boeing 777-300 aircraft.

In 2018, Aeroflot airline carried 223,300 tonnes of cargo and mail, down 1.2% year-on-year. The cargo/mail tonne-kilometres increased by 5.9% to 9.9 billion TKM, with the revenue load factor at 67.4%, down by 0.7 p. p. year-on-year.

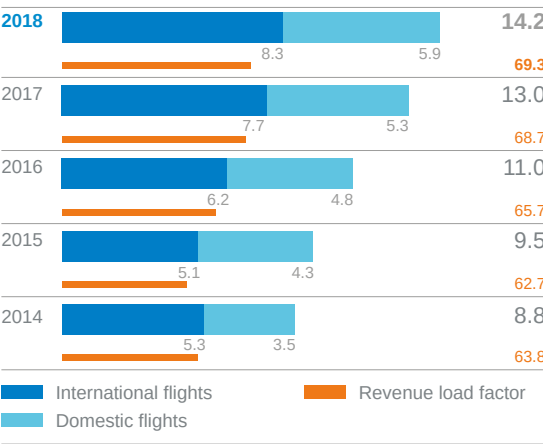
Aeroflot Group's cargo and mail operations (thousand tonnes)



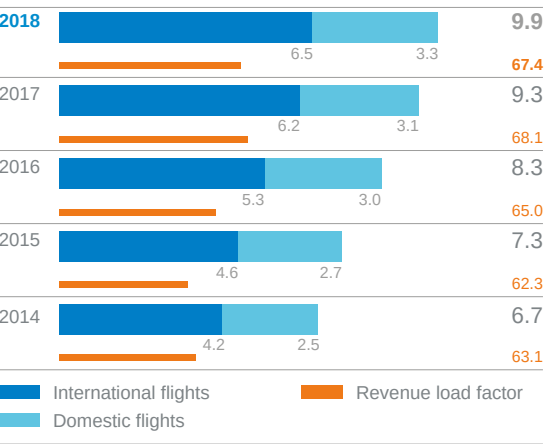
Aeroflot airline's cargo and mail operations (thousand tonnes)



Aeroflot Group's revenue tonne-kilometres (billion TKM) and revenue load factor (%)



Aeroflot airline's revenue tonne-kilometres (billion TKM) and revenue load factor (%)



Route Network

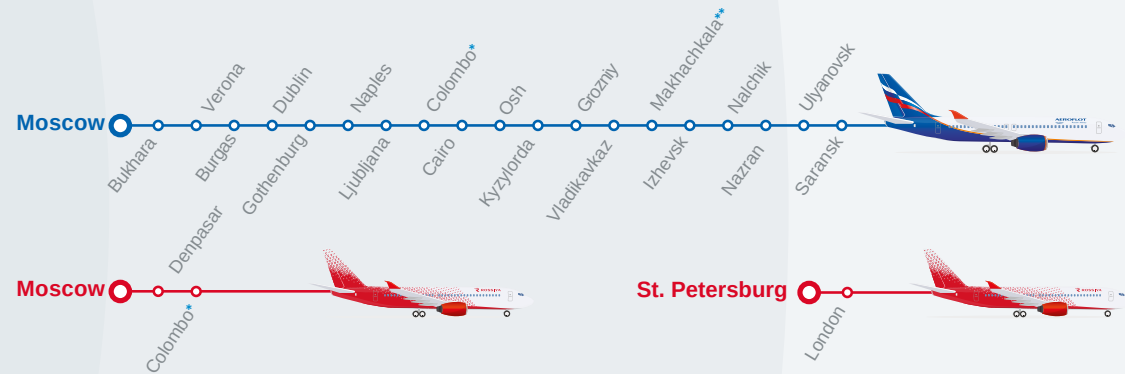
Aeroflot Group's route network development¹

In 2018, Aeroflot Group's airlines (Aeroflot, Rossiya, and Aurora) operated 318 scheduled routes to 56 countries (including Russia). Pobeda airline network comprises 103 destinations, including 57 unique for the Group. With Pobeda taken into account, the Group's airlines operated flights to 57 countries.

In 2018, the number of Aeroflot Group's scheduled routes grew 14.4% year-on-year, with domestic and international scheduled routes increasing by 23.2% and 5.1%, respectively. The total number of the Group-operated routes increased by 8,4% to 465.

During 2018, Aeroflot and Rossiya airlines launched scheduled flights from Sheremetyevo airport to 20 new destinations, including 8 domestic and 12 international.

New scheduled routes in 2018



* In December 2018, Aeroflot airline's flight to Colombo was switched to Rossiya's operations.
** In 2018, Aeroflot launched flights to Makhachkala from Sheremetyevo airport. The route was previously serviced by Rossiya airline from Vnukovo airport.

Number of Aeroflot Group's routes

	2017			2018			Change, %		
	sch.	chart.	total	sch.	chart.	total	sch.	chart.	total
International	136	146	240	143	150	250	5.1	2.7	4.2
Domestic	142	86	189	175	92	215	23.2	7.0	13.8
Medium-haul	252	219	392	290	232	428	15.1	5.9	9.2
Long-haul	26	13	37	28	10	37	7.7	(23.1)	—
Total	278	232	429	318	242	465	14.4	4.3	8.4

¹ Due to the separate status of the low-cost segment and its business specifics, the data on Aeroflot Group's route network includes the routes of Aeroflot airline and subsidiaries excluding Pobeda, unless otherwise stated.

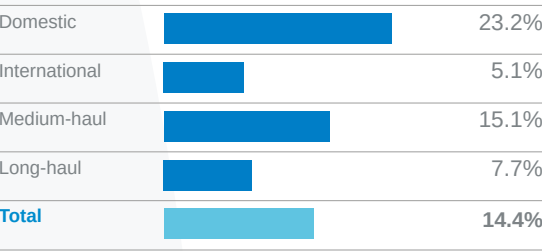
Rossiya airline's flights from Saint Petersburg to Almaty and Astana under commercial management of PJSC Aeroflot were discontinued as part of the Group network optimisation effort and performance improvement. Following the transfer of Rossiya airline's scheduled flights operated from Moscow to Sheremetyevo airport and the network optimisation, flights from Moscow to Anapa, Kazan, Barcelona, and Makhachkala were discontinued as these routes are serviced by Aeroflot airline.

Aeroflot Group continued increasing the frequency of scheduled service to the most popular destinations, with the average weekly frequency of scheduled flights in 2018 growing by 7.2% year-on-year (from 13.1 to 14.1). This figure grew 8.2% (from 10.9 to 11.8) for international and 6.7% (from 15.5 to 16.5) for domestic scheduled routes. The number of Aeroflot Group's scheduled flights grew by 8.1% year-on-year.

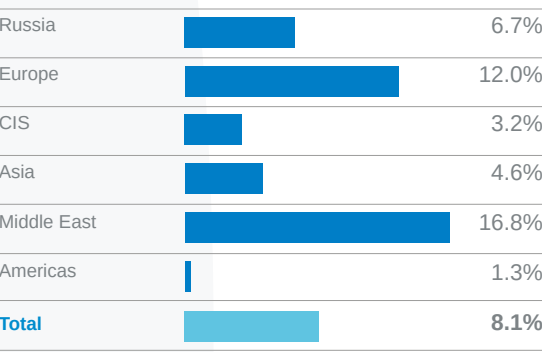
In planning its flight schedule, Aeroflot Group focuses on:

- improving the accessibility of Russia's regions
- improving customer experience of non-stop flights
- optimising targeted connections on intercontinental (Asia–Europe, North America–Middle East), and inter-regional routes (Far East/Urals–Centre/South)
- developing hub at Sheremetyevo airport
- growing the market share on the routes of presence and launching new services to destinations with high transfer traffic potential.

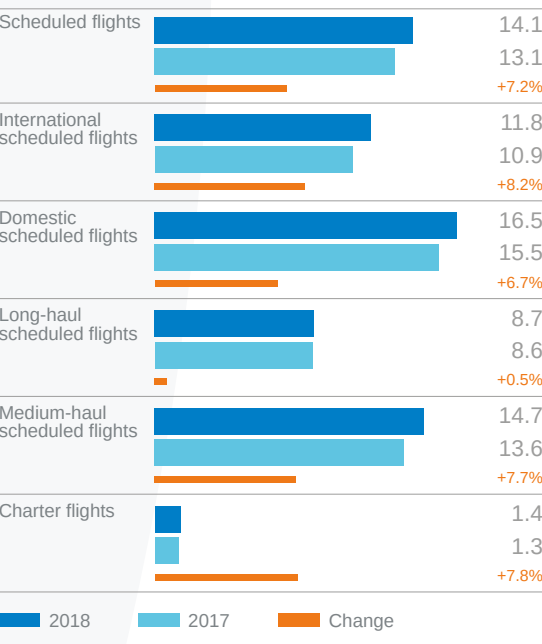
Aeroflot Group's scheduled flights by region (2018 vs 2017)



Aeroflot Group's scheduled flights by region (2018 vs 2017)



Average weekly frequency of Aeroflot Group's flights



Air services during the World Cup

Aeroflot’s route network comprises scheduled flights between Moscow and all the cities that hosted World Cup in 2018. With Rossiya subsidiary’s route network and Pobeda’s flights taken into account, we have provided a wide range of travel options for direct and transfer passengers. To improve air services between the host cities, additional domestic flights were launched during the days of the period of the championship. Specifically, during the group stage, Aeroflot airline

operated services on the Sochi–Kazan, Kazan–Kaliningrad, Kazan–Yekaterinburg, Volgograd–Nizhny Novgorod, and Volgograd–Kazan routes. Aeroflot also flew 11 additional flights on the Moscow–New York–Moscow route, as well as operated high-capacity aircraft on the most popular routes, with its destinations in Europe and the Americas accounting for the bulk of the passenger traffic.



Aeroflot Airline’s route network development

In 2018, Aeroflot airline’s network covered 163 scheduled routes to 56 countries (including Russia), with the number of its scheduled routes growing by 17.3% year-on-year.

Aeroflot airline’s scheduled routes (2018 vs 2017)

Domestic		26.0%
International		12.4%
Medium-haul		20.2%
Long-haul		4.0%
Total		17.3%

Aeroflot airline’s scheduled flights by region (2018 vs 2017)

Russia		13.2%
Europe		12.2%
CIS		8.3%
Asia		2.7%
Middle East		19.6%
Americas		1.3%
Total		12.1%

Number of Aeroflot airline’s routes

	2017			2018			Change, %		
	sch.	chart.	total	sch.	chart.	total	sch.	chart.	total
International	89	31	103	100	48	123	12.4	54.8	19.4
Domestic	50	25	64	63	52	93	26.0	108.0	45.3
Medium-haul	114	56	142	137	97	188	20.2	73.2	32.4
Long-haul	25	–	25	26	3	28	4.0	–	12.0
Total	139	56	167	163	100	216	17.3	78.6	29.3

In 2018, the number of Aeroflot airline’s scheduled flights grew 12.1% year-on-year due to the increase in capacity on the most popular routes and the launch of new destinations.

- The Middle East segment reported the highest growth due to increased frequencies of flights to Turkey and Dubai. In addition, scheduled flights to Cairo, Egypt’s capital, were resumed after a long hiatus.
- European destinations saw the number of scheduled flights increase by 12.0% driven by increased frequencies and the launch of direct service from Moscow to Naples, Verona, and Burgas.
- The number of scheduled flights to the CIS increased by 3.2%, driven by the launch of direct services to Bukhara, Kyzylorda, and Osh routes and more frequent flights to Astana and Aktobe.
- The number of scheduled flights to Southeast Asia was up 4.6%, including due to the higher frequency of flights to Bangkok, Malé, Phuket, and Ho Chi Minh City, as well as the launch of flights to Denpasar and Colombo.
- The number of scheduled flights to North and Central America was up by 1.3% driven by the higher frequency of flights to Miami.
- Domestic destinations saw the number of scheduled flights increase by 6.7%. In particular, we increased the number of flights from Moscow to Arkhangelsk, Belgorod, Volgograd, Yekaterinburg, Kazan, Kemerovo, Krasnoyarsk, Murmansk, Nizhnevartovsk, Novosibirsk, Novy Urengoy, Perm, Saint Petersburg, Saratov, Surgut, Syktyvkar, Ufa, Khanty-Mansiysk, and Chelyabinsk. Aeroflot airline launched flights to the capitals of the North Caucasus regions of Russia , as well as to Saransk, Izhevsk, and Ulyanovsk.

The connectivity ratio for Aeroflot airline’s own flights improved from 21.2 in 2017 to 22.0 in 2018.

The average weekly frequency of Aeroflot airline’s scheduled flights grew 5.9%, from 17.0 to 18.0 flights per route per week. International and domestic scheduled destinations saw the frequency grow by 5.7% (from 13.1 to 13.9 flights) and 5.3% (from 24.2 to 25.5 flights), respectively.

Connectivity ratio for Aeroflot airline’s own flights

2018		22.0
2017		21.2
2016		19.1
2015		16.0
2014		13.5

Average weekly frequency of Aeroflot airline’s flights

Scheduled flights		18.0
		17.0
		+5.9%
International scheduled flights		13.9
		13.1
		+5.7%
Domestic scheduled flights		25.5
		24.2
		+5.3%
Long-haul scheduled flights		7.9
		7.7
		+1.9%
Medium-haul scheduled flights		20.2
		19.1
		+5.4%
Charter flights		0.56
		0.38
		+47.4%

2018 2017 Change

Subsidiary airlines' route network development



Rossiya airline

In 2018, Rossiya airline operated scheduled services on 144 routes to 22 countries (100 domestic and 44 international), including 83 routes under commercial management of PJSC Aeroflot.

Rossiya airline's route network structure underwent planned yet fundamental changes during 2018. In October, with the launch of the winter flight schedule, Rossiya airline's scheduled flights under commercial management of PJSC Aeroflot were transferred from Vnukovo to Sheremetyevo airport. The consolidation of flights within Aeroflot's hub and the manifold increase in the connectivity potential of Rossiya airline's flights have significantly broadened the route planning options for passengers. Rossiya airline's flights are integrated into Aeroflot's Sheremetyevo airport-based wave connectivity scheme, which supports transfer traffic flows via the largest hub in Eastern Europe to the standards of leading network carriers.

Thus, Moscow flights are consolidated in Aeroflot Group's single hub, Sheremetyevo airport, while Pulkovo, the airline's historical base airport, continues to develop as a regional transport hub servicing the North-West of Russia.

In early 2018, Rossiya airline started operating flights from Moscow (using Boeing 747 and Boeing 777 aircraft) under the flat fare programme to improve transport accessibility for population in the Russian Far East.

Flights from Moscow (Sheremetyevo) to Denpasar, Bangkok, and Colombo were launched in the winter 2018/19 season.

Aurora is focused on securing transport accessibility and accommodating the demand for flights in the Russian Far East and to major cities in Siberia. Aurora also operates international services from Khabarovsk, Vladivostok, and Yuzhno-Sakhalinsk to South Korea, China, and Japan.

In 2018, Aurora airline operated scheduled services on 49 routes (38 domestic and 11 international) to four countries, including 21 routes under commercial management of PJSC Aeroflot. Local flights between major cities and remote destinations are a socially important part of Aurora's route network covering 14 socially important destinations in 2018.

Dalnerechensk–Khabarovsk and Khabarovsk–Nikolayevsk-on-Amur scheduled domestic flights were launched in 2018. The frequency of flights from Vladivostok to Yakutsk and Petropavlovsk-Kamchatsky was increased. The frequency of Vladivostok–Seoul international flight was also increased, and flights were resumed from Yuzhno-Sakhalinsk to Tokyo.



Aurora airline

Aurora's scheduled local routes in 2018





Pobeda airline actively expanded its route network in 2018. Whereas under the summer 2018 schedule it operated 72 routes (42 of which were unique for the Group), the number of routes in the winter 2018 schedule increased to 85 (45 of which were unique for the Group). Overall in 2018, Pobeda airline operated 103 routes, 57 of which were unique and complemented the Group's route network. Pobeda airline is based at Vnukovo airport in Moscow, and also operates flights from a number of regional airports in Russia.

Key areas of route network development in 2018:

- Continued development of route network from Moscow to domestic and international destinations. In developing its network of routes from Moscow, Pobeda prioritises serving significant markets and launching and ramping up new routes not serviced by other

airlines within the Group. In particular, flights from Moscow to Ulan-Ude, Petrozavodsk, Palermo, Salzburg, Innsbruck, Karlovy Vary, Leipzig, Baden-Baden, and a number of other destinations were unique to Pobeda in 2018 within the Group's route network

- Regional development, including increasing the number of flights between Russia's major cities and to the most popular destinations abroad. Expansion in the Saint Petersburg market during the year focused on the most popular destinations in Russia. New routes were also launched from Yekaterinburg, Sochi, and several other cities

Pobeda airline maintained price leadership among all Russian airlines in 2018, according to the largest ticket sales agents. The airline sold over 400 thousand tickets for as low as RUB 499/999, all airport taxes included.

Pobeda airline's routes in 2018



Transit development

The bulk of the Group's transit traffic is handled by Aeroflot airline, which takes advantage of Russia's beneficial geographical position to pick up passenger traffic between Europe and Asia and from other O&D markets.

In 2018, the total transit traffic on Aeroflot airline's flights rose 3.6% year-on-year to 14.4 million passengers. Passengers in transit accounted for 40.7% of Aeroflot airline's total passenger traffic (42.9% in 2017).

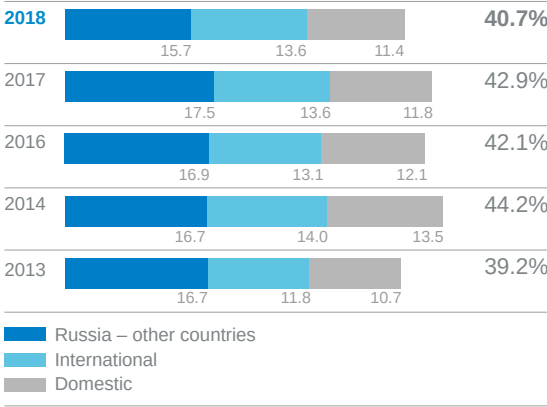
Transit flows between Russia and other countries made up the bulk of Aeroflot airline's transfer passenger traffic, or 15.7% of the total. International transit traffic has the highest impact with a share of 13.6%, or 4.8 million transfer passengers. The domestic transit traffic was 11.4%.



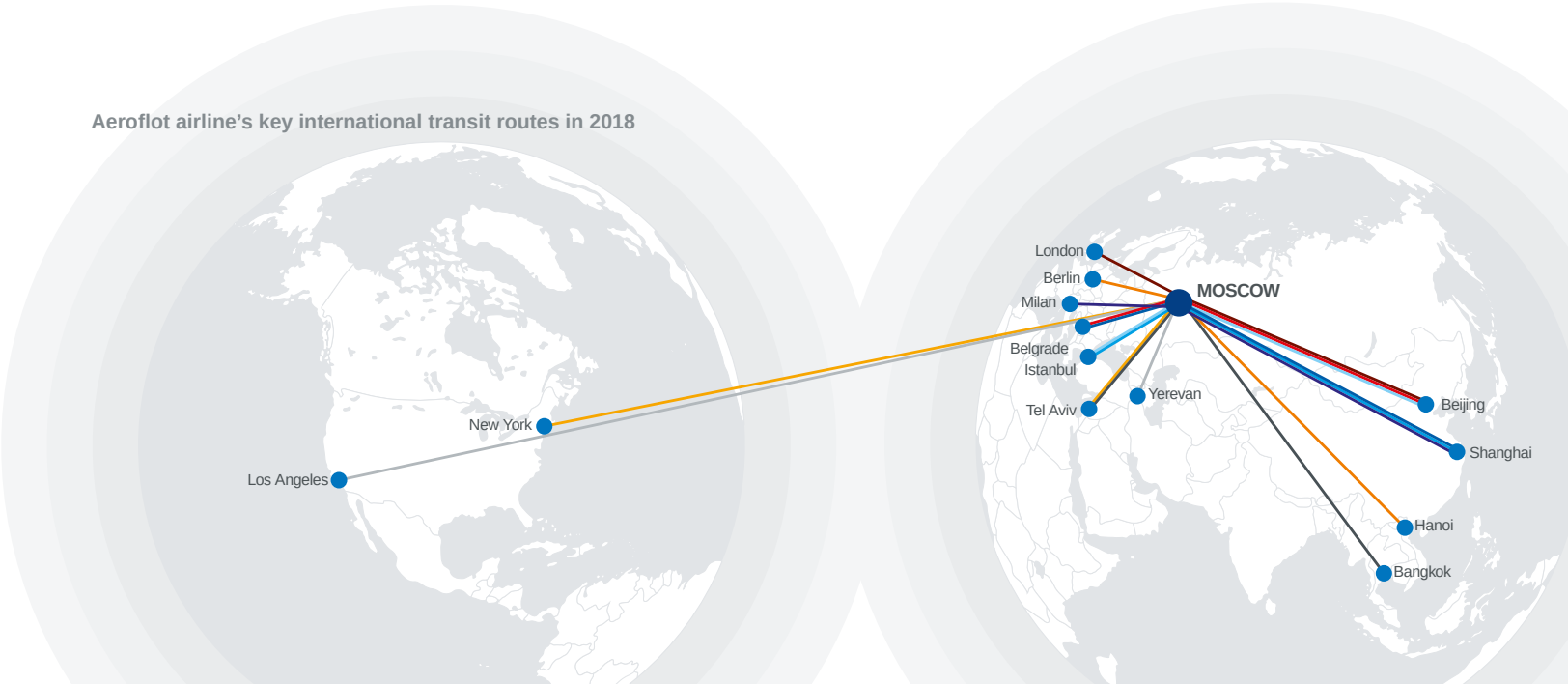
Aeroflot's History

The 1960–1980s saw a rapid expansion of Aeroflot's international network (a number of flights included stopovers). Respective services from Moscow were launched in the following years:
1953 – China (Beijing)
1954 – France (Paris)
1959 – United Kingdom (London)
1968 – United States (New York, NY)
1972 – Germany (Frankfurt)
1976 – Spain (Madrid)

Share of transit passengers in Aeroflot airline's total passenger traffic



Aeroflot airline's key international transit routes in 2018



Developing the route network and increasing flight frequencies: permits and designations

In order to ensure its strategic development, the Group continuously cooperates with regulators to obtain permits and designations to launch new routes and increase flight frequencies for existing ones. In 2018, the Federal Air Transport Agency issued the following operating permits to PJSC Aeroflot and its subsidiaries under the commercial management of PJSC Aeroflot:



AEROFLOT AIRLINE

+15 new permits

to operate international scheduled passenger services from Moscow to Ashgabat, Bukhara, Victoria, Gothenburg, Dublin, Colombo, Kos, Ljubljana, Marseille, Nha Trang, Osh, Port Louis, Ürümqi, Chengdu, and Shenyang

+17 additional permits

to increase the frequencies of international scheduled passenger services from Moscow to Bangkok, Belgrade, Brussels, Budapest, Bucharest, Valencia, Guangzhou, Dubai, Lyon, Malé, Paris, Beijing, Seoul, Sofia, Istanbul, Tashkent, and Shanghai



ROSSIYA AIRLINE

+4 new permits

to operate international scheduled passenger services from Moscow to Goa, Colombo, and Denpasar, and from Saint Petersburg to London

+4 additional permits

to increase the frequencies of international scheduled passenger services from Saint Petersburg to Larnaca, Munich, Samarkand, and Tashkent

+8 new permits

to operate international non-scheduled (charter) passenger services from Moscow to Barcelona, Burgas, Varna, and Sofia, from Saint Petersburg to Burgas, Varna, and Barcelona, and from Yekaterinburg to Barcelona



AURORA AIRLINE

+1 new permit

to operate international scheduled passenger service from Vladivostok to Shanghai

+1 additional permit

for JSC Aurora Airlines to increase the frequency of international scheduled passenger service from Yuzhno-Sakhalinsk to Tokyo



Aeroflot's History

The 420 km passenger flight between Moscow and Nizhny Novgorod became the airline's first scheduled route. Aeroflot's first international route, Verkhneudinsk (Ulan-Ude)–Ulan Bator, was launched in 1926 and extended to Moscow in 1928. The route is considered to be Aeroflot's oldest international route still in operation.

Designations for PJSC Aeroflot as a regular carrier were obtained from the Russian Ministry of Foreign Affairs for the Moscow–Bukhara, Moscow–Dublin, Moscow–Ljubljana, Moscow–Osh, Moscow–Gothenburg, Moscow–Colombo, Moscow–Ürümqi, Moscow–Chengdu, and Moscow–Chenyang routes.

In March 2018, permits were renewed for Aeroflot airline (for 17 routes) and Rossiya airline (for 15 routes) to operate services on Transaero's routes for one year (until March 2019).

Aeroflot airline waived two permits to operate international scheduled passenger services from Moscow to Ashgabat and Kaunas in 2018.

Rossiya airline waived one permit to operate international scheduled passenger service from Saint Petersburg to Beijing, inherited from Transaero. The permit was waived due to not commencing the air service.

Aurora airline waived five permits to operate international scheduled passenger services on routes: Anadyr–Anchorage, Vladivostok–Petropavlovsk-Kamchatsky–Anchorage, Vladivostok–Anchorage, Yuzhno-Sakhalinsk–Anchorage, and Novosibirsk–Tashkent.

Codeshare and interline agreements

Codeshare agreements enable Aeroflot Group to expand its route network adding both point-to-point flights and flights beyond the partner hubs, as well as increase the frequencies of flights on existing routes.

In 2018, joint flights were started with Aerolineas Argentinas on the Moscow–Madrid–Buenos Aires route and with Aerovias de Mexico (Aeromexico) on the Moscow–Paris/Madrid/Amsterdam/London–Mexico City routes. Codeshare agreements with Air Malta, Bulgaria Air, Air France, Korean Air, Saudi Arabian Airlines, Air Serbia, and with Aurora and Rossiya subsidiary airlines were extended to new routes.

PJSC Aeroflot had 30 codeshare agreements with foreign and Russian airlines in 2018:

- Twenty-two agreements under which Aeroflot airline acted both as a partner operator and a marketing operator: Aerolineas Argentinas, Aerovias de Mexico, Air Europa, Air France, Air Baltic, Air Serbia, Alitalia, Bulgaria Air, Czech Airlines, China Eastern Airlines, China Southern Airlines, Delta Air Lines, Finnair, Garuda Indonesia, Icelandair, Kenya Airways, KLM, Korean Air, LOT Polish Airlines, MIAT, Saudi Arabian Airlines, and Siberia Airlines
- Three agreements under which Aeroflot airline acted as a partner operator only: Cubana de Aviacion, Middle East Airlines, and TAROM

- Three agreements under which Aeroflot airline acted only as a marketing operator, selling partner flights under its code: Air Malta, Adria Airways, and Bangkok Airways
- Two agreements with Aeroflot Group's airlines under commercial management arrangements for operation of joint flights – with Rossiya and Aurora

PJSC Aeroflot's major partners by volume of business generated through codeshare agreements were Alitalia, Air France, Air Europa, Czech Airlines, Finnair, and KLM among foreign airlines, and Aeroflot Group's airlines and Siberia Airlines among Russian carriers.

Aeroflot's key priorities in cooperation under codeshare agreements:

- Building up Aeroflot's presence in promising markets
- Gaining a foothold in the markets where certain restrictions apply
- Further improving the existing route network, including through the expansion of the marketing flight network
- More efficient use of owned aircraft fleet

As at the end of 2018, PJSC Aeroflot had interline agreements with 132 carriers, including four Russian carriers and four CIS-based airlines.

Membership in the SkyTeam Alliance

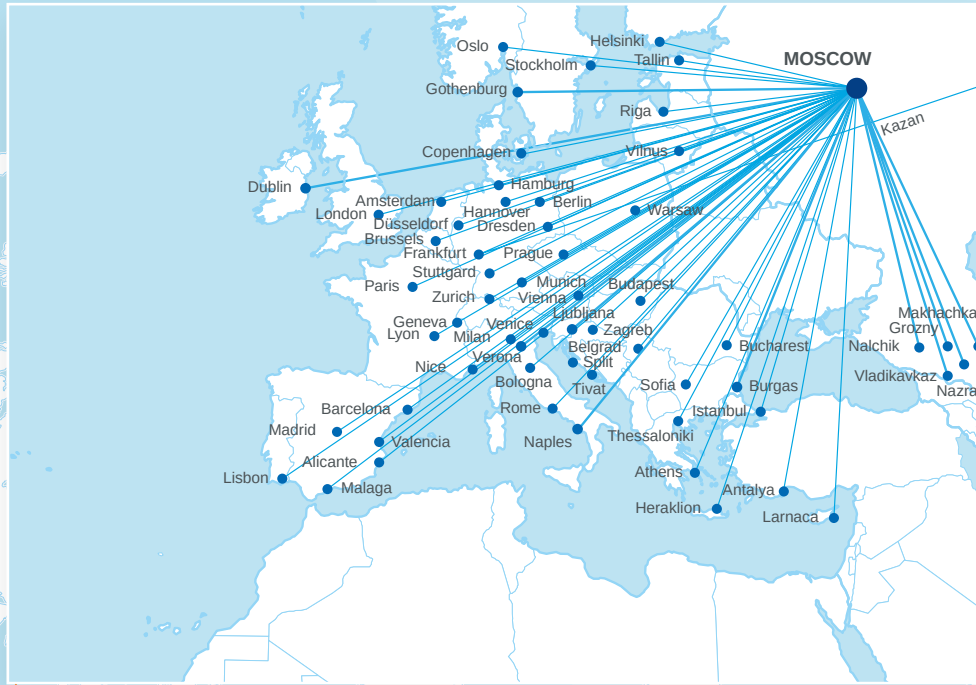
As a SkyTeam partner, Aeroflot carried over 545 thousand passengers in 2018 under codeshare and interline agreements with other SkyTeam Alliance members. About 313 thousand Aeroflot passengers were carried by its SkyTeam partners.

As a member of the SkyTeam Alliance, Aeroflot can expand its route network while offering its customers access to the global Alliance's unique product and providing Aeroflot Bonus members with an opportunity to enjoy the privileges on the flights of other SkyTeam Alliance members.

In 2018, the Alliance's aggregate route network comprised 1,074 destinations in 177 countries. SkyTeam's members, including Aeroflot airline, were making a total of 16,609 flights on a daily basis.

SkyTeam Alliance had 20 members in 2018, including Aeroflot – Russian Airlines, Aerolineas Argentinas, Aeromexico, Air Europa, Air France, KLM, Alitalia, China Airlines, China Eastern Airlines, China Southern Airlines, Czech Airlines, Delta Air Lines, Kenya Airways, Korean Air, Middle East Airlines, Saudi Arabian Airlines, TAROM, Vietnam Airlines, Xiamen Airlines, and Garuda Indonesia. In early 2019, China Southern Airlines left SkyTeam, and the Alliance management approved a new development strategy.

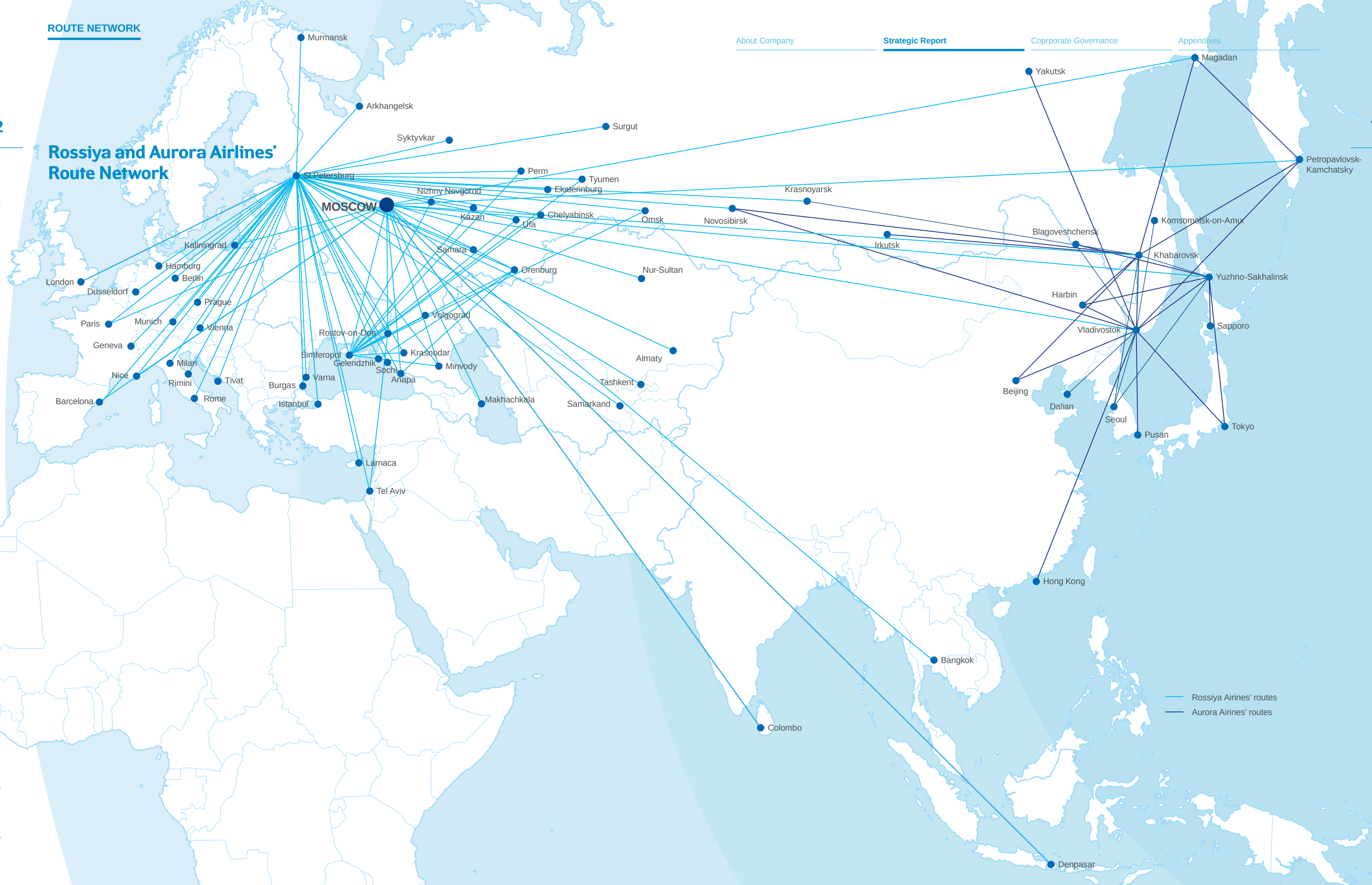
Aeroflot Airline's Route Network



MOSCOW



Rossiya and Aurora Airlines' Route Network



Aircraft Fleet

Fleet development strategy

Aeroflot Group's fleet development strategy is focused on:

- operating a highly unified aircraft fleet (limited number of aircraft types in each segment)
- operating a young fleet
- improving the average seat capacity and efficiency of aircraft
- increasing the share of modern Russian-built aircraft used in operations.

Over the last years, the Group has been consistently refreshing its aircraft fleet, bringing the average age of the fleet in operation down from 7.0 years in 2014 to 6.3 years in 2018. Aeroflot airline's fleet is one of the youngest in the world, with an average age of 4.2 years as at 2018 year end.

To improve its operational performance and cut costs, the Group has been working to unify its aircraft fleet in the past several years. From 2014 to 2018, the types of aircraft in operation reduced from 11 to 8.

Aeroflot Group's aircraft fleet evolution

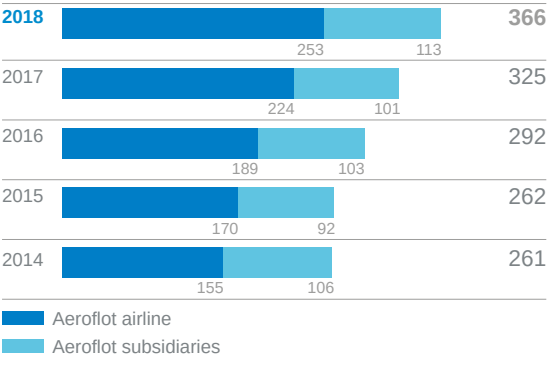
	2014	2018
Narrow-body (regional)	<div>→ SSJ100</div> <div>→ An-148</div> <div>→ An-24</div> <div>→ DHC-8-200/300</div> <div>→ DHC-6-400</div>	<div>→ SSJ100</div> <div>→ DHC-8-200/300/400</div> <div>→ DHC-6-400</div>
Narrow-body (medium-haul)	<div>→ Airbus A319/320/321</div> <div>→ Boeing 737 Classic</div> <div>→ Boeing 737 NG</div>	<div>→ Airbus A319/320/321</div> <div>→ Boeing 737 NG</div>
Wide-body	<div>→ Airbus A330</div> <div>→ Boeing 767</div> <div>→ Boeing 777</div>	<div>→ Airbus A330</div> <div>→ Boeing 747</div> <div>→ Boeing 777</div>

11 types of aircraft

8 types of aircraft

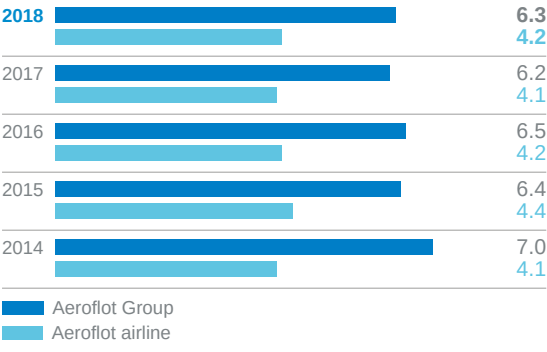
Note. Data exclude aircraft not operated by the Group's airlines (Mi-8 helicopters and Il-96 airliners in 2014; An-24 and An-148 airliners in 2018).

Number of aircraft in Aeroflot Group's fleet as at the year-end



Note. Data for 2017 and 2018 exclude An-24 and An-148 aircraft that were not operated by the Group during the periods indicated

Average age of aircraft fleet in operation (years)



Aeroflot Group enhances its fleet in line with specific business models and route networks of each airline.

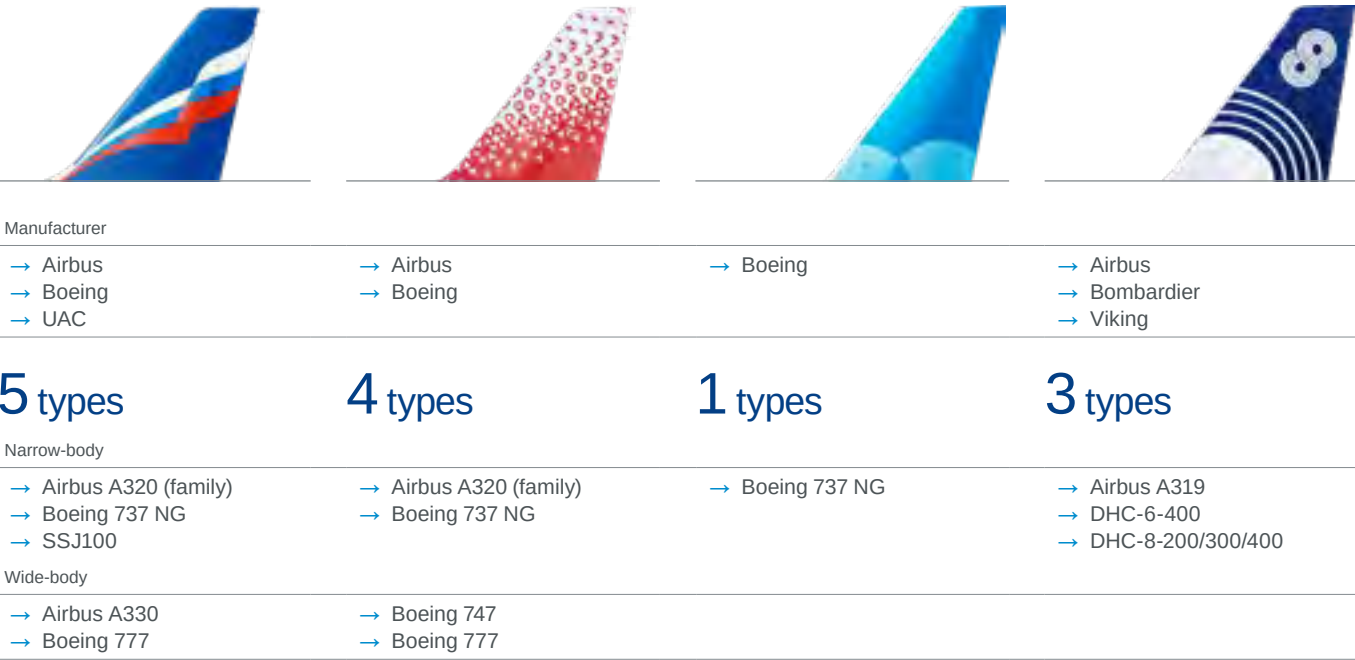
Aeroflot airline's fleet comprises several types of aircraft produced by major manufacturers and focuses on addressing the needs of both the mass-market and premium segments. Aircraft offer two to three travel classes to serve passengers in flight. As seat capacity in comparable narrow-body aircraft is different between Business and Economy classes, we can change the Business to Economy ratio for more effective, demand-driven capacity management.

Rossiya airline operates Airbus and Boeing narrow-body aircraft primarily on scheduled routes, as well as Boeing wide-body aircraft on leisure flights (to destinations under the charter programme and resorts of the Black Sea) and flights to cities in the Far East.

The aircraft fleet of the low-cost carrier Pobeda comprises one aircraft type, Boeing 737-800, with a single cabin configuration.

Aurora airline operates Airbus A319 narrow-body aircraft on scheduled routes and turboprops for local flights.

Aeroflot Group's aircraft fleet by type

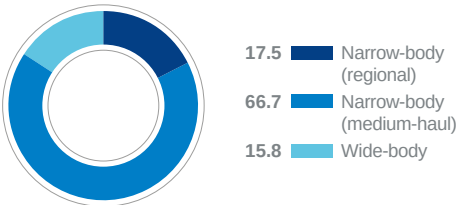


Aeroflot Group's aircraft fleet¹

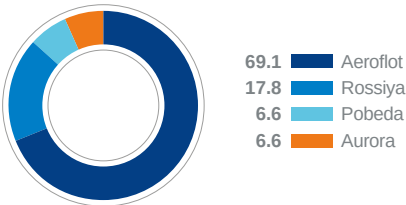
During 2018, Aeroflot Group was actively expanding its operating capacity with 55 new aircraft added to the fleet. Over the same period, Aeroflot Group phased out 14 aircraft: thus, the net fleet increase amounted to 41 aircraft.

As at 2018 year-end, Aeroflot Group operated a fleet of 366 aircraft, with narrow-body medium-haul aircraft comprising the bulk of the fleet (66.7%), narrow-body aircraft for regional flights representing 17.5% of the fleet, and wide-body aircraft for long-haul flights – 15.8%.

Aeroflot Group's fleet by type of aircraft as at 31 December 2018 (%)



Aeroflot Group's fleet by airline as at 31 December 2018 (%)



Aeroflot Group's aircraft fleet

Type of aircraft	As at 31 December 2017	Change 2018		As at 31 December 2018
		phased in	phased out	
Airbus A330-200	5	—	—	5
Airbus A330-300	17	—	—	17
Boeing 777-300	5	—	—	5
Boeing 777-300ER	16	6	—	22
Boeing 747-400	9	—	—	9
Wide-body	52	6	—	58
Airbus A319	36	—	1	35
Airbus A320	80	11	6	85
Airbus A321	38	5	6	37
Boeing 737-800	68	20	1	87
Narrow-body (medium-haul)	222	36	14	244
DHC-6-400	3	—	—	3
DHC-8-200	2	—	—	2
DHC-8-300	4	—	—	4
DHC-8-400	5	—	—	5
SSJ100	37	13	—	50
Narrow-body (regional)	51	13	—	64
Total	325	55	14	366

¹ Data exclude An-24 and An-148 aircraft that were not operated by Aeroflot Group in 2017 and 2018.



Aeroflot's history is integral to the evolution of the Russian aircraft industry, with the Company always seeking to operate the most advanced aircraft.

In the 1960s, the reliable, fuel-efficient, and comfortable Il-18 became Aeroflot's most popular aircraft. As many as up to 24 Il-18 aircraft flights were departing daily from Moscow to Krasnoyarsk alone in the summer of 1969, with a total of up to 50 Il-18 aircraft based at Krasnoyarsk airport at the time.

In the 1970s and 1980s, medium-haul jetliners Tu-134 and Tu 154 became the mainstay of Aeroflot's fleet.



+29
net increase
in aircraft fleet

Aeroflot airlines' aircraft fleet

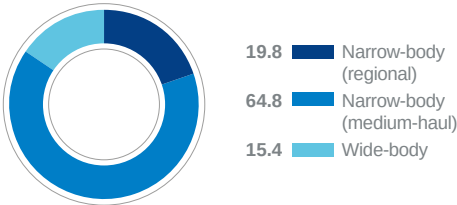
Type of aircraft	As at 31 December 2017	As at 31 December 2018	Change
Airbus A330-200	5	5	—
Airbus A330-300	17	17	—
Boeing 777-300ER	16	17	1
Wide-body	38	39	1
Airbus A320	75	80	5
Airbus A321	38	37	—1
Boeing 737-800	36	47	11
Narrow-body (medium-haul)	149	164	15
Superjet 100	37	50	13
Narrow-body (regional)	37	50	13
Total	224	253	29

Aeroflot airline's aircraft fleet

As at the end of 2018, the flagship airline of Aeroflot Group had 253 aircraft, including 164 narrow-body medium-haul aircraft, 50 regional narrow-body aircraft, and 39 wide-body aircraft.

Airbus A320 family, Boeing 737-800, SSJ100, and Boeing 777-300ER aircraft were added to Aeroflot airline's fleet in 2018. The net fleet increase amounted to 29 aircraft.

Aeroflot airline's fleet by type of aircraft as at 31 December 2018 (%)



Subsidiaries' aircraft fleet

Five Boeing 777-300ERs, one Boeing 737-800, and one Airbus A320 were added to Rossiya airline's fleet in 2018, resulting in a net fleet increase of four aircraft. As at 2018 year-end, Rossiya operated a fleet of 65 aircraft.

In 2018, Pobeda airline received eight new narrow-body Boeing 737-800 aircraft, expanding its total fleet of Boeing 737-800s to 24 aircraft as at the end of 2018.

Aurora airline's fleet remained flat year-on-year at 24 aircraft, including narrow-body medium-haul Airbus 319s, as well as DHC-8 and DHC-6 feeder (narrow-body turboprop) aircraft for local flights.

+12
net increase in aircraft fleet



+4



+8

Subsidiaries' aircraft fleet

Type of aircraft	As at 31 December 2017	As at 31 December 2018	Change
Airbus A319	26	25	(1)
Airbus A320	5	5	—
Boeing 737-800	16	16	—
Boeing 747	9	9	—
Boeing 777-300	5	5	—
Boeing 777-300ER	—	5	5
Rossiya airline	61	65	4
Airbus A319	10	10	—
DHC-6-400	3	3	—
DHC-8-200	2	2	—
DHC-8-300	4	4	—
DHC-8-400	5	5	—
Aurora airline	24	24	—
Boeing 737-800	16	24	8
Pobeda airline	16	24	8
Total	101	113	12

Note. Excluding An-24 and An-148 aircraft that were not operated by the Group in 2017 and 2018.

AIRCRAFT FLEET

Wide-body
Long-haul



Airbus A330-300	17 aircraft
Length,m	63.69
Wingspan,m	60.3
Seating capacity, seats	293-302
Maximum take-off weighth, kg	230,000
Engines	RR Trent 772B
Flight range, km	9,500



Airbus A330-200	5 aircraft
Length,m	58.82
Wingspan,m	60.3
Seating capacity, seats	229-241
Maximum take-off weighth, kg	230,000
Engines	RR Trent 772B
Flight range, km	11,200



Boeing 777-300ER	22 aircraft
Length,m	73.86
Wingspan,m	64.8
Seating capacity, seats	373-457
Maximum take-off weighth, kg	351,530
Engines	GE 90-115BL
Flight range, km	14,594

Narrow-body
Middle-haul



Boeing 737-800	87 aircraft
Length,m	39.5
Wingspan,m	35.8
Seating capacity, seats	158–189
Maximum take-off weighth, kg	79,015
Engines	CFM 56-7B x 2
Flight range, km	5,765



Airbus A321	37 aircraft
Length,m	44.5
Wingspan,m	35.8
Seating capacity, seats	170–183
Maximum take-off weighth, kg	89,000
Engines	CFM 56-5B
Flight range, km	3,800



Airbus A320	85 aircraft
Length,m	37.6
Wingspan,m	35.8
Seating capacity, seats	140–168
Maximum take-off weighth, kg	77,000
Engines	CFM 56-5A/5B
Flight range, km	6,150

Narrow-body
Regional



SSJ100	50 aircraft
Length,m	29.9
Wingspan,m	27.8
Seating capacity, seats	87
Maximum take-off weighth, kg	45,880
Engines	Power Jet SaM146
Flight range, km	2,400



DHC 8-400	5 aircraft
Length,m	32.8
Wingspan,m	28.4
Seating capacity, seats	70
Maximum take-off weighth, kg	29,574
Engines	PW150A
Flight range, km	2,532



DHC 8-300	4 aircraft
Length,m	25.7
Wingspan,m	27.4
Seating capacity, seats	50
Maximum take-off weighth, kg	19,505
Engines	PW123
Flight range, km	1,550



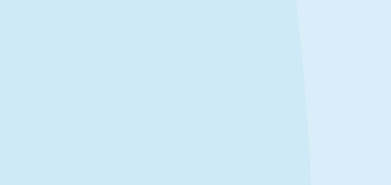
Boeing 777-300	5 aircraft
Length,m	73.9
Wingspan,m	60.9
Seating capacity, seats	373
Maximum take-off weighth, kg	299,370
Engines	RR211 Trent 892
Flight range, km	11,135



Boeing 747-400	9 aircraft
Length,m	70.6
Wingspan,m	64.4
Seating capacity, seats	447–522
Maximum take-off weighth, kg	396, 890
Engines	CF6-80C2, PW4056
Flight range, km	13,450



Airbus A319	35 aircraft
Length,m	33.8
Wingspan,m	34.1
Seating capacity, seats	128–138
Maximum take-off weighth, kg	75,500
Engines	CFM 56-5A/5B
Flight range, km	6,800



DHC 8-200	2 aircraft
Length,m	22.2
Wingspan,m	25.9
Seating capacity, seats	37
Maximum take-off weighth, kg	16,466
Engines	PW123 C
Flight range, km	1,710



DHC 6-400	3 aircraft
Length,m	15.8
Wingspan,m	19.8
Seating capacity, seats	19
Maximum take-off weighth, kg	5,670
Engines	PT6A-27
Flight range, km	1,800

58
aircraft

366
aircraft

244
aircraft

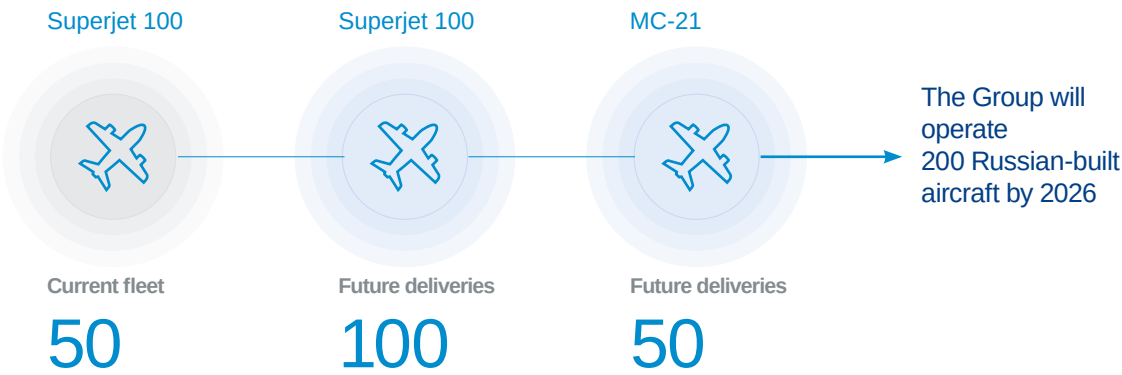
64
aircraft

Fleet development plans

PJSC Aeroflot continues to be the largest operator of Russian high-tech aircraft. As part of this major role, over the years, Aeroflot has helped to commission and improve all Russian aircraft models. It is Aeroflot's top priority to act in the interests of the Russian aviation industry and the country in general. The Company plans to operate 200 Russian-built aircraft by the end of 2026.

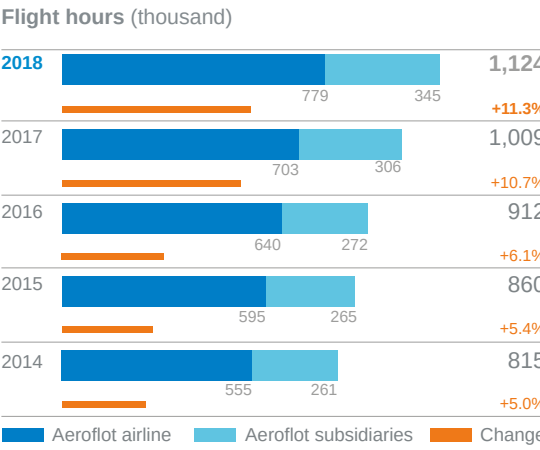
- PJSC Aeroflot and Rostec signed a contract in 2018 for delivery of 50 next-generation passenger aircraft, MC-21. The deal has made Aeroflot the largest operator of MC-21, Russia's latest medium-range aircraft. The deal was approved by the Annual General Meeting of Shareholders.
- Aeroflot took delivery of 50th Russian-built SSJ100 aircraft and signed a contract with United Aircraft Corporation for the delivery of 100 more SSJ100s between 2019 and 2026. The final contract will be signed once corporate approvals are obtained in accordance with Russian laws.

In line with its approved the Strategy 2023, Aeroflot Group also plans to expand its fleet of wide-body aircraft, a prerequisite for growing international transfer traffic. A contract has been signed for the delivery of 22 modern Airbus A350 airliners to gradually replace the A330 aircraft currently in operation. The first deliveries are expected in 2020.

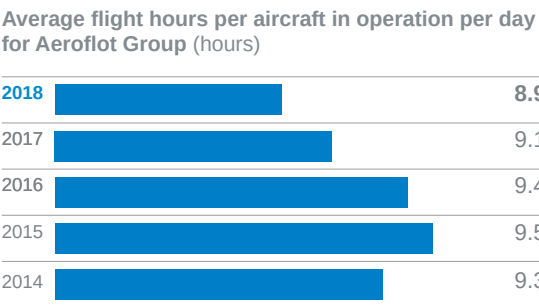


Flight hours

Aeroflot Group maintains high fleet utilisation efficiency. Due to the expansion of Aeroflot Group operations in 2018, flight hours increased by 11.3% year-on-year to 1,124 thousand hours. Aeroflot airline posted a 10.8% increase to 779 thousand hours.



Aeroflot Group's flight hours per aircraft in operation per day averaged at 8.9 vs 9.1 in the previous year. The decline was driven by substantial fleet additions throughout the year, which required some time to maximise the utilisation efficiency. Aeroflot airline's flight hours per aircraft in operation per day also averaged 8.9.



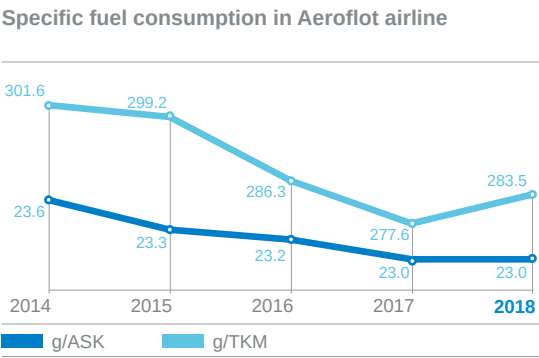
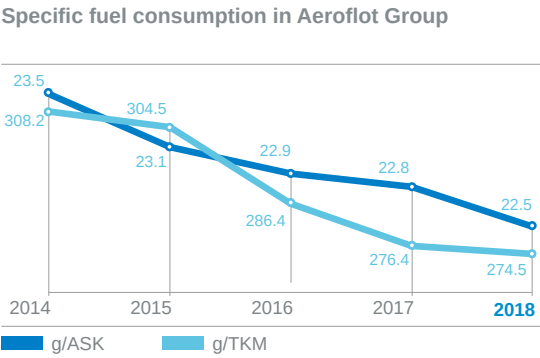
Note: The number of aircraft in operation in the reporting year is calculated as the average of the number of aircraft as at the start and the end of the period.

Fuel efficiency

In 2018, specific fuel consumption across Aeroflot Group decreased by 1.8 grams, or 0.7%, year-on-year to 274.5 grams per tonne-kilometre (TKM). Specific fuel consumption for Aeroflot airline increased by 6.0 grams, or 2.1%, to 283.5 g/TKM. At the same time, specific fuel consumption per passenger carried was reduced for Aeroflot Group from 22.8 to 22.5 grams per available seat-kilometre

(g/ASK) while for Aeroflot airline the indicator remained flat at 23.0 g/ASK.

High fuel efficiency is an important benefit of the young aircraft fleet. Operating a young aircraft fleet also helps reduce the environmental footprint and slash CO₂ and NO_x emissions into the atmosphere.



Flight Safety and Aviation Security

Flight safety and aviation security have always been a top priority for Aeroflot Group. Operations of Aeroflot Group airlines comply with the requirements of the Russian civil aviation laws as well as internationally accepted standards and recommended best practices.

Flight safety

PJSC Aeroflot maintains high flight safety levels. The flight safety index for Aeroflot airline and Aeroflot Group was 99.974% in 2018, exceeding the 2018 target of 99.957% and staying comfortably within the 99.900%–100% top range. The upward trend in flight safety is driven by the preventive measures taken by the Group companies as part of their continued efforts to enhance the flight safety management system.

99.974%

The flight safety index for Aeroflot airline

Flight safety level for Aeroflot airline (%)

2018	<div></div>	99.974
2017	<div></div>	99.970
2016	<div></div>	99.972
2015	<div></div>	99.976
2014	<div></div>	99.973

Flight safety level for Aeroflot Group (%)

2018	<div></div>	99.974
2017	<div></div>	99.972
2016	<div></div>	99.976
2015	<div></div>	99.978
2014	<div></div>	99.972

The Safety Assessment of Foreign Aircraft (SAFA) ratio for Aeroflot airline and Aeroflot Group declined year-on-year in 2018. The improvement was driven by fewer violations reported by EU SAFA ramp inspections. The SAFA ratio for the Group companies meets the EU requirements and does not exceed the Blacklist threshold (Ratio ≤ 2) as well the target ratios set by the Company (Ratio ≤ 0.95). Aurora airline was not subject to any inspections under the SAFA programme as the company did not offer flights to the European region.

SAFA ratio for Aeroflot Group airlines, 2018

Aeroflot Group	<div></div>	0.24
Aeroflot	<div></div>	0.30
Rossiya	<div></div>	0.19
Pobeda	<div></div>	0.06

Note. Aurora airline is not subject to SAFA audits as the company does not offer flights to Europe.

SAFA ratio for Aeroflot airline

2018	<div></div>	Black list line SAFA Ratio >2	0.30
2017	<div></div>		0.45
2016	<div></div>		0.45
2015	<div></div>		0.21
2014	<div></div>		0.64

The Company implemented a number of initiatives in 2018 to further deploy the flight safety management system, in particular:

- Information system for integrated processing and storage of PJSC Aeroflot's flight safety data was further developed, with its functionality expanded
- Design documents were developed for an R&D and technology project to conduct a feasibility study into developing a predictive model for aviation incidents related to operating PJSC Aeroflot's aircraft
- Operating unit managers were certified to use the flight safety management system, and other related activities were carried out

Inspections run by the Federal Air Transport Agency and Federal Service for Supervision of Transport (Rostransnadzor) commissions reaffirmed the Company's ability to operate safe commercial flights as required by the Federal Aviation Rules.

During 2018, PJSC Aeroflot performed internal inspections of:

- Aeroflot airline's aircraft in European airports under the SAFA Programme
- airport refuelling facilities via the IATA Fuel Quality Pool (IFQP)
- Sheremetyevo airport, including apron inspections and quality of ground handling and maintenance inspections
- airports within Aeroflot's airline route network and representative offices of the Company.

Inspection results help the Company identify key risks which are taken into account in continuous improvement of flight safety management. As part of the Company's flight safety management system, PJSC Aeroflot has in place the Safety Management Committee, whose main responsibilities include risk analysis and development of measures to achieve targets for flight safety and prevention of aviation incidents.

Mitigating the risks of aircraft ground damage is an important objective of improving flight safety. The Company carries out apron inspections and monitors the quality of ground handling services on a daily basis. The Company was involved in testing and commissioning of the new Terminal B at Sheremetyevo airport to ensure the preventive identification of potential gaps in flight safety arrangements covering the airport's apron and terminal.

Continuous bird activity monitoring and bird scaring activities are carried out at Sheremetyevo airfield in order to prevent bird-strike incidents.

PJSC Aeroflot has in place a voluntary reporting system for employees that can be accessed at the Voluntary Reporting section of the Company's intranet. All crew feedback is reviewed daily by the Safety Management Department to develop and implement relevant improvements.

Aviation and transportation security

In 2018, Aeroflot Group continued focusing on maintaining a robust aviation and transportation culture, as well as passenger and employee health and safety through liaising with airport security services, airlines, and law enforcement authorities. The implemented initiatives enabled the Group companies to ensure high safety and security levels before and during the 2018 World Cup.

PJSC Aeroflot continued to improve its Automated Aviation Security Management System that provides authorised employees with access to up-to-date information. The system helps assess the status of the security system in real time and monitor its compliance with the standards set by the airline's Security Programme, recommended ICAO and IATA standards, and laws of destination airport countries.

The Company's experts continued their long-standing involvement with SkyTeam Aviation Security Functional Experts (ASFE) group. For many years, Aeroflot's representatives in ASFE have led the experience sharing programmes to address unruly and disruptive passenger incidents.

The Company's experts have been actively involved in the efforts to improve the Russian aviation and transportation security legislation. The Company also has representatives in the Inter Agency Working Group on Aligning Aviation and Transportation Security Regulations and the Inter-Agency Working Group on Transportation Security Equipment Certification established by the Russian Ministry of Transport.

An important milestone was the entry into force of Federal Law No. 376-FZ On Amending the Aviation Code of the Russian Federation dated 5 December 2017, allowing a carrier to deny service to passengers included on its list of persons denied carriage (passenger blacklisting). The federal law was initiated by Aeroflot and developed by a working group of the State Duma of the Russian Federation with active involvement of the Company's representatives.

Aeroflot Group airlines carried out over 40 air safety inspections at airports within the Group's route network. Minor violations were remedied during the inspections.

The Company continued to develop its canine service to ensure transportation security. Aeroflot's integrated canine service is a biotech-based security solution, which ensures consistent and regular inspections of the airline's infrastructure and vehicles. It operates in a closed cycle, from reproduction of sniffer dog stock to training, to use in detection. The biotech-based solution ensures olfactory monitoring of Sheremetyevo airport facilities to detect explosives and explosive devices. The European Patent Office granted Aeroflot a European patent for its Method of Detecting Explosives and Other Target Substances in 2018.

Aeroflot airline has received the Innovation Time 2018 annual award in the Biotechnology and Genetic Engineering category. The award was won by the Company's "Aeroflot. Sulimov Dog" project. This marked the first time in the award's history when it was granted to a transportation and service company and not a specialist institution.

PJSC Aeroflot works in close partnership with its subsidiaries to ensure aviation security. A shared information space is being created by the Group companies to monitor processes in base airports and the progress of aviation security activities. PJSC Aeroflot monitors and analyses risks across the route network of the entire Group.

Aircraft Maintenance and Repair Stations

Aeroflot Group operates an efficient aircraft maintenance, repair, and overhaul (MRO) system which services the fleet of Aeroflot airline, subsidiary airlines, and third-party aircraft and ensures high reliability, flight safety, and on-time performance.

The MRO policy of Aeroflot Group airlines provides for strict compliance with the requirements of countries of registration, maintenance programmes, and aircraft lease agreements. It is focused on enhancing capacity and technical competencies, rolling out cutting-edge technological solutions, and providing employee training and development opportunities while constantly improving economic efficiency.

Each of the Group companies has departments responsible for airworthiness and maintenance of operated aircraft. The airlines also cooperate with one another under signed agreements.

Aeroflot Group has in place a strategic programme to centralise maintenance of aircraft and components for Aeroflot and subsidiary airlines. The centralisation provides for separating base and line maintenance.

Aeroflot Group has its own maintenance facilities in Moscow Vnukovo and Sheremetyevo airports, as well as in Saint Petersburg, Orenburg, Vladivostok, and Yuzhno-Sakhalinsk airports.

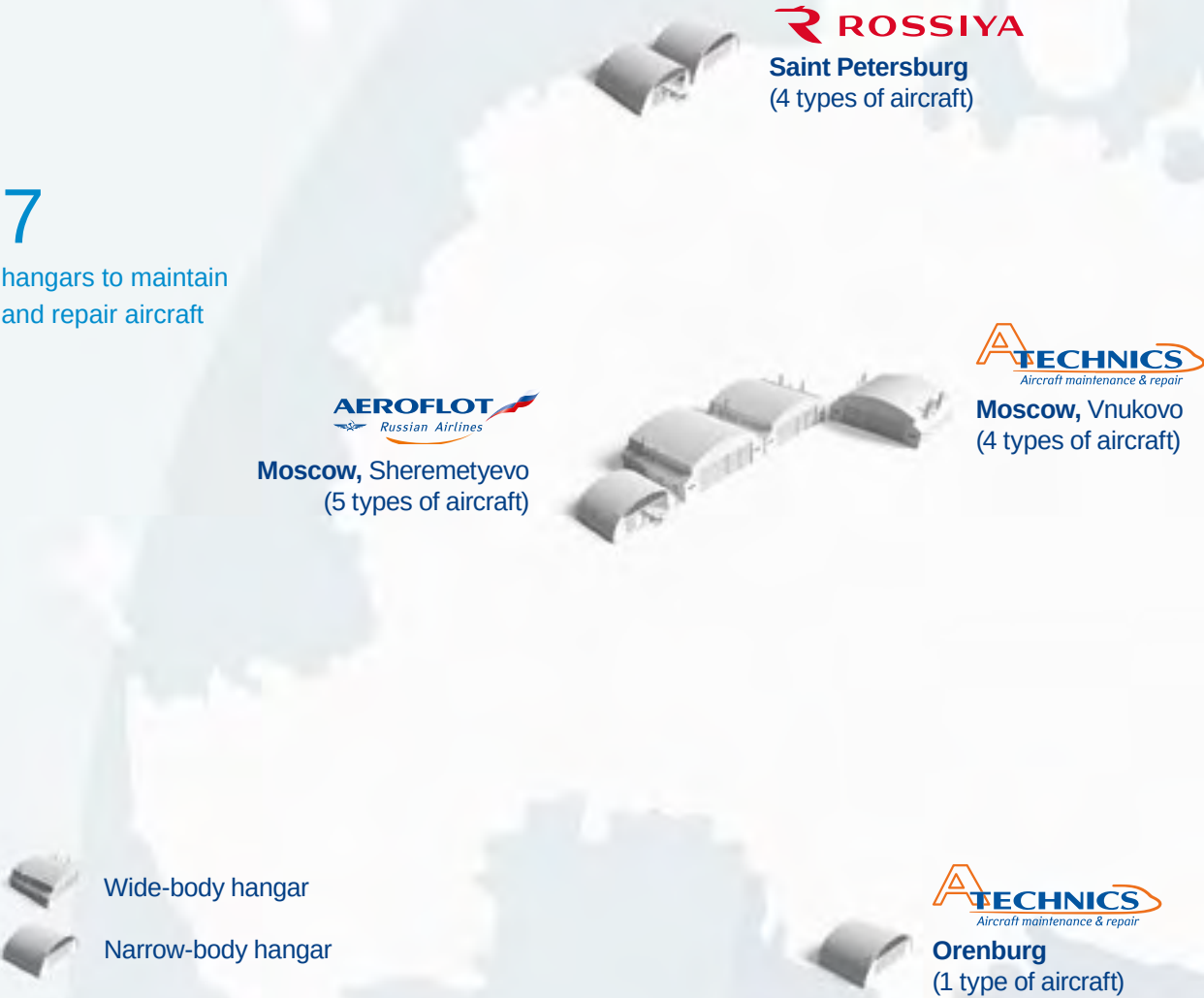
The Group includes A-Technics, a specialist aircraft and component maintenance and repair subsidiary operating maintenance centres in Moscow Vnukovo airport and Orenburg airport.

MRO divisions at PJSC Aeroflot

AIRCRAFT MAINTENANCE DEPARTMENT	AIRWORTHINESS DEPARTMENT	QUALITY ASSURANCE DEPARTMENT
Maintenance of Aeroflot and other Group airlines' aircraft	Maintains airworthiness of aircraft operated by Aeroflot airline, manages technical condition of the fleet throughout the entire aircraft life cycle, develops and implements PJSC Aeroflot's strategy and policy covering aircraft operation	Develops a quality management system for aircraft maintenance and airworthiness

7

hangars to maintain and repair aircraft



Maintenance facilities at airports and types of maintenance

Airport and location	Company	Line maintenance	Base maintenance
Sheremetyevo airport (Moscow)	Aeroflot	→ Airbus A320 family → Airbus A330 → Boeing 777 → Boeing 737-800NG → Superjet RRJ-95	→ Airbus A320 family → Airbus A330 → Boeing 737-800NG → Superjet RRJ-95
Vnukovo airport (Moscow)	A-Technics	→ Airbus A320 family → Boeing 737 → Boeing 747 → Boeing 777	→ Airbus A320 family → Boeing 737 → Boeing 747 → Boeing 777
Pulkovo airport (Saint Petersburg)	Rossiya	→ Airbus A320 family → Boeing 737 → Boeing 747 → Boeing 777	→ Airbus A320 family
Orenburg airport (Orenburg)	A-Technics	→ Boeing 737	→ Boeing 737
Vladivostok airport (Vladivostok)	Aurora	→ DHC-6-400 → DHC-8-200/300/400 → Airbus A319	→ DHC-6-400
Yuzhno-Sakhalinsk airport (Yuzhno-Sakhalinsk)	Aurora	→ DHC-6-400 → Airbus A319 → DHC-8-200/300/400	→ DHC-8-200/300/400 (excluding C-check)

PJSC Aeroflot holds and maintains certificates issued by European, Bermudian, and Russian aviation authorities for maintaining airworthiness of the following types of aircraft and components:

- A320 family (line maintenance, A-check, C-check, 6YE-check)
- Boeing 737 (line maintenance, base maintenance)
- Airbus A330 (line maintenance, A-check, C-check)
- Boeing 777 (line maintenance)
- RRJ-95B (line maintenance, base maintenance)

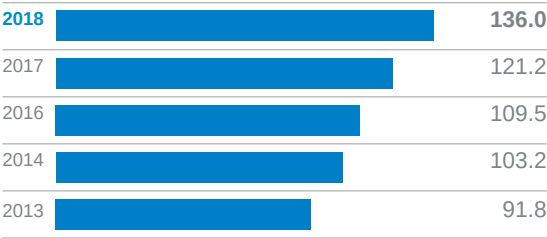
Scheduled maintenance of all types of operated aircraft is performed under programmes developed in line with guidelines provided by aircraft and key components manufacturers. Maintenance of key aircraft components, such as engines, landing gear, and auxiliary power unit (APU) is performed by third-party contractors.

In 2018, PJSC Aeroflot serviced 136 thousand take-offs at Sheremetyevo (base airport), up 12.1% year-on-year. Labour intensity per flight hour of Aeroflot fleet aircraft was 2.27 hours in 2018 (2.23 in 2017).

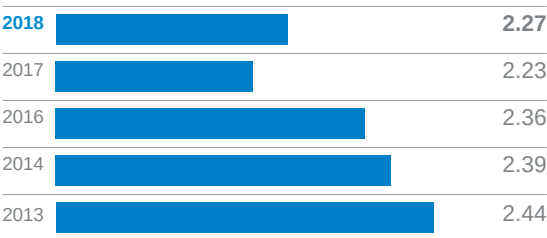
Along with its own fleet, PJSC Aeroflot also services third-party customers: around 27 carriers and approximately 42 aircraft maintenance organisations in 2018. Individual maintenance operations, such as maintenance of key aircraft components, are performed by third-party contractors. During 2018, around 57% of Aeroflot airline fleet heavy maintenance operations were performed by in-house maintenance facilities and 43% were subcontracted.

In 2018, Aeroflot continued the construction of Hangar 4 at Sheremetyevo airport, launched in 2017, to perform maintenance and repairs for wide-body Boeing 777s and Airbus A350s, a maintenance annex building, and the foundation for a special-purpose vehicle MRO facility.

Take-offs serviced at Sheremetyevo airport (thousand)



Labour intensity per flight hour of Aeroflot airline aircraft (man-hour)



A-Technics operations

A-Technics is a specialised aircraft maintenance and repair subsidiary established by Aeroflot Group in 2015. The company is based at Moscow Vnukovo airport, has a branch in Orenburg, and is certified to EASA standards.

In 2018, A-Technics serviced 37 Rossiya's aircraft, 30 Aeroflot's aircraft, and 5 Pobeda's aircraft, as well as other airlines' aircraft.

MAINTENANCE CAPABILITIES AT VNUKOVO AIRPORT



Focus on line and base maintenance for Boeing 737, Boeing 747, Boeing 777, and Airbus A320 family



Over 460 maintenance specialists averaging 12 years of experience in aircraft MRO



13,000 sq m of maintenance facilities (including two wide-body hangars, repair shops)

ORENBURG BRANCH



Focus on base maintenance for Boeing 737



Over 130 maintenance specialists averaging ten years of expertise in aircraft MRO



Around 4,000 sq m of maintenance facilities (two narrow-body hangars)



Full range of MRO shops with advanced equipment

Information Technology and Innovation

2018 was a year of consistent digital transformation across Aeroflot Group, covering both customer journeys and experience, and the Group's entire operations, including management of the Company, aircraft maintenance, and information security.

Information technology

Digital transformation takes place in line with the IT Strategy adopted by PJSC Aeroflot's Board of Directors on 29 August 2018 to contribute towards the Group's strategic goal of increasing passenger traffic.

The Company closely liaises with the industry community. In 2018, preparations were made for PJSC Aeroflot to join the Digital Transportation and Logistics Association focused on driving digital transformation across the transportation industry, as well as on creating and developing a single multimodal digital transportation and logistics environment across Russia.



Aeroflot received a prestigious award at the CNews AWARDS 2018 for the Transportation Industry IT Project of the Year consisting in the successful implementation of the new air service distribution standard, NDC, developed by the International Air Transport Association (IATA).



Aeroflot's Tax Monitoring Data Mart project won the Company a corporate tax award as the Tax Project of the Year as well as the SAP Value Award in the New Horizons category.



Aeroflot's team was among the leaders of the annual professional project management contest, Project Olympus 2018, winning the second prize for the Competent Project Office.



Aeroflot's team confirmed its status of the strongest airline team by winning the first prize for a second consecutive year at Sabre Intelligence Exchange Hackathon 2018, an international IT contest.

NEW PAYMENT OPTIONS

Aeroflot introduced new payment options for air tickets and value-added services through advanced payment services such as Samsung Pay and Google Pay, as well as a bank-card recognition module.

The new Pass2U e-wallet functionality is a convenient way for passengers to store tickets, boarding passes and Aeroflot Bonus loyalty cards.

MOBILE APPLICATION FOR PASSENGERS

A number of new functions were added to the mobile application enabling Aeroflot's customers to purchase health insurance, buy Aeroexpress tickets, rent cars, order special meals from the À la Carte menu on selected flights, pay for excess baggage as well track their baggage.

Maps of 12 global airports were added, including an interactive plan of Moscow Sheremetyevo airport with the airport building navigation feature.

MULTIMEDIA CONTACT CENTRE

The functionality of Aeroflot airline's contact centre was considerably expanded to optimise the work routine for operators and reduce response times, including a new dedicated hotline for passengers with disabilities and a dedicated information service to advise passengers on their baggage status and handle customer calls. Certain improvements were made to flight booking via Aeroflot's pay-by-phone service. 1,300 operators serve passengers during the high season. About 9 million calls were handled during the year, including in six foreign languages.

IMPROVED SECURITY

The first phase of the Two-Factor Authentication project was implemented to improve security of Aeroflot Bonus programme accounts. To log in, users need to enter a confirmation code received via the SMS-Info service.

DIGITAL SOLUTIONS FOR PASSENGERS

NEW VALUE-ADDED SERVICES

Aeroflot has been actively developing its programme to sell value-added services to customers. Aeroflot introduced class upgrades and advance seat selection for travellers on low fares. Aeroflot also launched a new service allowing passengers to book airport transfers within the city of arrival and a new À la Carte Menu paid service.

IN-FLIGHT ENTERTAINMENT

Aeroflot launched a Wi-Fi-based service providing passengers with an access to free entertainment content via personal mobile devices on board twenty-six of its A320 aircraft.

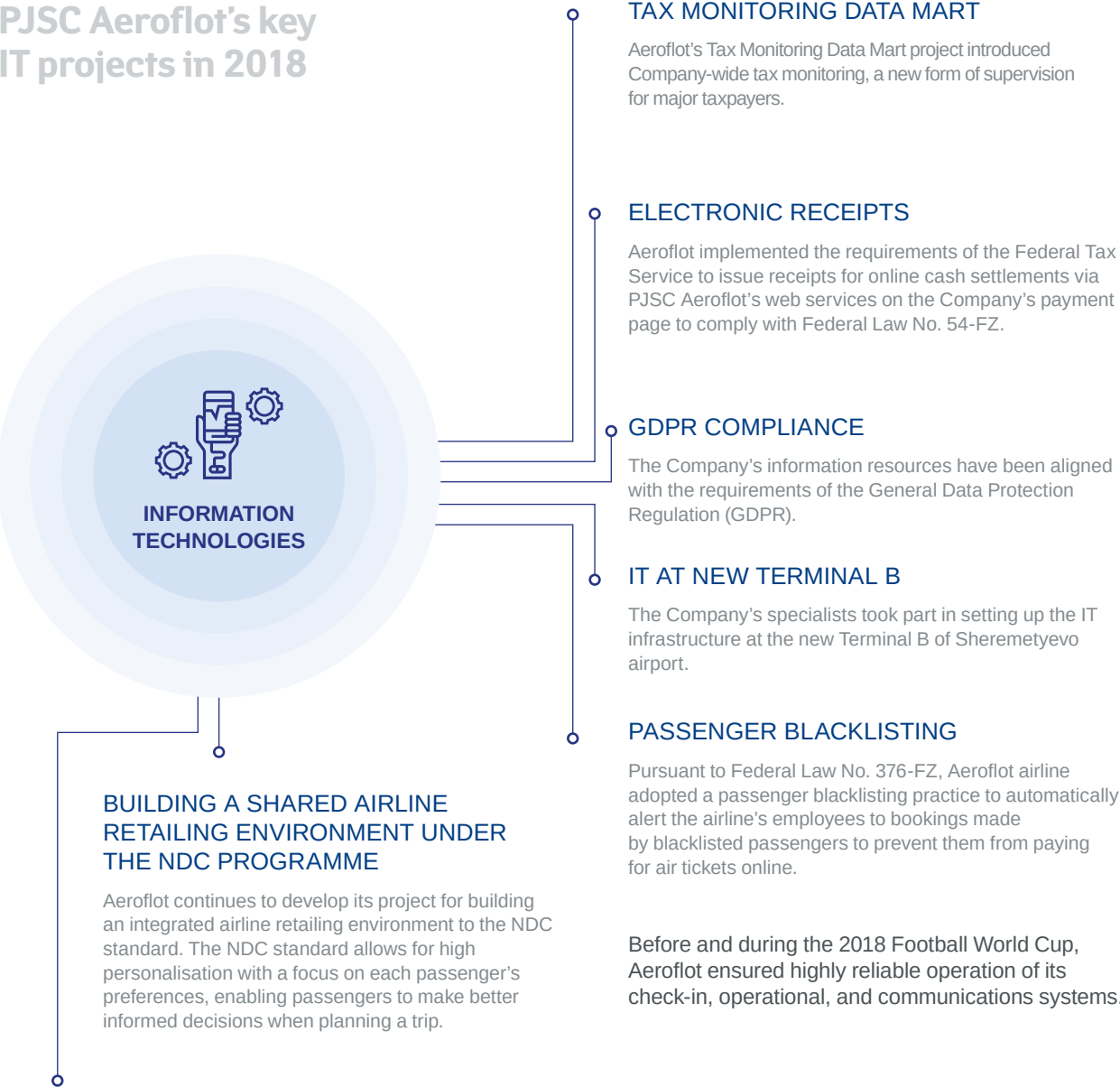
SELF BAGGAGE DROP-OFF DESKS AT SHEREMETYEVO AIRPORT

Self baggage check-in desks based on a unique solution of Russian design were installed at Terminals D and B at Sheremetyevo airport as part of its joint project with Aeroflot.

SERVICES FOR PASSENGERS WITH DISABILITIES

Aeroflot's online services became even more accessible, including for people with disabilities. The Company added a voice-enabled ticket search feature to its mobile application and introduced the Shoulder Belt service for passengers to order an extra holding device for the flight.

PJSC Aeroflot's key IT projects in 2018



BIG DATA SYSTEMS

Aeroflot places a particular emphasis on the use of Big Data in its IT initiatives. The proprietary solution used by the Company enables processing big data to boost sales and improve passenger loyalty. As part of its Big Data initiatives, Aeroflot has already implemented a predictive system that recommends potential destinations for customers, a tool to forecast revenue expected from a given segment, and AI-enabled review of customer inquiries and complaints. .



In 1972, Aeroflot launched a booking system, Sirena-1. Before it was introduced, purchasing a ticket sometimes took as long as two or three days.

IT upgrades across subsidiaries

The large-scale digitisation of business processes across all Aeroflot Group companies is essential to the Aeroflot Group Development Strategy. A more robust and transparent operating model can be built across the Group through optimising operations of its subsidiaries and new technology adoption.

In 2018, Rossiya airline successfully deployed and upgraded a number of key IT systems. In particular, the airline adopted an automated IT system to manage IT solutions and customer service systems, as well as Microsoft Dynamics, a cutting-edge talent management solution. The airline also improved its sales of value-added services on charter flights via its new online platform.

Aurora airline implemented a number of major IT projects to upgrade its management system and deliver seamless and user-friendly customer experience across the airline. Passengers can now connect their own devices to the new Aurora Entertainment system to access content available on their flight. The airline also rolled out a new revenue management solution and an automated IT system for sales offices. The airline's website structure and functionality were upgraded to offer passengers value-added services, with Mir cards now also accepted for payment.

Pobeda airline rolled out Jeppesen's Crew Pairing digital solution to optimise airline crew scheduling, productivity, safety and operational stability.

Innovative development

Aeroflot Group makes consistent efforts to develop and implement innovative solutions across all areas of its activities. To further sharpen its competitive edge, the Group is building an innovation ecosystem, incorporating innovative solutions into both operations, and organisational and administrative processes.

In 2018, we continued implementing Aeroflot Group's Innovative Development Programme 2025 which covers the main innovation focus areas and activities at Aeroflot Group, including Aeroflot airline and its Rossiya and Aurora subsidiaries.

The Innovative Development Programme was fully aligned with the action plans (roadmaps) for developing industries and the regulatory guidelines of federal executive authorities, and adopted by PJSC Aeroflot's Board of Directors on 25 August 2016 (Minutes No. 1).

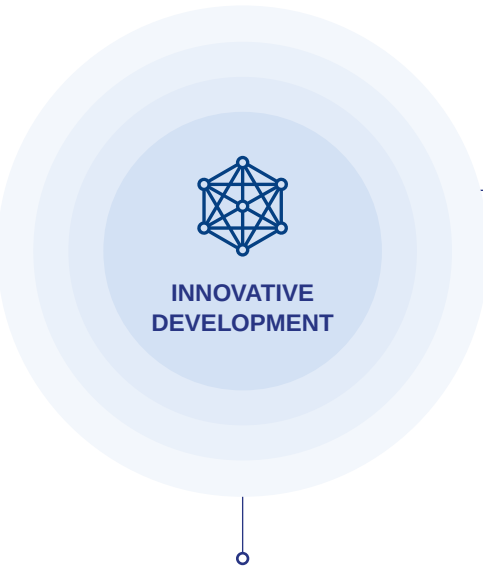
- ITS KEY FOCUS AREAS INCLUDE:
- improving flight safety and building an integrated security and anti-terrorist system
 - enhancing Aeroflot's competitive position, including such key metrics as the share of the air transportation market and customer satisfaction with the services we provide
 - automating operating and administrative processes of Aeroflot airline
 - replacing outdated and inefficient technology with advanced solutions, including Russia-developed technology
 - improving environmental performance, energy efficiency, and resource conservation
 - increasing labour productivity and creating highly productive jobs.

KPIs under the Innovative Development Programme reflect the long-term vision for the Russian and international air transportation market and the goals of the Long-Term Development Programme, Strategy, and investment programme. The Innovative Development Programme's KPIs include reduced product costs, higher quality of services, energy savings, lower environmental footprint, and increased labour productivity.

Aeroflot's History

In 1969, the first in-flight TV services using video systems based on Yunost TV sets were offered to passengers on board Tu-134 aircraft.

Key innovative projects in 2018



DEVELOPING AND TESTING A METHODOLOGY TO EVALUATE DIFFERENT COMPONENTS OF AEROFLOT'S WEBSITE DESIGN BASED ON EYE TRACKING STUDIES

The methodology for evaluating different components of Aeroflot's website design will help examine the functionality of website design elements and modify them including based on feedback from potential customers. The new solution will help improve customer satisfaction from the online ticketing journey and value-added service purchasing journeys.

STUDYING INDIVIDUAL RATES OF TECHNICAL SKILL DEGRADATION OF PILOTS BY ANALYSING THE DATA ON HAZARDOUS FLIGHT DEVIATIONS BASED ON FLIGHT INFORMATION

The project provides for developing a set of criteria to identify degradation in manual aircraft control skills of pilots based on flight information, as well as identifying and analysing flight deviations in the database. A plan for the development of special software to track degradation in manual aircraft control skills of pilots for subsequent provision of individually tailored flight simulator training was prepared as part of the project.

PJSC AEROFLOT'S INNOVATIVE DEVELOPMENT BENCHMARKING AGAINST INTERNATIONAL PEERS

Aeroflot has analysed international best practice for innovation in civil aviation. Analysing innovative development of global innovation leaders and benchmarking Aeroflot Group against leading international peers on technological, product, and organisational innovations to identify promising solutions and adapt existing technology and organisational innovations to Aeroflot's needs.

DIGITAL TAKE-OFF AND LANDING RESEARCH

Aeroflot has been developing a software solution for transmitting RRJ 95B take-off and landing data and flight assignments to Electronic Flight Bags (EFB). Plans are to switch its flight and engineering personnel to take-off and landing modules for RRJ-95B aircraft and EFB-based updatable flight assignment modules. The project is scheduled for completion in 2019.

STUDYING RISK FACTORS IN PASSENGER AIR TRANSPORT

Aeroflot studies risk factors in passenger air transport in order to enhance its corporate risk management and strategic planning. The identified risk factors are used to update Aeroflot Group's Risk Register, the list of risks related to the Long-Term Development Programme, and key risks related to the refreshed strategy.

STUDYING INTERNATIONAL AND NATIONAL ENVIRONMENTAL REGULATIONS AND THEIR IMPLICATIONS FOR THE COMPANY'S GROWTH STRATEGY

The Company reviewed national and international climate change regulations, their focus areas, and associated risks to predict potential impact on its operations. The proposed adjustments to the Company's strategy resulting from the review will help Aeroflot comply with national and international climate change regulations, including through improving its Carbon Disclosure Project (CDP) score. To that end, PJSC Aeroflot is building a corporate greenhouse gas (GHG) emissions management system with a focus on monitoring direct and indirect GHG emissions and GHG reporting under ISO 14064. The project will also result in a set of targets for the reduction of the Company's climate footprint.

CONSTRUCTION OF A NEW, COMPLETELY UNIQUE FOR RUSSIA, ADVANCED HANGAR FACILITY

The construction of Hangar 4 at Sheremetyevo airport to provide aircraft maintenance and repair services was continued in 2018 to drive operational efficiencies through reduced aircraft maintenance downtime. The hangar will provide maintenance services for Boeing 777-300ER aircraft that can't fit into PJSC Aeroflot's existing hangars. The project will create new jobs and help reduce aircraft maintenance and engine change downtime, as well as reduce outsourcing by expanding the range of in-house maintenance services for Aeroflot's aircraft. Hangar 4 is a unique facility which was granted a useful model patent for an Aircraft Maintenance Hangar.



In 1975, Aeroflot first used computer technology to develop its annual domestic schedule, already comprising over four thousand flights by that time.

In 2003, Aeroflot switched to an automated booking system by Sabre..

Aeroflot's History

In 2007, Aeroflot introduced e-tickets for domestic flights and for its international agent network using global distribution systems.

As part of activities to build an innovative ecosystem, Aeroflot continued enhancing its one-stop-shop system implemented in 2017 to manage innovations proposed by small and medium-sized enterprises (SMEs). The system automates submission, processing, and decision-making processes for innovative proposals.

It has already helped process 46 proposals from SMEs and other innovation partners, including 30 proposals in 2018. The Committee for Innovative Development of PJSC Aeroflot's Management Board comprises one-stop-shop experts, including from Rossiya and Aurora subsidiary airlines.

Sales

Aeroflot Group sells tickets both in Russia and abroad through a variety of channels, including Aeroflot airline's website and mobile app. At its website, Aeroflot sells tickets both for its own flights and flights of Rossiya and Aurora subsidiary airlines operated under Aeroflot's single airline code. Tickets are also sold through Aeroflot's agents operating under direct agency agreements, agents participating in independent systems (BSP, ARC, Transport Clearing House (TCH)), own sales offices, and call centre.

Pobeda airline sells tickets independently through its own website, as well as online agencies.

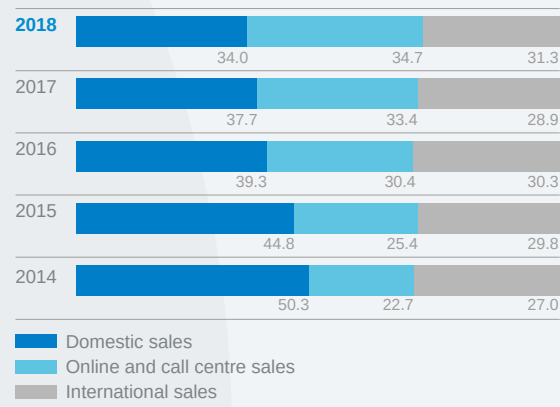
Management of flight loads for services operated by subsidiary airlines under codeshare agreements enables PJSC Aeroflot to centralise management for sales, revenue, route network, and fleet planning across the Group.

The development of online sales channels continued in 2018, with the share of online and call centre sales growing from 33.4% in 2017 to 34.7% in 2018. Channel-wise, agents remain the biggest contributor to sales (60.0%) while own sales offices accounted for 5.3% of total sales.

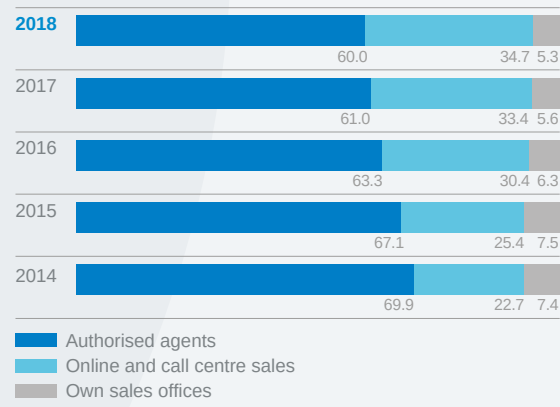
In addition to tickets, customers can use the Company's website to purchase value-added services, such as medical insurance, transfer from an airport, and other services. The sales of value-added services grew by 69.4% year-on-year in 2018.

Aeroflot airline maintains ongoing communication with agents to inform them of new routes and holds meetings with major agents. Special exclusive rates and reward programmes such as an additional distribution fee for agents in Russia and an additional incentive programme for international agents are used to incentivise agents with a potential to boost sales for new routes and high-capacity flights.

Breakdown of PJSC Aeroflot's sales revenue (%)



PJSC Aeroflot's sales by channel (%)



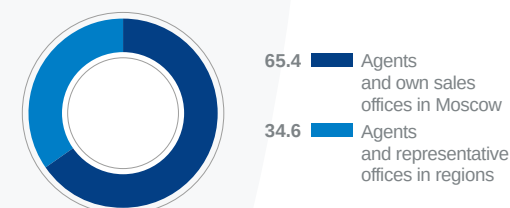
Note. Online sales and sales via the call centre are effected both in Russia and abroad.

Sales in Russia

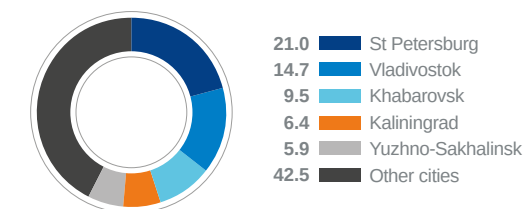
In Russia, Moscow (65.4%) accounted for the largest share in PJSC Aeroflot's total sales in 2018, with Saint Petersburg (21.0%) and the Russian Far East also making a significant contribution.

The share of sales through agents in Russia was down year-on-year due to growing online sales. The share of sales through independent settlement systems totalled 69.3% while sales through agents operating under direct agency agreements remained almost flat at 18.9% and sales through own sales offices increased to 11.8%.

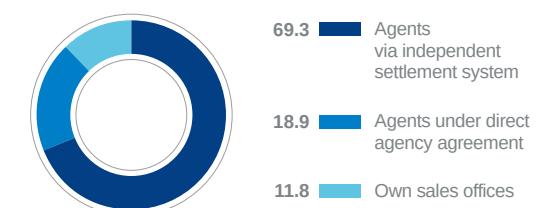
Geographical split of PJSC Aeroflot's domestic sales revenue in 2018 (%)



Top 5 cities (excluding Moscow) by contribution to PJSC Aeroflot's domestic sales revenue in 2018 (%)



PJSC Aeroflot's domestic sales by channel in 2018 (%)



International sales

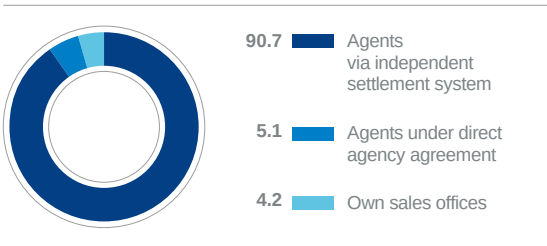
Agent sales through independent settlement systems (BSP, ARC, and TCH) comprise the bulk (90.7%) of PJSC Aeroflot's international sales revenue. Sales through agents under direct agency agreements totalled 5.1%, and sales via own offices contributed 4.2%.

Split by region, Europe was the biggest contributor to Aeroflot's total international sales in 2018 (50.4%), followed by Asia (24.5%), the Americas (12.1%), the CIS (8.0%), and the Middle East (5.0%).

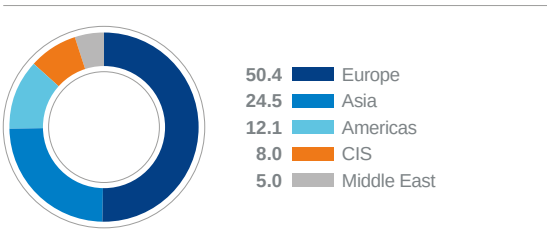
Operations in international markets are focused on:

- ramping up ticket sales on international transit routes between Europe and Asia
- signing incentive fee agreements with major agents in the relevant markets to drive sales of tickets for Aeroflot's flights
- developing corporate sales (targeting major foreign companies with assets in Russia or using Moscow as a transit point for business trips between Europe and Asia or Europe and the CIS)
- optimizing cost per ticket sold.

PJSC Aeroflot's international sales by channel in 2018 (%)



Geographical split of PJSC Aeroflot's international sales revenue in 2018 (%)



Corporate sales

PJSC Aeroflot continued developing corporate sales in 2018. Aeroflot's corporate customers include a variety of oil and gas, finance, pharmaceutical, retail, food, construction, and other companies.

PJSC Aeroflot offers a variety of cooperation options:

- Corporate Loyalty Programme – a reward programme for SMEs (excluding travel companies)
- Direct agreement with PJSC Aeroflot for servicing corporate customers in Aeroflot's sales offices in Moscow and other Russian cities
- Corporate agreement involving an agent for servicing corporate customers in one or more specialist travel agencies.

Building a shared airline retailing environment under the NDC programme

In 2018, the development of a project to build an integrated airline retailing environment to NDC standard was continued. The New Distribution Capability (NDC) programme is aimed at transforming the way air products are distributed and customising them to each customer's specific budget and preferences. NDC enables customers to purchase all Aeroflot's value-added services directly via metasearch engines and agents accessing Aeroflot's NDC gateway. The implementation of NDC will help the Company boost revenue through higher sales of value-added services and lower selling costs.

As at 2018 year-end, Aeroflot's NDC system already comprised metasearch engines Skyscanner, Aviasales, Momondo, Dohop, Airnme, Yandex Avia.

Improving Customer Service and Brand Management

Aeroflot is one of the most recognisable brands both in Russia and globally. The Company successfully maintains its high international profile through a relentless focus on the customer experience of its services and the commitment of its highly professional marketing team.

BF Brand Finance® Aeroflot was once again ranked the strongest airline brand globally according to Brand Finance in 2018.

Aeroflot airline's contact centre won international awards in 2018 for its high quality of customer service

¹ According to a customer satisfaction survey (CSAT).



CX World Awards 2018 award in Best Customer Experience in B2C Sector category



One of the top European Contact Centre and Customer Service Awards (ECCCSA)

Customer excellence

One of Aeroflot Group's key priorities is enhancing its airport and in-flight customer service. The Group airlines are constantly seeking new opportunities to improve their customer service, and conduct product quality audits at all levels, including internationally.

Over 97%¹ of customers who called Aeroflot airline's contact centre during 2018 gave the highest scores for our customer service (4 and 5 on a 5-point scale), 12% above the target set by COPC Customer Experience Standard 2016.

SkyPriority branded priority airport services were rolled out in 2018 across the entire route network of Rossiya airline and in the departure airports of Aurora airline, the Group's carrier offering services in the Russian Far East.



Aeroflot's History

In 1939, 20-year old Muscovite Elza Gorodetskaya became Aeroflot's first flight attendant, serving on board the Moscow–Ashgabat flight. In 1954, flight attendants on Aeroflot's international routes received their first uniform. In 1967, the Sheremetyevo airport established a separate Flight Attendant Service.

Key focus areas of customer service enhancements in 2018

AIRPORT SERVICES

Passenger processes were set up at Sheremetyevo's Terminal B for domestic flights.

Ostrov private service line was launched in Terminal B for business class passengers and holders of Aeroflot Bonus and SkyTeam Elite and Elite Plus loyalty cards.

A number of procedures were developed and rolled out in Sheremetyevo to accelerate preflight screening, and tablets were used to reduce queues at Lost and Found desks.

Rossiya's own branded service and information centre was established in Pulkovo airport's check-in area.



SERVICE

CUSTOMER INTERACTION PLATFORM

As part of the efforts to enhance our customer interaction platform, an automated system was implemented for emotion analysis, and automatic customer call classification and handover to relevant units. The platform is used to handle all incoming customer queries or requests across all feedback channels: one-stop shop at the website, on-board requests, emails, and queries submitted to the offices, representative offices, and branches.

CONTACT CENTRE

A dedicated hotline was established to assist passengers with disabilities

Advisory teams were established to advise passengers on their baggage status or customer query/request status, and to support the services offered via the Board Connect in-flight entertainment system.

The pay-by-phone service was improved.

New value-added services were launched: À la Carte Menu, Class of Service Upgrade, and Advance Seat Selection.

IN-FLIGHT SERVICES

Full flat-bed seats were installed for business class passengers in four Airbus A330-300 aircraft.

Streaming in-flight entertainment system was made available for economy class passengers in 26 Airbus A320 family aircraft.

Selection of drinks and beverages was expanded, and a cocktail menu was updated in business class. Menu was enhanced in comfort class. Snack bars are now available in wide-body aircraft on flights lasting six hours or more, and an à la carte menu is offered in the economy class on flights of seven hours or more. New tableware is being introduced, designed by the Imperial Porcelain Manufactory.

To celebrate Aeroflot's 95th anniversary, anniversary-themed products were offered to customers (themed chocolate bars, anniversary dishes on the menu, wine lists and menus in vintage style)

A shoulder belt service was introduced for passengers with disabilities.

Subsidiary airlines: Rossiya airline introduced amenity kits for business class passengers, as well as children's kits on flights lasting six hours or more, continued its passenger cabin interior redesign programme, and a streaming in-flight entertainment system was made available on all flights from Sheremetyevo; Aurora airline expanded its Sky Bistro à la carte menu for improved in-flight experience, and added a content streaming service to its Aurora Entertainment system.

ONLINE SERVICES (WEBSITE, MOBILE WEBSITE, AND MOBILE APP)

An online chat was launched on the website for passengers with disabilities to order special services, as well as an option to order the Shoulder Belt service online.

Website and mobile app functionalities were expanded to enable the following services:

- Displaying alternative flights for selected dates
- A joint travel programme by Aeroflot and German Deutsche Bahn railway company
- A Preselect Seats service on Aeroflot, Rossiya, Aurora flights
- Sales of Aeroexpress train tickets after online check-in
- An À la Carte Menu paid service for economy class (on flights lasting seven hours or more)
- Saving Aeroflot Bonus members' billing documents ("Plati Legko" (Pay Easily) feature)
- A single flight reservation form
- An interactive map of airports within Aeroflot's airline route network
- Voice search for tickets
- Automated ticket exchange/refund
- An option to enter ID data via a mobile device camera
- Expanded mobile payment options
- Aeroflot's mobile app localised in German and Italian.

New partners were added to the NDC programme: Yandex Flights, Skyscanner, Aviasales, momondo, KAYAK, Dohop, Airinme

Subsidiary airlines: Rossiya's website functionality was enhanced (including through additions of an interactive flight map, insurance service option, and Advanced Seat Reservation paid service for economy class passengers); Aurora's website was upgraded, including the interface and website structure, and an accessible version of the website was added.

Aeroflot conducts a number of annual marketing surveys to further enhance its services and the competitiveness of its product offering, as well as to improve consumer loyalty and customer satisfaction:

Another assessment of the Net Promoter Score (NPS) was carried out together with Bain & Company in 2018. Aeroflot's NPS score has grown by over 50% since measurements first started nine years ago.

A customer satisfaction assessment was conducted as part of IATA's Airs@t survey in the European market and under a wider joint SkyTeam Customer Experience Research project covering all member airlines.

Aeroflot Bonus

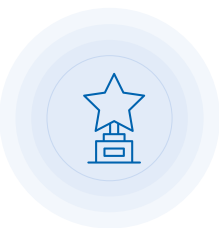
Aeroflot Bonus programme was voted the winner in four categories at the Freddie Awards 2018



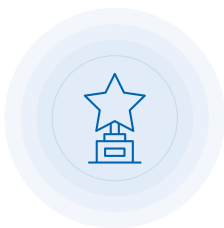
Best Elite Program

Aeroflot continued to develop its Aeroflot Bonus programme, which offers its members an opportunity to earn free miles when flying. In 2018, the number of programme members increased by 24.3% to 8.3 million.

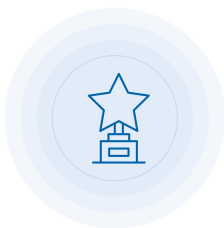
In 2018, we reduced the amount of miles required to purchase an award ticket and to upgrade travel class for a number of Aeroflot routes to Europe and within Russia, and launched a number of online services to increase mile redemption options for programme members. The programme members now have an online option to receive and transfer to other members up to 50,000 miles a year, upgrade their travel class using miles or upgrade vouchers, and exchange award tickets.



Best Redemption Ability



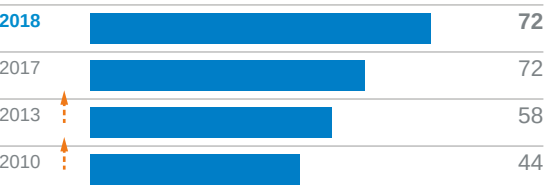
Best Customer Service



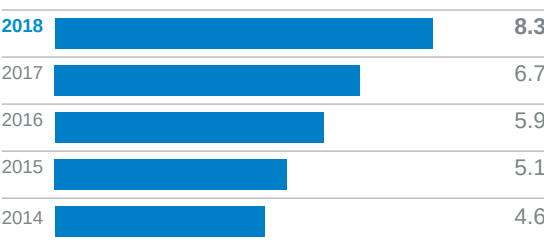
The greatest development potential in the region

Monitoring of compliance with Aeroflot customer service standards is carried out as mystery passenger audits to promptly identify and eliminate product- and service-related pain points throughout the customer journey. After four project waves (December 2017 to November 2018), the average level of compliance across the Company was 89.5%, with upward trends observed in metrics across all customer service stages.

Aeroflot airline's NPS performance (%)



Aeroflot Bonus members (million)



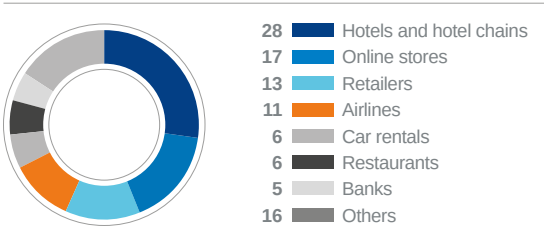
Note. Data as at the year end.

The number of the programme partners is steadily increasing, with 66 new partners joining the Aeroflot Bonus programme in 2018. The total number of partners was 190 as at the year end, including 20 airlines. The Company continued to expand its range of goods and products from non-industry partners available for purchase using bonus miles. Aeroflot Bonus partners include banks, hotels, car rental companies, online stores, retailers, and restaurants.

Special promotions are regularly offered, including co-promotions with partners, to raise the programme's profile and attract more members. The Light Awards promotion was held monthly during 2018, whereby passengers could purchase award tickets using less bonus miles for certain Aeroflot routes. Miles Mania promotions were held, with the programme's non-bank partners awarding members double and triple amounts of miles, the Make It in 72 Hours campaign was run, offering items from the Reward Catalogue with a 50% discount, and a number of other promotions. Aeroflot continued its partnership with Disney, attracting about 7,500 new members through The Nutcracker and the Four Realms film's original play promotion.

Aeroflot Bonus Member Attraction service was launched on www.aeroflot.ru website and mobile website covering the booking, ticketing and checking-in customer journeys, and the online check-in procedure via the website was simplified.

Aeroflot Bonus partners, 2018 (%)



Marketing communications

Aeroflot continued its marketing campaigns in 2018, launching a number of new initiatives. A special focus during the year was placed on sponsoring major cultural and business events in Russia.

Aeroflot supported Classics at the Palace Square gala of world-famous opera stars held as part of Saint Petersburg's 315th anniversary celebrations. In autumn 2018, The Company participated in the 8th Circle of Light Moscow International Festival held under the auspices of the Moscow Government.

Aeroflot acted as the official carrier for high-profile business forums such as the Russian Investment Forum, the St. Petersburg International Economic Forum, and the Eastern Economic Forum.

An advertising campaign was held in autumn 2018 to promote new routes within Aeroflot Group's route network, announce Aeroflot's Best Business Class – Europe award in TripAdvisor's Travellers' Choice Awards 2018, and advertise new full flat-bed seats for business class passengers in wide-body aircraft.

Aeroflot makes smart use of advertising tools to promote new routes, increase its brand recognition globally, and bolster demand for connecting flights between Asia and Europe.

A number of co-promotion campaigns were held throughout the year with airports in Germany, the Czech Republic, Slovenia, France, Belgium, Estonia, Finland, Sweden, the United Kingdom, Lithuania, Poland, and Italy.

Aeroflot actively adopts and utilises Big Data solutions to tailor targeted marketing communications in line with international best practice. Apart from traditional advertising channels, Aeroflot also employs direct marketing communications including email marketing to promote routes and bolster demand for its value-added services.

According to Brand Finance, the Aeroflot brand value grew by 3% to USD 1.5 billion in 2018. The combined value of Aeroflot Group's brands (Aeroflot, Rossiya, Pobeda, and Aurora) totalled almost USD 2.0 billion.

Aeroflot brand value (USD million)



Financial Results

Aeroflot strives to maximise financial and operational efficiency. The Company is currently implementing cost control measures to support its leading position among global airlines by CASK.

At the Height
of Efficiency

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Financial Highlights

IFRS financial highlights (RUB million)						
	2014	2015	2016	2017	2018	Change 2018 / 2017, %
Revenue	319,771	415,173	495,880	532,934	611,570	14.8
Growth, %	9.9	29.8	19.4	7.5	14.8	7.3 p. p.
EBITDAR	48,673	103,118	137,567	121,808	122,479	0.6
EBITDAR margin, %	15.2	24.8	27.7	22.9	20.0	(2.9) p. p.
EBITDA	24,839	58,703	78,004	56,015	33,598	(40.0)
EBITDA margin, %	7.8	14.1	15.7	10.5	5.5	(5.0) p. p.
Operating profit	11,268	44,107	63,254	40,411	19,657	(51.4)
Operating profit margin, %	3.5	10.6	12.8	7.6	3.2	(3.4) p. p.
Profit/(loss) for the period	(17,146)	(6,494)	38,826	23,060	5,713	(75.2)
Net profit margin, %	—	—	7.8	4.3	0.9	(3.4) p. p.

Note. Hereinafter, EBITDAR = EBITDA + operating lease expenses. EBITDA = operating profit + depreciation and amortisation + customs duties.

2018 was another year of operational growth for Aeroflot Group – increased passenger traffic and passenger turnover were the key drivers of a 14.8% revenue expansion to RUB 611.6 billion. The Group demonstrates sustainable long-term growth. At the same time, there is a decline in profitability compared to the previous years. In a historical context, 2018 financial performance proves that the unprecedented pressure on costs from macroeconomic factors complemented the normalisation of profitability amid the growing competition within the sector in 2017.

The record growth of the average cost of jet fuel and the depreciation of the rouble were the key factors that influenced the Group's financial performance in 2018. Across Aeroflot Group, jet fuel prices increased by 36.1% year-on-year, which led to the additional RUB 48.3 billion worth of cost given the Group's current consumption volumes. The depreciation of the rouble put additional pressure on financial results, given that almost half of the Group's costs are denominated in foreign currencies.

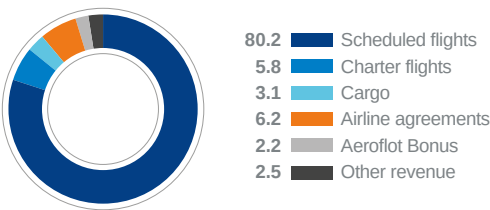
A special optimisation programme was launched in addition to the existing measures to boost operational efficiency and reduce costs. Along with direct cost reduction, the programme focused on active capacity and revenue management and has already delivered strong results: excluding fuel, CASK for the full year increased by only 0.8% despite increasing currency pressure on FX-denominated cost lines. We were therefore able to limit the increase in total unit operating costs, including fuel, to 9.2%. Although consumers are being conservative with their travel spending, the Group was able to generate a 4.9% growth of RASK while also maintaining stable load factor levels.

In 2018, due to its extensive optimisation programme, the Group was able to record a profit of RUB 5,713 million despite the record increase in jet fuel prices complemented by the rouble depreciation.

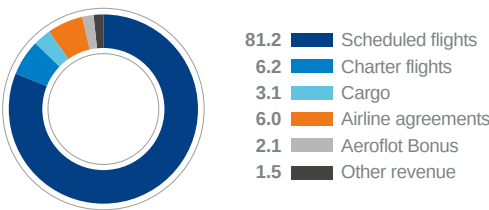
Traffic and other revenue

Revenue (RUB million)			
	2017	2018	Change, %
Revenue from passenger flights, including scheduled flights	458,390	534,292	16.6
charter flights	427,529	496,454	16.1
Revenue from cargo	30,861	37,838	22.6
Revenue from cargo	16,526	18,900	14.4
Total traffic revenue	474,916	553,192	16.5
Revenue from airline agreements	33,196	36,646	10.4
Revenue from FFP partners	11,588	12,704	9.6
Other revenue	13,234	9,028	(31.8)
Total other revenue	58,018	58,378	0.6
Total revenue	532,934	611,570	14.8

Revenue breakdown, 2017 (%)



Revenue breakdown, 2018 (%)



In 2018 Aeroflot Group's revenue increased by 14.8% year-on-year to RUB 611,570 million.

Revenue from scheduled passenger flights increased by 16.1% year-on-year to RUB 496,454 million, driven by an increase in passenger traffic. Revenue growth was also affected by an increase in yields, primarily on international routes, due to the rouble depreciation against the euro and a corresponding adjustment to FX-denominated revenue.

Revenue from charter flights was up 22.6% year-on-year to RUB 37,838 million primarily due to an increase in unit yields on charter flights and the expansion of Rossiya airline's charter programme. The share of charter flights in the Group's total revenue increased to 6.2% from 5.8% in 2017.

Cargo revenue grew by 14.4% year-on-year to RUB 18,900 million following a 11.2% increase in cargo and mail volumes.

Other revenue increased by 0.6% year-on-year to RUB 58,378 million. A rise in FX-denominated revenues from airline agreements was offset to a significant degree by a decrease in revenue from maintenance of other airlines' aircraft, as well as the introduction of the new IFRS 15 standard which affected the classification of service fees for reservation changes as other revenue or revenue from scheduled passenger flights.

Revenue growth decomposition (RUB million)

Revenue 2018	611,570
Scheduled flights	68,925
Charter flights	6,977
Cargo	2,374
Other revenue	360
Revenue 2017	532,934

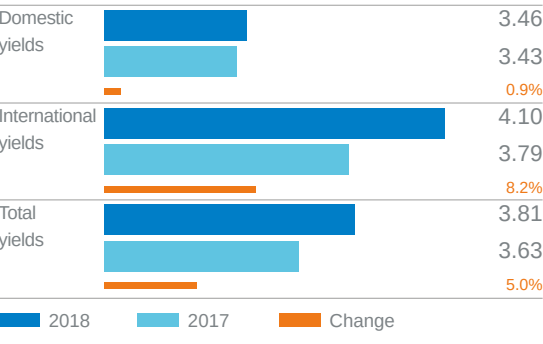
Yields

In 2018, scheduled flight yields increased by 5.0% year-on-year including yields on international destinations (by 8.2%) and yields on domestic destinations (by 0.9%). Yields were mainly influenced by the competitive environment in the market and the need for gradual transfer of fuel costs into yields through adjusting the fuel surcharge. Another Group-wide driver was the accelerating development rate of Pobeda airline which, being a low-cost carrier, provides air transportation with lower yields. It is important to note that a low-cost carrier can have low yields due to cost efficiency (low CASK), which helps ensure profitability of transportation operations in the low-cost segment.

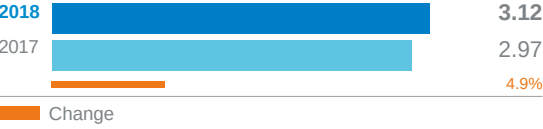
Domestic yields demonstrated growth with RASK increasing by 3.5% year-on-year due to higher load levels. Yields experienced pressure from the introduction of flat fares for Rossiya airline's flights to the Far East to improve affordability of air travel to remote regions.

International yield increase primarily resulted from the foreign exchange effect as all fare groups (for outbound and inbound flights and for international transfer) are denominated in foreign currencies. In particular, during the year, the rouble depreciated by 12.2% against the euro and by 7.5% against the US dollar (RUB 65.9 per EUR and RUB 58.4 per USD in 2017; RUB 74.0 per EUR and RUB 62.7 per USD in 2018). Moreover, unlike domestic flights, the passenger load factor decreased leading to RASK in this segment growing by 6.0%, slower than the yield.

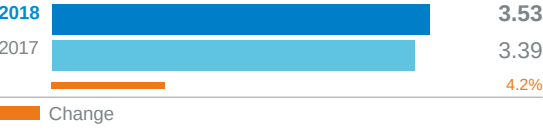
Scheduled flights yields (RUB)



Scheduled flights RASK (RUB)



Total RASK (including other revenue) (RUB)



Operating Costs

Operating costs (RUB million)

	2017	2018	Change, %
Aircraft, traffic, and passenger servicing	96,418	108,589	12.6
% of revenue	18.1	17.8	(0.3)
Staff	82,801	82,817	0.0
% of revenue	15.5	13.5	(2.0)
Operating lease	65,793	88,881	35.1
% of revenue	12.3	14.5	2.2
Aircraft maintenance	36,433	45,527	25.0
% of revenue	6.8	7.4	0.6
Selling, general and administrative expenses	36,139	31,743	(12.2)
% of revenue	6.8	5.2	(1.6)
Depreciation, amortisation and customs duties	15,604	13,941	(10.7)
% of revenue	2.9	2.3	(0.6)
Communication expenses	14,795	15,584	5.3
% of revenue	2.8	2.5	(0.2)
Other expenses	21,855	22,967	5.1
% of revenue	4.1	3.8	(0.3)
Operating costs, excluding aviation fuel	369,838	410,049	10.9
% of revenue	69.4	67.0	(2.3)
Aviation fuel	122,685	181,864	48.2
% of revenue	23.0	29.7	6.7
Total operating costs	492,523	591,913	20.2
% of revenue	92.4	96.8	4.4

In 2018, aviation fuel costs increased by 48.2% year-on-year to RUB 181,864 million. The increase was driven by a 36.1% year-on-year growth of rouble-denominated average price of aviation fuel amid changes in the price of oil, as well as an increase in traffic and flight hours. Thus, the change in rouble-denominated jet fuel price only (including the change in US dollar-denominated price and rouble depreciation) put a RUB 48,255 million worth of pressure on the Group's profitability.

Excluding aviation fuel costs, operating costs increased by 10.9% year-on-year to RUB 410,049 million.

Aircraft and passenger servicing costs totalled RUB 108,589 million, up 12.6% year-on-year, due primarily to the growth of passenger traffic and increased airport taxes. The increase of this cost item was constrained by the servicing cost optimisation efforts.

Operating costs breakdown (%)



Staff costs remained flat and totalled RUB 82,817 million. In spite of the growing costs due to a significant increase of pilot-in-command salary in early 2018 (as part of working conditions improvement for pilots) and an increase in the number of staff to support the Group's growth, Aeroflot was able to constrain the increase of this cost item through decreasing top management remuneration and re-evaluating reserves for future bonus payments.

Operating lease expenses grew to RUB 88,881 million, up 35.1% year-on-year, mainly due to a significant fleet expansion (the increase in the Group's leased fleet was 47 aircraft, or 16.8%, compared to 31 December 2017) and a year-on-year increase in the 2018 LIBOR rate (in particular, the average LIBOR 3M rate grew by 1.05 p. p. to 2.31%).

Aircraft maintenance costs increased by 25.0% year-on-year to RUB 45,527 million. This cost item was impacted by the growing volume of day-to-day repair works due to the aircraft fleet expansion and different agendas for regular repairs in the compared periods, as well as by the foreign exchange effect.

Selling, general and administrative expenses decreased by 12.2% year-on-year to RUB 31,743 million due to the implementation of the expense optimisation programme including sales and marketing expenses.

Depreciation, amortisation and customs duties decreased by 10.7% year-on-year to RUB 13,941 million due to a lower number of aircraft under finance lease agreements.

Communication expenses including the services of global distribution systems totalled RUB 15,584 million having increased insignificantly by 5.3%, which is lower than the operations growth, thus leading to savings under this cost item.

Other expenses were up 5.1% year-on-year.

Decomposition of changes in operating costs (RUB million)

Operating costs, 2018		591,913
Fuel (rouble-denominated)		48,255
Fuel (volume growth)		10,924
Other operating costs		40,211
Operating costs, 2017		492,523

Cost per Available Seat-Kilometre (CASK)

Total cost per available seat-kilometre (CASK) increased by 9.2% to RUB 3.42, which is explained almost exclusively by the growing jet fuel prices. To offset this price growth, the Company implemented a large-scale savings programme which led to controllable CASK (CASK excluding jet fuel) rising by only 0.7% to RUB 2.37. Taking into account the rouble depreciation against US dollar and euro, and the fact that a series of major cost items including operating lease, aircraft maintenance and repair, and airport taxes abroad are fully or partially denominated in foreign currencies, this programme may be considered a success.

CASK excluding specific fuel costs (RUB)

2018		2.37
2017		2.35
Change		0.7%

Total CASK (RUB)

2018		3.42
2017		3.13
Change		9.2%

EBITDAR and EBITDA

Following the impact of the above drivers, earnings before interest, taxes, depreciation, amortisation, and operating lease expenses (EBITDAR) amounted to RUB 122,479 million, while EBITDAR margin stood at 20.0% (22.9% in 2017).

In 2018, EBITDA totalled RUB 33,598 million. EBITDA margin decreased to 5.5% (10.5% in 2017). These changes reflect the fuel and FX pressure on the Company's performance, detailed earlier.

EBITDAR (RUB million) and EBITDAR margin (%)

2018	122,479	20.0
2017	121,808	22.9

EBITDA (RUB million) and EBITDA margin (%)

2018	33,598	5.5
2017	56,015	10.5

Finance income and costs

In 2018, finance income decreased by 41.6% year-on-year to RUB 4,164 million, which reflects lower foreign exchange gains and the general trend of lower interest rates in the Russian economy leading to lower interest income from placement of available cash.

Finance costs decreased by 3.9% year-on-year to RUB 7,904 million, mainly due to the reduction in loan interest expense following debt levels falling significantly in 2017.

The hedging result of RUB 6,788 million is the effect of revenue hedging with liabilities in US dollars (finance lease liabilities).

Non-operating profit and loss (RUB million)

	2017	2018	Change, %
Operating profit	40,411	19,657	(51.4)
Loss from investments, net	(144)	(689)	4.8x
Finance income	7,127	4,164	(41.6)
Finance costs	(8,225)	(7,904)	(3.9)
Hedging result	(5,613)	(6,788)	20.9
Share of results of associates	170	254	49.4
Results from disposal of companies	–	1,240	–
Profit before income tax	33,726	9,934	(70.5)
Income tax	(10,666)	(4,221)	(60.4)
Profit for the period	23,060	5,713	(75.2)

Cash flows

Condensed consolidated statement of cash flows (RUB million)

	2017	2018	Change, %
Profit before income tax	33,726	9,934	(70.5)
Depreciation and amortisation	14,084	12,912	(8.3)
Change in impairment provision	10,852	11,352	4.6
Foreign exchange loss/(gain), net	(2,409)	1,086	–
Hedging result	5,613	6,788	20.9
Interest expense	8,179	6,445	(21.2)
Interest income	(4,718)	(4,156)	(11.9)
Results from disposal of companies	–	(1,240)	100.0
Change in cost of investments	144	689	378.5
Other adjustments	(576)	(531)	(7.8)
Working capital changes and income tax paid/refunded	(17,463)	(23,784)	36.2
Net cash flows from operating activities	47,432	19,495	(59)
Deposits return	13,649	23,926	75.3
Deposits placement	(16,300)	(21,152)	29.8
Proceeds from sale of assets held for sale	1,856	4,203	126.5
Interest received	4,241	3,115	(26.6)
Purchases of property, plant and equipment, and intangible assets	(7,681)	(13,131)	71.0
Prepayments / return of prepayments for aircraft, net	18,343	10,080	(45.0)
(Repayment)/return of operating lease security deposits, net	114	(2,428)	–
Other	147	229	55.7
Net cash flows used in investing activities	14,369	4,842	(66.3)
Free cash flow	61,801	24,337	(60.6)
Placement of loans and borrowings	–	350	100.0
Repayment of loans and borrowings	(17,417)	(131)	(99.2)
Sale/(purchase) of treasury shares	9,730	(7,040)	–
Repayment of the principal element of finance lease liabilities	(15,513)	(21,955)	41.5
Interest paid	(4,762)	(5,207)	9.3
Dividends paid	(18,859)	(14,543)	(22.9)
Net cash used in / from financing activities	(46,821)	(48,526)	3.6
Effect of exchange rate fluctuations	(478)	1,922	–
Net increase/(decrease) in cash and cash equivalents	14,502	(22,267)	–
Cash and cash equivalents at the beginning of the year	31,476	45,978	46.1
Cash and cash equivalents at the end of the year	45,978	23,711	(48.4)

Cash flows from operating activities

In 2018, net cash flows from operating activities reached RUB 19,495 million while profit before income tax amounted to RUB 9,934 million.

The record growth of the average cost of jet fuel was also one of the main factors that impacted the 2018 profit before income tax.

Key non-cash adjustments of profit before income tax made to net cash flows from operating activities for 2018 were related to:

- changes in provisions, mainly attributable to accrual of the provision for scheduled maintenance and repair of aircraft, and the provision for doubtful accounts
- hedging result – the effect of revenue hedging with liabilities in foreign currency (reflection of the FX effect of finance lease revaluation in the reporting period)
- depreciation and amortisation.

Working capital

In 2018, working capital change was RUB 6,321 million. Increase in accounts receivable and prepayments in the amount of RUB 15,916 million had the most significant impact backed by the growth of revenue and prepayments made by Aeroflot under the operating lease of 18 aircraft in 2018.

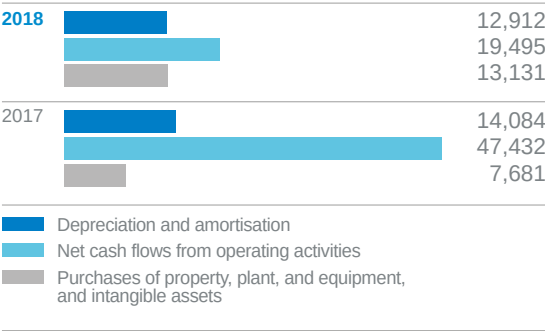
Cash flows from operating activities were largely affected by an increase in accounts payable and accrued liabilities, amid the growth in operating costs by 20.2% in 2018.

Free cash flow

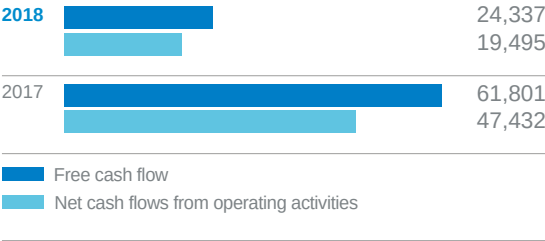
In 2018, free cash flow totalled RUB 24,337 million. The year-on-year decline was mainly due to the growing average cost of jet fuel. Prepayments for aircraft leased in 2018, repayment of operating lease security deposits, and growing capital expenditure were among other factors.

Cash and cash equivalents decreased by 48.4% to RUB 23,711 million, due to, among other factors, the effect of exchange rate fluctuations. Aside from the above factors, the decline in available cash was also attributable to the purchase of treasury shares in the amount of RUB 7,040 million in 2018 (in 2017, proceeds from the sale of treasury shares totalled RUB 9,730 million).

Purchases of property, plant and equipment, and intangible assets, cash flows from operating activities, depreciation and amortisation (RUB million)



Cash flows from operating activities and free cash flow (RUB million)



Capital expenditure

In 2018, purchases of property, plant and equipment, and intangible assets totalled RUB 13,131 million. Purchases of property, plant and equipment were mainly relating to aircraft and aircraft engine overhaul, and the procurement of aircraft engines, aircraft, and equipment.

Net capital expenditure (RUB million)

	31.12.2017	31.12.2018	Change, %
Purchases of PPE and intangible assets	(7,681)	(13,131)	71.0
Proceeds from sale of assets held for sale	1,856	4,203	126.5
Proceeds from sale of property, plant and equipment	88	93	5.7
Net capital expenditure	(5,737)	(8,835)	54.0

Non-current assets

In 2018, non-current assets increased by 10.4% and reached RUB 171,308 million due to an increase in prepayments for aircraft and other non-current assets, mainly following higher prepayments to organise operating lease transactions.

Current assets

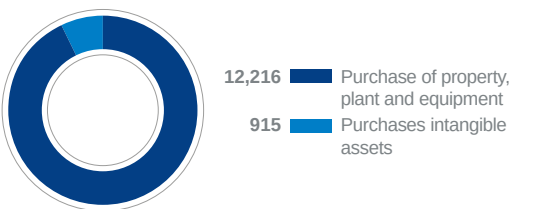
Current assets decreased by 13.6% to RUB 145,318 million. The change was mainly due to the reduction of cash and cash equivalents.

Equity

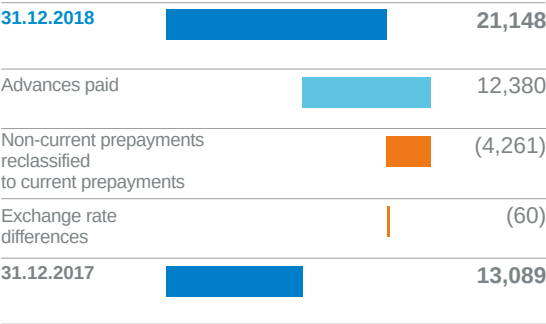
In 2018, equity, including non-controlling interest, decreased to RUB 45,335 million (RUB 67,299 million in 2017).

The key reason behind this change was a RUB 8,698 million increase in the hedging reserve, which comprised revaluation of derivatives under IAS 39 and revaluation of finance lease liabilities. Furthermore, the equity was impacted by a RUB 7,040 million increase in treasury shares reserve due to the purchase of treasury shares from voting shareholders who voted against a significant interested party transaction (operating lease of 50 new MC 21 300 airliners) or did not vote on this matter.

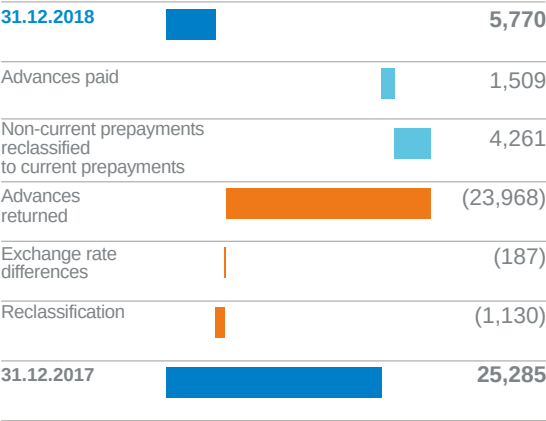
Purchases of property, plant and equipment, and intangible assets in 2018 (RUB million)



Change in prepayments for aircraft (non-current portion) (RUB million)



Change in prepayments for aircraft (current portion) (RUB million)



Current liabilities

In 2018, current liabilities increased by 11.1% (by RUB 15,709 million). The change was due to an increase in unearned traffic revenue, liabilities related to assets classified as held for sale, and deferred revenue related to the frequent flyer programme by RUB 6,179 million, RUB 4,413 million, and RUB 2,366 million respectively.

Non-current liabilities

The main changes in non-current liabilities were related to a decrease in finance lease liabilities in the amount of RUB 6,669 million mainly due to the disposal of aircraft, and to an increase in provisions for liabilities in the amount of RUB 6,804 million primarily due to an increase in provisions for scheduled maintenance and repair.

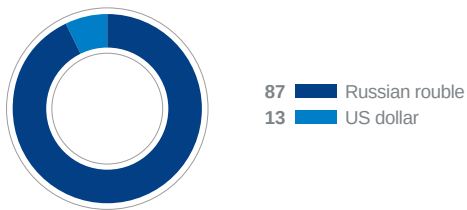
Debt and liquidity

As at 31 December 2018, total debt decreased by 6.8% year-on-year to RUB 97,618 million driven by lower finance lease liabilities following a disposal of 12 aircraft and a transfer of several aircraft into assets held for sale. In 2018, Aeroflot Group had RUB 84.2 billion undrawn credit lines from major Russian and international banks.

Debt (RUB million)

	31.12.2017	31.12.2018	Change, %
Loans and borrowings	3,181	3,486	9.6%
Finance lease	100,689	93,224	(7.4)%
Pension liabilities	922	908	(1.5)%
Total debt	104,792	97,618	(6.8)%
Cash, cash equivalents, and short-term investments	54,909	30,148	(45.1)%
Net debt	49,883	67,470	35.3%
Net debt/EBITDA ratio	0.9x	2.0x	—

Breakdown of loans and borrowings by currency as at 31 December 2018 (%)

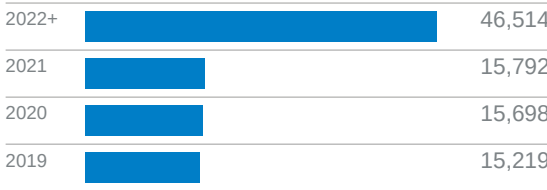


Net debt/EBITDA ratio

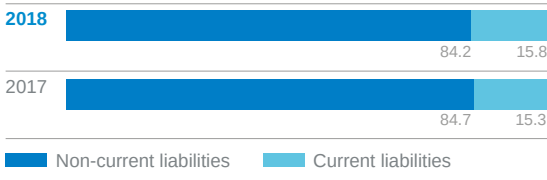


Note. Excluding operating lease capitalisation

Finance lease repayment schedule (RUB million)



Breakdown of total debt



At the Height of Quality

Sustainable Development

Aeroflot acts in the interests of all stakeholders, and participates in charity and environmental protection projects. Throughout its 95-year history Aeroflot has actively contributed to Russia's economic and social development by providing interregional and international air transportation.

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Approach to Sustainable Development

As Russia's largest carrier and one of Europe's leading airlines, Aeroflot Group is fully aware of its responsibility to society and is committed to sustainable development, striving to conduct its business with due respect for the interests of all stakeholder groups, including passengers, employees, shareholders, and investors.

Aeroflot complies with all applicable HR and HSE legislation in its commitment to meeting the highest global standards for corporate social responsibility.

The Company is additionally committed to supporting the SkyTeam Corporate Social Responsibility Statement by achieving sustainable economic prosperity, protecting the natural environment, and promoting social responsibility towards employees.

PJSC Aeroflot's Public Council continued its work in 2018. The Council is a consultative and advisory body helping the Company formulate its policy on key sustainability issues with due regard for the interests of society. The Council consists of 24 members who serve as unpaid volunteers. They include people from the business community, mass media, civil society organisations, and industry associations, as well as artists, and athletes.

The Public Council produces recommendations concerning industry regulation and development for government bodies. The Public Council helps Aeroflot promptly address the interests of society, make suitable strategic decisions following changes in the external environment, and consistently enhance service offerings in response to the requests of passengers and the general public.

In 2018, meetings of the Public Council focused on the new Aeroflot Group Development Strategy 2023, titled 100 Million Passengers by Our 100th Anniversary (100 by 100). The Public Council also discussed the prospects of the flat fare programme run by Aeroflot since 2015 providing affordable connections to Far Eastern cities, Simferopol, and Kaliningrad.

Yet another important topic discussed at the Public Council meetings was strengthening compliance with air transport rules. Aeroflot strengthened its carry-on baggage control, compliance with the rule prohibiting boarding later than 20 minutes before departure, and introduced measures that would help prevent disruptive passenger behaviour.

Aeroflot also supports some of the United Nations' Sustainable Development Goals, which are expected to be achieved by 2030:

GOAL	DESCRIPTION	AEROFLOT GROUP'S ACTION
 Gender Equality	Achieve gender equality and empower all women.	Preventing discrimination for employees, including gender-based discrimination. Encouraging the professional growth of women in all fields, including piloting: over 60 female pilots were employed by Aeroflot Group in 2018.
 Decent Work and Economic Growth	Promote inclusive and sustainable economic growth, employment, and decent work for all.	Offering decent salaries, creating a safe working environment, and providing growth and development opportunities for employees. A wide range of employee benefits: → Medical insurance → Occupational pension scheme → Company-owned housing and vehicles → Resort therapy.
 Industry, Innovation, and Infrastructure	Build resilient infrastructure, promote sustainable industrialisation, and foster innovation.	Carrying out initiatives improving transport accessibility across Russia's regions: → Participating in a programme offering government-sponsored flights between the Far East and European Russia → Offering flat fares for economy class flights to remote regions → Increasing the number of inter-regional flights. Digitalisation of the Company.
 Sustainable Cities and Communities	Make cities inclusive, safe, resilient, and sustainable.	Supporting Russian regions. Supporting vulnerable groups. Promoting culture and sports.
 Responsible Consumption and Production	Ensure sustainable consumption and production patterns.	Introducing resource-saving processes and technology. Engaging in waste management and recycling. Opting for environmentally responsible sourcing.
 Climate Action	Take urgent action to combat climate change and its impacts.	The Energy Saving and Environmental Performance Programme aims at a 42% reduction in specific fuel consumption by 2020 from 2007 levels: → Fully monitoring and recording GHG emissions throughout the route network → Controlling and fine-tuning fuel systems to ensure compliance with permitted toxicity and smoke levels → Optimising the route network and rolling out new piloting techniques to reduce noise and air pollution → Replacing outdated energy-intensive aircraft types with new assets offering enhanced fuel efficiency.
 Partnerships for the Goals	Revitalise the global partnership for sustainable development.	Aeroflot has a Public Council that comprises prominent figures in Russian culture, education, healthcare, sports, mass media, business, civil society organisations, and human rights groups. Social partnership with trade unions Following SkyTeam's CSR principles and commitments

Corporate values



CUSTOMER TRUST

Each airline within our Group guarantees its customers faultless safety and a high quality service at all stages of air travel.

We strive to exceed the expectations of our customers and do everything possible to ensure that our customers come back to us again and again.

We work hard every day to ensure the highest safety level.

We are a close-knit team of professionals who cannot imagine life without wings.

We are always open to innovation, initiatives, and new knowledge in order to develop and move forward.

We comply with the labour laws, creating a safe working environment for our employees while requiring our suppliers and contractors to do the same.

We respect our colleagues and are always ready to engage in a constructive dialogue in order to achieve results.

We provide a stable working environment with equal opportunities for learning and personal growth.



TEAMWORK



RESULTS FOR SHAREHOLDERS

Our goals are to achieve sustainable and dynamic growth, increase the Company's value, and provide a stable income to our shareholders.

We are committed to high standards of corporate governance and business ethics.

We are a company with transparent reporting and are always open to our partners and shareholders.



SOCIAL RESPONSIBILITY

We care about the environment and are continuously improving our energy and environmental efficiency, using a modern and young aircraft fleet and the most advanced technology while ensuring compliance with Russian environmental laws.

We are fully aware of our responsibility to society and actively participate in socially important and charitable projects, efficiently working with local and national non-profit organisations.

We actively participate in developing the Russian air transport network and creating new jobs in Russian regions.

We support and actively participate in developing the Russian aircraft manufacturing industry.

HR Policy

Aeroflot Group is the leading employer in the industry, providing more than 41 thousand jobs in Russia and abroad. Aeroflot Group companies strive to provide their employees with ample professional and personal growth opportunities, offering decent salaries, a range of employee benefits, and social benefits and privileges. Aeroflot improves its incentive schemes and works on making its compensation package even more attractive.

The HR policy followed throughout Aeroflot Group airlines is based on an acknowledgement of the criticality of human resources. Aeroflot Group pays much attention to attracting and retaining employees, as well as to ensuring their professional development. The strategic goal of its HR policy is to improve performance and labour productivity by building a unique team of highly professional and engaged employees. Building corporate culture as a competitive edge is one of Aeroflot Group's priorities.

In 2018, Aeroflot for the fourth time won the Randstad Award as the most attractive Russian employer in the Transport category.

Personnel structure

As at 31 December 2018, the total headcount of Aeroflot Group was 41,299 employees, having increased by 5.8% year-on-year (39,051 employees as at 31 December 2017). The increase was driven by the fleet and route network expansion.

As at 31 December 2018, PJSC Aeroflot's headcount was 24,261 employees, which represented a 5.5% increase year-on-year (22,991 as at 31 December 2017).

Women account for 52% of Aeroflot Group's total headcount. The parent company, PJSC Aeroflot, employs 12,765 women who work in all kinds

PRIORITY AREAS OF THE HR POLICY:

- Identify candidates, including for cockpit and cabin crew positions
- Retain highly skilled employees and improve employee loyalty
- Provide timely training and retraining, including for working on board new types of aircraft
- Build up a talent pool
- Conduct employee certifications
- Develop incentive systems
- Provide employees with social benefits
- Strengthen the Group's positive image as the leading employer in the air transportation market.

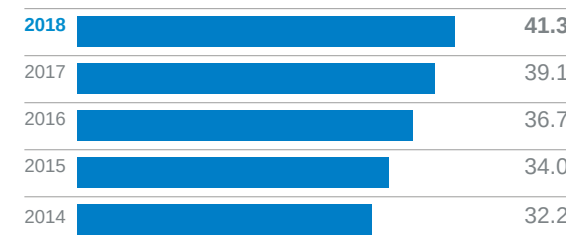
PJSC Aeroflot has in place the Corporate Conduct Code, a list of ethical and moral standards. The Company respects employees' rights and freedoms, provides equal opportunities, and guarantees protection from any form of discrimination defined by both Russian and international law. Aeroflot prohibits any partiality to political, religious, national, or other grounds when implementing its HR policy, remuneration policy, and providing social benefits. The Company has never used, and does not tolerate, child, compulsory, or forced labour.

of fields: flight attendants, repair and maintenance staff, tickets sales and distribution employees, and pilots. As at the end of 2018, 54 female pilots were employed by Aeroflot airline, five by Rossiya airline, and four by Aurora airline.

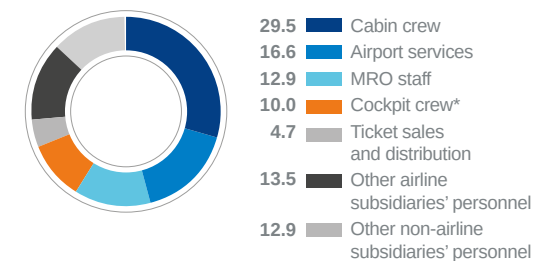
As at 31 December 2018, PJSC Aeroflot employed 44 international pilots (including citizens of Belarus, Czech Republic, Azerbaijan, Hungary, Luxembourg, and Serbia).

Personnel turnover at PJSC Aeroflot in 2018 was 7.3% (6.8% in 2017).

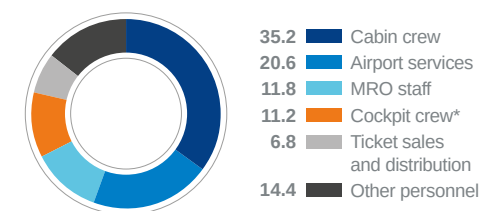
Aeroflot Group's headcount (thousand people)



Aeroflot Group's headcount by category, 2018 (%)



PJSC Aeroflot's headcount by category, 2018 (%)



Aeroflot Group's headcount by gender, 2018

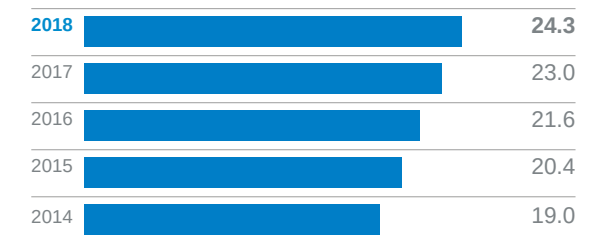


* Includes pilots-in-command, co-pilots, and other flight crew members (flight engineers, pilot instructors, and others).

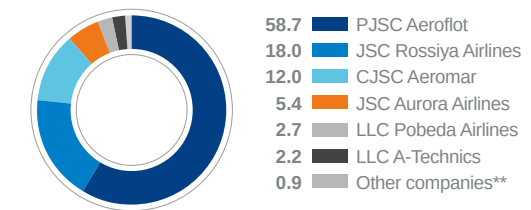
** JSC Sherotel, Aeroflot Aviation School, LLC Aeroflot-Finance, and JSC Donavia.

Note. Headcount and personnel as at 2018 year-end.

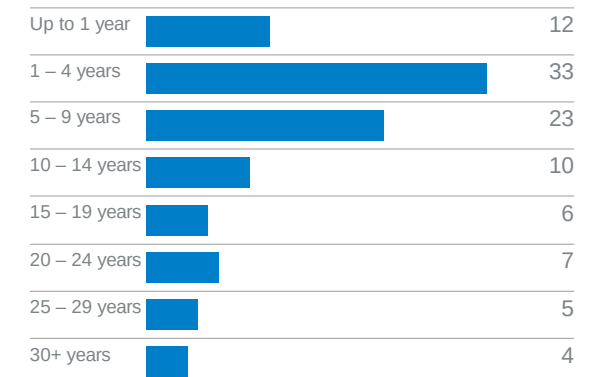
PJSC Aeroflot's headcount (thousand people)



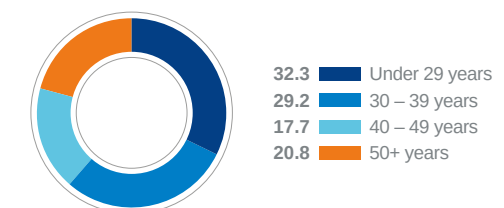
Aeroflot Group's headcount by company, 2018 (%)



PJSC Aeroflot's headcount by tenure, 2018 (%)



PJSC Aeroflot's headcount by age, 2018 (%)



Women employed by PJSC Aeroflot

12,765 women
52.6%
of the total headcount

FEMALE COCKPIT CREW MEMBERS

9
Pilots-in-command

15
Flight crew training team members

30
Co-pilots

54 women
2.1%
cockpit crew members

FEMALE CABIN CREW MEMBERS

6,562
Flight attendants

295
Senior flight attendants

122
Flight attendant instructors

14
Senior flight attendant instructors

6,993 women
82%
of all cabin crew members

FEMALE EMPLOYEES AWARDED WITH GOVERNMENT AND INDUSTRY AWARDS

16
Government awards

293
Industry awards from the Russian Ministry of Transport

4
Awards from the Russian President

419
PJSC Aeroflot's highest award, the Aeroflot Excellence badge of honour

732 women

Recruitment

Recruitment aims to build up teams for the Company's business units in a timely manner and without compromising quality. Aeroflot follows careful recruitment procedures and implements new assessment methods. Aeroflot Group's search, recruitment, and selection processes are governed by internal regulations. When recruiting, the Company uses its official website, corporate intranet portal, job search engines, mass and social media. It also hires through public employment services. Aeroflot collaborates with relevant higher educational institutions and colleges and educational centres offering vocational education, and takes part in job fairs and career forums and expos.

Heads of units actively participate in the professional assessments of candidates and HR decision-making. Automated recruitment procedures help speed up the recruitment process and increase its quality.

Internal candidates and employees from the talent pool are given priority. The Company is thus expanding career growth opportunities for its employees.

Targeted training programme and Personal Scholarship

PJSC Aeroflot develops partnerships with educational institutions to attract promising young professionals and improve the quality of training for its future employees. Since 2013, PJSC Aeroflot has been successfully involved in a targeted training programme funded from the federal budget. Aeroflot airline concluded contracts for targeted training with three aviation universities: the Saint Petersburg State University of Civil Aviation, Ulyanovsk Civil Aviation Institute, and the Moscow State Technical University of Civil Aviation. Over this period, 347 students signed educational contracts for targeted training. PJSC Aeroflot employs 21 graduates of the targeted training programme.

The Company annually selects the best graduates of civil aviation educational institutions who will complete additional simulator training in compliance with its corporate standards. Moreover, PJSC Aeroflot's business units engage graduates of industry schools and universities for on-the-job training and internships. A total of 68 students underwent such training in 2018.

Since 2014, PJSC Aeroflot has been cooperating with seven civil aviation technical schools and universities under the Personal Scholarship project. Cooperation agreements have been signed with Ulyanovsk Civil Aviation Institute, the Saint Petersburg State University of Civil Aviation, Buguruslan, Sasovo, and Krasny Kut Civil Aviation Schools, as well as Egorievsk and Kirsanov Civil Aviation Technical Colleges. Each year, PJSC Aeroflot allocates up to 50 personal scholarships of RUB 10,000 per month. So far, 235 students received corporate scholarships.



Aeroflot's History

In 1962, the legendary Iraida Vertiprakhova, later Honoured Pilot of the USSR, became the first female pilot to serve on Aeroflot's scheduled flights. Starting her career as a co-pilot on An 2 aircraft, in just two years she moved over to Il-14, and then, this time as pilot-in-command, to Il-18, and later to Tu-154 and Il-62.



Personnel training and development

Aeroflot Group invests in training to help employees fulfil their potential and ensure that they maintain great professional skills, keeping in line with international standards and the Federal Aviation Rules.

In 2018, PJSC Aeroflot arranged for training for 36,500 current and future employees (some of them completing more than one training programme) both in-house and externally across a range of training, retraining, professional development, and certification programmes. The Company's Department for Aviation Personnel Training delivered training to more than 953 people.

In 2018, Aeroflot's subsidiary, Aeroflot Aviation School, provided training to more than 33 thousand current and future PJSC Aeroflot employees.

RETRAINING AND PROFESSIONAL DEVELOPMENT COURSES MAINLY FOCUSED ON:

- ground handling and ground service operations
- flight attendant training
- pilot retraining on new aircraft types
- engineering personnel training
- aviation security
- regulations for hazardous cargo transportation
- occupational safety
- foreign languages, etc.

In 2018, training for more than 2,500 employees was arranged at external educational institutions and training centres under the following programmes:

- Compulsory operations personnel training (training for special-purpose vehicle drivers and coordinators of special-purpose vehicle access to aircraft at the Sheremetyevo airfield; training for state inspectors; training for electric car and forklift drivers; industrial safety, etc.)
- General training programmes (civil defence, environmental protection, environmental safety, etc.).

Aeroflot Group's subsidiary airlines provide training to employees in compliance with existing Russian and international industry standards. Specifically, Rossiya provided training to over 8,000 employees across different training programmes in 2018. Aurora provided training to over 4,000 people at its own aviation training centre, with more than 1,000 employees receiving training and completing professional development programmes at external educational institutions.

Pilot training

When hiring pilots with prerequisite qualifications (such as experience flying the aircraft types operated by Aeroflot airline), candidate pilots pass induction training in line with established flight crew training programmes.

Prior to employment, graduates of aviation-related educational institutions are to complete additional training:

- Specifics of flights on international routes
- Technical English
- Aviation English (ICAO Level IV)

The graduates undergo the following training following employment:

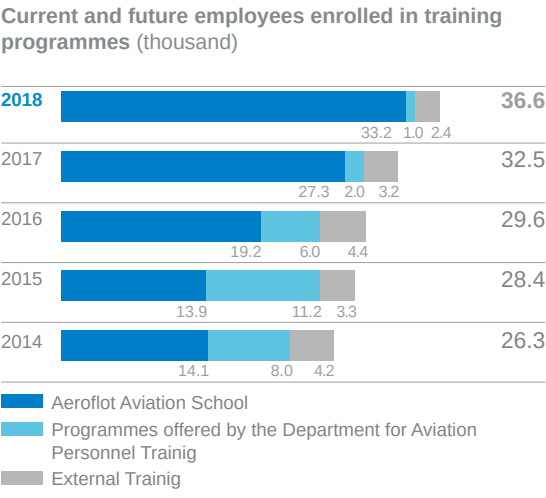
- Pilot retraining on Airbus A320, Boeing 737, or SSJ100 aircraft
- Additional training on Air Transportation of Dangerous Goods, Flight Safety Management System, Flight Crew Training on Human Factor and CRM, and Aviation Security
- Induction for co-piloting an aircraft.

To streamline graduate training, PJSC Aeroflot organised training for senior-year students of educational institutions.

The training is held at civil aviation educational institutions in Ulyanovsk, Saint Petersburg, Buguruslan, Krasny Kut, and Sasovo, helping to reduce the period from hiring a graduate to their unsupervised flying by three to nine months.

Training platform

PJSC Aeroflot uses its own training platform, providing training for cockpit and cabin crews of the carrier and its subsidiaries. PJSC Aeroflot's training platform is equipped with cutting-edge simulators and mock-ups produced both in Russia and abroad.



In 2018, annual simulator certification was arranged for, and held by, EASA bodies for the following simulators: FFS A320 Series 5000 and 7000, FFS A330, and B737 NG. In December, Aeroflot installed a new DT A350 Door Trainer. Training was organised and held by the supplier's experts.

Best in Trade professional skills competition

The Best in Trade professional skills competition is held annually and is a powerful means of motivating staff on a mass scale while enabling the highest-performing employees to be selected and promoted.

In 2018, Aeroflot won the HR Brand Award 2018 for efficient organisation of its Best in Trade professional skills competition.

Incentive system

Aeroflot considers developing employee incentives a priority for improving loyalty and retaining highly skilled employees to strengthen the Group's competitive edge. The system comprises financial and non-financial incentives. Aeroflot uses flexible incentive schemes and enhances its employees' compensation and benefits packages.

The Company's remuneration system takes into account position grades, business unit performance, regional labour market specifics, as well as each employee's personal contribution. The Company's senior management performance is assessed based on key performance indicators approved by the Board of Directors.

Attracting highly skilled pilots is one of the Company's key objectives. Aeroflot provides competitive pay levels for pilots as well as regular salary indexation and one-off incentive payments upon employment. Aeroflot also compensates pilot training expenses.

One of the special features of the competition is its ever-growing scale and scope. In 2018, over a thousand employees from 30 departments representing 30 trades participated in the competition. Aeroflot awarded winners in the following corporate categories – the Best Example of Aeroflot's Values in 2018, the Best Mentor in 2018, and the People's Choice on the Company's 95th Anniversary.

Talent pool

In 2018, PJSC Aeroflot continued building its talent pool. As part of building up its talent pool, the Company organises off-the-job and on-the-job professional development training for its managers while also ensuring temporary replacements for managers going on a business trip or vacation, and arranging external secondments for best practice sharing.

The Company actively develops non-financial incentives. In line with its collective bargaining agreement, Aeroflot rewards employees' high performance on industry holidays and national and corporate anniversaries.

To celebrate Aeroflot's 95th anniversary in air transport development and recognise high professional skills, PJSC Aeroflot's staff was awarded a Letter of Acknowledgement from the President of the Russian Federation in 2018. In 2018, 27 employees received government awards of the Russian Federation, and 244 received industry awards of the Russian Ministry of Transport and other agencies, while six employees were awarded a Letter of Acknowledgement from the President of the Russian Federation. Corporate awards were given to 1,200 employees, five of which were awarded the Aeroflot Excellence badge of honour, 521 were awarded the Certificate of Honour of PJSC Aeroflot, and 64 were awarded the Operational Excellence in Aeroflot badge.

Social programmes for employees of the Company

Concerning its employees, Aeroflot is fully committed to a socially responsible policy, which attracts qualified professionals, increases performance, improves the working environment, fosters higher staff loyalty and healthy working conditions, and maintains Aeroflot airline's and Aeroflot Group's profiles as socially responsible companies.

PJSC Aeroflot's social policy is based on both the collective bargaining agreement and the applicable regulations. On 10 August 2017, the collective bargaining agreement was extended until 1 December 2020 by the joint resolution of the Company and the employees' representative. All terms and conditions, guarantees, benefits, and privileges for employees were preserved in full. The employment package outlined in the collective bargaining agreement considerably exceeds benefits and compensations established by the applicable labour laws.

PJSC Aeroflot and its subsidiaries implement a number of social programmes contributing to the social security of employees.

Occupational pension scheme

PJSC Aeroflot runs a pension scheme based on joint participation of the employer and the employee. The occupational pension is funded by employees' monthly pension contributions, the Company's quarterly contributions made to individual retirement savings accounts, the annual investment income accrued on the employee's and the employer's contributions by a non-governmental pension fund.

Aeroflot's occupational pension scheme is coordinated by two corporate non-governmental pension funds, the Otkritie Non-Governmental Pension Fund (previously the Non-Governmental Pension Fund RGS until 28 December 2018) and the Non-Governmental Pension Fund of Sberbank. The corporate occupational pension scheme covers 6,200 employees. In 2018, Aeroflot paid an additional 20% of each personal contribution made by employees towards their own pension.

To attract and retain key pilots-in-command, the Company has in place a special pension plan, Golden Anchor. The Company also awards annual bonuses to employees' personal accounts in the corporate non-governmental fund. The bonus is increased annually for every year of employment with the airline.

In accordance with the Regulations on the Occupational Pension Scheme, the airline provides a corporate pension to a retiring employee in addition to the state-funded pension. As at the end of 2018, corporate pensions payments were being made to 4,200 former employees of the Company.

The Company runs its occupational pension scheme in parallel with an incentive scheme providing mandatory pension insurance through co-financed contributions to the cumulative part of the state-paid pensions. The employer matches 30% to 50% of a personal pension contribution made by insurance scheme participants.

Resort therapy

As part of the corporate resort therapy programme, employees and their families can go to health resorts located in different regions of Russia and abroad (in cases of medical necessity). In 2018, 3,800 people benefited from rehabilitation treatment provided by the Company at health resorts, including 797 children accompanied by their parents under the Healthy Child programme.

A special health rehabilitation programme for 420 pilots and flight attendants was set up in the Czech Republic. A total of 13 resorts were included in the 2018 programme.

In 2018, the resort therapy and wellness programme for employees and their families included voluntary health insurance programmes and a programme for prevention of occupational injuries and diseases.

Sports events

In 2018, sports facilities were rented for permanent sporting clubs where employees can play football, volleyball, hockey, and tennis. Aeroflot's sports teams successfully competed in futsal tournaments for the Civil Aviation Day, Aviation and Space Cup, and Aviation Industry Cup, as well as in the corporate futsal tournament. Aeroflot's hockey team played a friendly match against Yvon Lambert & LHL team from Canada. Fitness club memberships were also offered to Aeroflot employees throughout the year.

Corporate events

A number of events were organised to celebrate the 95th anniversary of Aeroflot, including a concert at the State Kremlin Palace and a large reception for former PJSC Aeroflot employees at a Novotel hotel.

Corporate housing for key employees

During the year, the Company's key employees from Russia's regions were provided with company-owned housing close to Sheremetyevo airport, with more than 1,600 employees benefiting from the free lease arrangements (flight crew members accounted for 85%). Most of the housing options are provided at Aeroflot's Flight Camp based at Ozero Krugloe Hotel Complex.

Company vehicles and corporate parking

Aeroflot provides company vehicles available for employee use to go to the Company's offices near Sheremetyevo airport. In 2018, around 3,600 Aeroflot employees used company vehicles on a daily basis.

The Company rents seven parking lots located near Sheremetyevo airport. In 2018, Aeroflot employees occupied an average of 3,200 parking spaces in corporate parking lots per day.

Financial assistance

In 2018, the Company provided financial support to 216 current and former employees in difficult circumstances.

Reimbursement for daycare costs

During 2018, daycare costs were reimbursed for 2,500 employees of the Company.

Additional employee benefits for flight crews

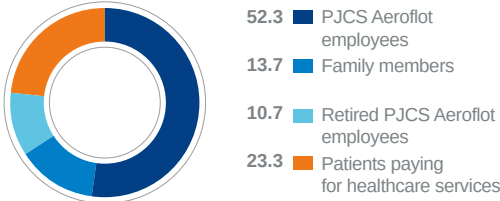
A number of additional employee benefits is provided to flight crew members, including:

- 70 days of paid annual leave, the longest in civil aviation
- special insurance programmes
- free access to diverse sports facilities for training.

Aeroflot's medical centre

PJSC Aeroflot has its own medical centre providing healthcare services to employees and their families, as well as retired employees. Medical services include aeromedical assessment, rehabilitation of cockpit and cabin crews, and pre-flight medical examinations. The medical centre comprises a polyclinic, an inpatient hospital, an outpatient surgery with a day hospital, and a medical laboratory. In 2018, the medical centre's polyclinic reported a total of 248,100 outpatient visits from 67,400 patients.

Patients registered at PJSC Aeroflot's medical centre, 2018 (%)



Subsidiary airlines

The subsidiary airlines have similar benefit programmes for their employees, including occupational pension schemes, resort therapy and vacation programmes for employees and their families, company vehicles and corporate parking lots, reimbursed rent for housing, cultural and sports events, and financial support for current and former employees.

Social partnership

Ten corporate trade unions representing four different trade unions operate within PJSC Aeroflot, including the Moscow Trade Union of Aviation Workers, the Sheremetyevo Trade Union of Flight Personnel, the Sheremetyevo Trade Union of Flight Attendants, and the All-Russian Trade Union of Civil Aviation Engineering Workers. The total headcount of all employees involved with trade unions is about 9,000 people. Employees' interests are represented by the United Representative Body of Aeroflot's employees, which comprises representatives of the majority of corporate trade unions.

Occupational health and safety

PJSC Aeroflot has in place an occupational health and safety system compliant with applicable regulations and international best practice. The Company has a certificate confirming its compliance with regulatory occupational safety requirements and strives to eliminate occupational injuries and diseases while implementing measures preventing hazardous situations.

The Company regularly arranges health and safety trainings with a focus on occupational diseases and injury prevention. To prevent occupational diseases, employees pass regular medical examinations.

There were 27 accidents in 2018. The injury frequency rate (the number of injuries per 1,000 employees) was 1.27 FTEs. The injury severity rate (the number of work days lost per injured person) was 29.0 in 2018.

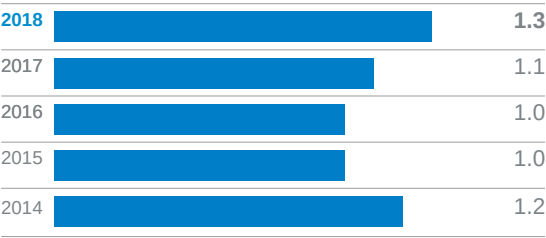
As at the end of 2018, in accordance with Federal Law No. 426-FZ On Special Assessment of Working Conditions, PJSC Aeroflot carried out special assessments of 6,085 workplaces, 4,449 of which were found to have acceptable working conditions. Employees receive a 4% to 24% premium on their salary when a safety assessment has revealed exposure to harmful working conditions. The cockpit crew, senior flight attendants, flight attendants, flight attendant instructors, flight attendant evaluators, and other flight crew members who work on board a flying aircraft are entitled to a 24% premium for their working conditions.

Work and rest schedule for cockpit and cabin crews

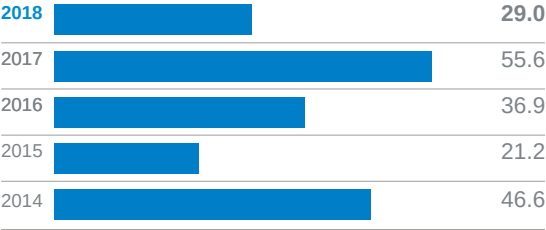
Work and rest schedule for cockpit and cabin crews is determined in line with the applicable Russian regulations and the Regulations on the Work and Rest Schedule for Cockpit and Cabin Crews of PJSC Aeroflot.

The total flight duration in all aircraft types must not exceed 80 hours per month and 800 hours per calendar year. With the employee's written consent, the total flight duration can be increased to 90 hours per month and 900 hours per calendar year. Cockpit and cabin crew members are provided with additional payments and vacation days for exposure to harmful and/or hazardous working conditions.

Number of injuries per 1,000 employees of PJSC Aeroflot (people)



Number of work days lost (per injured person) at PJSC Aeroflot



Number of workplaces subject to special assessments of working conditions



Supporting Charities and Regional Development

As a socially responsible business, PJSC Aeroflot runs many charitable programmes. Aeroflot Group airlines participate in programmes improving transport accessibility, which subsequently contributes to the economic and social development of Russia's regions, and provide support to cultural and sports initiatives. Aeroflot Group plays an active role in local community life, providing both continuous support to charities and assistance to socially-oriented initiatives. The Company provides support to vulnerable groups, including children and veterans. The Group's subsidiaries contribute to charity campaigns initiated by Aeroflot airline and provide aid in the regions in which they operate.

Aeroflot is always ready to provide aid to Russian citizens in need in all corners of the world, whether amid armed conflicts or natural disasters. The Company's aircraft have repeatedly evacuated people from flashpoint areas along with the airplanes from Russia's emergency response service (EMERCON).

Improving accessibility to Russia's regions

Improving accessibility to Russia's regions, including remote destinations, and enhancing social mobility remains a major priority for Aeroflot. Aeroflot airline has an extensive route network and supports a government-sponsored programme that maintains airline passenger services between the Far East and European Russia.

Aeroflot airline has been running a flat fare programme since 2015. Flat rates are fixed prices for economy class tickets that do not change depending on the date when the tickets are bought. All passengers regardless of age and place of residence can enjoy the flat rates. The only aim of Aeroflot's flat rates is to make social impact. That is, to provide stable and affordable connections between remote and strategic regions and the central part of European Russia. Today, flat rates are available for Aeroflot flights from Moscow to Vladivostok, Yuzhno-Sakhalinsk, Khabarovsk, Petropavlovsk-Kamchatsky, Magadan, Simferopol, Kaliningrad, and back. Rossiya airline joined the programme in 2018, providing a major boost in the overall passenger traffic to the Far East.

Aeroflot airline extended the flat rates programme for Far Eastern destinations through to 2019, both for Aeroflot and Rossiya flights. A total of 2.2 million passengers were carried under the flat rate programme in 2018 (including Rossiya flights), a 41.3% increase from 2017, and a total of 6.8 million passengers have been carried under the programme since 2015.

Aeroflot Group places a special focus on expanding its domestic route network. Specifically, Aeroflot launched flights in 2018 from Moscow to the North Caucasus (Vladikavkaz, Grozny, Makhachkala, Nazran, and Nalchik) and to Izhevsk and Ulyanovsk in the Volga region.

Aurora carried 75,700 passengers on socially important flights within the Sakhalin Region and 35 thousand passengers to destinations within the Primorsky Region. Since June 2018 (the commencement of flights), the company carried 19,700 passengers within the Khabarovsk Region. The total passenger traffic on the local flights (within a region) was 130,500 passengers (99,500 passengers in 2017).

Support to charities and socially-oriented campaigns

Miles of Mercy programme

Launched in 2008, Aeroflot's Miles of Mercy programme has already been running for ten years. The programme enables the Aeroflot Bonus programme participants to contribute their bonus miles to charity organisations: the Gift of Life charitable fund, the Life Line fund, the Russian Assistance Fund operated by Kommersant Publishing House, and the Vladimir Spivakov International Charity Foundation. The contributed miles are used to carry children with serious health conditions to countries and cities where they can receive required treatment. In 2018, a total of 4,895 tickets and 122 million bonus miles were donated to support the activities of charitable organisations.

Tickets issued under the Miles of Mercy programme

2018	4,895
2017	6,173
2016	6,917
2015	6,829
2014	5,730

Train of Hope

In 2018, Aeroflot once again provided support to the Children's Flight of the Train of Hope initiative organised by Radio Russia as part of its Child's Question project. The Train of Hope is a charity programme helping children deprived of parental care to find new families. The Company arranges free air transportation for both the children and prospective adoptive parents.

Orphanage support

During 2018, the Company continued to support two orphanages: the Pokrov Orphanage in the Vladimir Region and St Sergius Boarding School in the Sergiev Posad District in the Moscow Region. A total of RUB 17 million went towards charitable support for orphanages in 2018.

For the Pokrov Orphanage children, Aeroflot organised holidays at a recreational camp, set up a street workout park, renovated the orphanage building, and purchased medical equipment, furniture, and computers. The Company also bought presents for the children in the days leading up to New Year's celebrations.

Aeroflot also arranged renovations for St Sergius Boarding School and bought a coach bus for the children. The Company organised Kudo and football master classes and a charitable arts and crafts show featuring the children's work.

Targeted aid

In 2018, Aeroflot provided financial support to the Celebrities Help Children (Zvezdy Detyam) Foundation, the Russian Geographical Society, the Contemporary Arts Development Fund (CADF), the Russian Union of Industrialists and Entrepreneurs (RSPP), and the Tarasov Golden Puck Club.

The Company also provided support to the Alina Kabaeva Charitable Foundation, which held Alina, an annual rhythmic gymnastics festival for talented children from across Russia. The children and their caregivers were offered airline tickets at discounted rates.

The Company provided a promotional advertising campaign for Run for Help, a charity run that raises money to help children with cancer.

After the fire in Kemerovo, Aeroflot temporarily froze ticket prices for flights between Kemerovo and Moscow, offering economy class tickets at minimum rates. Aeroflot also arranged for free flights to Moscow for families of victims of the Kerch college massacre.

Annual Victory Day campaign

For the celebrations of the 73rd anniversary of Victory Day, Aeroflot once again organised a campaign for veterans of the Great Patriotic War (WWII) from 3 to 12 May 2018. Aeroflot was the first Russian carrier to start the tradition of offering free flights to Great Patriotic War veterans back in 2001. About 80 thousand veterans have benefited from the campaign since its launch.

Aeroflot's subsidiary Rossiya actively participated in memorial events to commemorate the lifting of the Siege of Leningrad, including visits to the Russia – My History historical park and other guided tours. In commemoration of Victory Day, Great Patriotic War veterans also received financial aid.

Charitable support for the Great Patriotic War veterans among retired Aeroflot employees

Aeroflot provides monthly food packages to its retired employees who took part in the Great Patriotic War. A total of RUB 8.7 million went towards veteran food packages in 2018.

Support for passengers in urgent need of reaching their destination due to extraordinary circumstances

Aeroflot provides support to passengers in urgent need of reaching their destination due to extraordinary circumstances. The programme covers higher-demand domestic flights in which the least expensive economy booking classes have been sold out.





Professional Football Club CSKA

Cultural and social development

Aeroflot collaborated with Sheremetyevo International Airport to hold International Children's Day events for young passengers. Aeroflot and Sheremetyevo participated in Russia's Night of Museums: the Aeroflot Museum and the History Museum of Sheremetyevo organised an exciting event for aviation enthusiasts of all ages.

The Company also continued providing support to ROSKINO film production company, which aims to promote Russian films across international film festivals. In 2018, Aeroflot also provided support to Together Against Corruption international youth initiative held by the Prosecutor General's Office of the Russian Federation.

Aeroflot's subsidiary airlines also run social development and charity projects in the regions where they operate. For example, Aurora participated in the Wings of Sakhalin aviation and music festival in 2018, as well as town parades to celebrate Yuzhno-Sakhalinsk and Artyom town days. Also, guided tours to the local airport were organised for airline employees' children and students of Yuzhno-Sakhalinsk schools, whereby the children had a chance to visit a number of aircraft.

Sponsorship

In 2018, Aeroflot continued to sponsor both sports organisations and cultural projects. The Company allocated a total of RUB 1.8 billion for sponsorship support, maintaining a similar amount to contributions in previous years (RUB 2.0 billion in 2017).

PJSC Aeroflot has been providing support to Russian sports for many years. In 2018, the Company continued providing flight services to sports teams and the Olympic team. Aeroflot is a partner of, and provides support to:

- The Olympic and Paralympic Committees of Russia
- The Football Union of Russia
- The Russian Cycling Federation
- The All-Russian Federation of Dancesport and Acrobatic Rock'n'Roll
- The Russian Basketball Federation
- The Russian Volleyball Federation
- The Russian Table Tennis Federation
- The Russian Golf Association
- The Russian Rugby Federation
- The Russian Boxing Federation.

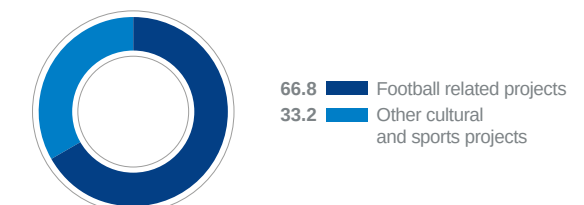
In 2018, Aeroflot and Aurora carried Russian Olympic athletes to South Korea for the XXIII Olympic Winter Games.

Aeroflot has been the official carrier of CSKA Professional Football Club and CSKA Professional Basketball Club for many years. Thanks to the enhanced visibility of the Aeroflot brand at games played by CSKA teams, the Company has access to the club's multi-million fanbase.

In 2018, in conjunction with the Russian Chess Federation, Aeroflot held the Aeroflot OPEN international chess tournament, which has gained immense popularity among international chess players over the 16 years of its existence.

Also, Aeroflot provided support to Otradnoe show jumping club, which hosted a Show Jumping World Cup stage.

PJSC Aeroflot's sponsorship programme expenses in 2018 (%)



For the third time, the Company also supported the Golden Gramophone, Russia's national music award, in 2018.

In the global market, Aeroflot airline is raising its recognition as a premium carrier through its partnership with Manchester United FC.

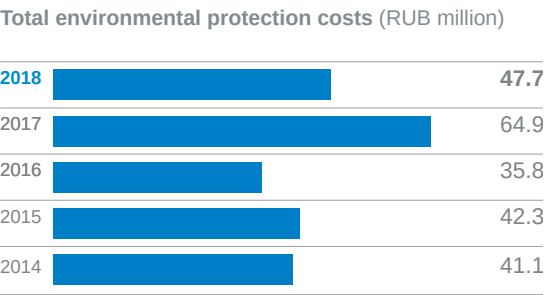
Ecology and Environmental Protection

As Russia's leading carrier, PJSC Aeroflot is fully aware of its responsibility to ensure high environmental performance and sustainable development across all its activities.

PJSC Aeroflot's environmental policy is aimed at improving the energy efficiency and environmental performance. One of its key principles is to improve aircraft fuel efficiency, which helps reduce the airline's environmental footprint while cutting fuel costs – a major contributor to overall operating expenses.

PJSC Aeroflot has in place an environmental management system. In 2018, the Company's integrated management system successfully passed a certification audit, confirming its compliance with ISO 9001 and 14001 international standards. The audit was carried out by certification agency TÜV Rheinland and assessed compliance with ISO 9001:2015 (Quality Management Systems) and ISO 14001:2015 (Environmental Management Systems).

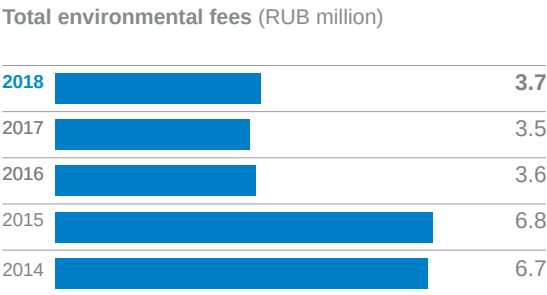
Rossiya airline also successfully passed a certification audit for compliance with ISO 9001:2015. In 2018, Aurora airline successfully passed IATA Operation Safety Audit (IOSA), thus remaining IOSA registered.



In line with its environmental policy, the Company established goals and objectives, as well as developed and implemented environmental management procedures.

Key aims of Aeroflot's environmental policy:

- Maintaining and improving the environmental management system
- Improving the energy efficiency of its operations through fleet upgrades and replacing outdated energy-intensive types of aircraft with new assets offering enhanced fuel efficiency
- Optimising the route network and rolling out new piloting techniques to reduce noise pollution and cut emissions from aircraft engines
- Managing waste with a focus on recycling to minimise the environmental impact
- Monitoring, analysing, and benefiting from new opportunities to improve environmental performance
- Raising environmental awareness, promoting resource efficiency, and building a recycling culture among PJSC Aeroflot's employees



In pursuance of Executive Order of the President of the Russian Federation No. 889 On Selected Measures to Improve Energy and Environmental Efficiency of the Russian Economy dated 4 June 2008, the Company continues to implement its Energy Saving and Environmental Performance Programme until 2020.

Its energy saving activities will help PJSC Aeroflot save up to 1.5 million tonnes of fuel every year and decrease specific fuel consumption by 43.6% by 2020.

PJSC Aeroflot's total environmental protection initiatives amounted to RUB 47.752 million in 2018.

Quality management system

PJSC Aeroflot has in place a management system, with the quality management system (QMS) as its core element. To keep up with internal, national, and international standards, Aeroflot's QMS Department is working to improve the Company's quality management programme. The system helps ensure that the products and services offered by PJSC Aeroflot's business units and suppliers comply with its flight safety, aviation security, and service quality requirements.

Aiming to mitigate risks that can impact quality and flight safety, PJSC Aeroflot holds memberships with the following IATA pools:

- IFQP (IATA Fuel Quality Pool)
- DAQCP (De-Icing/Anti-Icing Quality Control Pool)
- ISAGO (IATA Safety Audit for Ground Operations Pool)

Aeroflot Group enhances its QMS by improving upon its KPI-based performance evaluation framework and compliance with internal and external management system standards applied by IATA, SkyTeam, and Aeroflot Group.

Seeking to further improve Aeroflot Group's QMS in 2018, Aeroflot:

- monitored its subsidiary airlines' compliance with Aeroflot Group's requirements
- advised the airlines and provided guidance on preparing for IOSA and ISO certification audits
- coordinated and controlled compliance with the EU ETS requirements
- coordinated and monitored activities necessary for ensuring compliance with CORSIA, the Carbon Offsetting and Reduction Scheme for International Aviation.

To further improve its QMS, PJSC Aeroflot implements innovative management approaches and streamlines its internal processes while using tools that are unique in the Russian air transportation market. These efforts improve service quality and ensure a high level of flight safety.

Fuel efficiency and air quality initiatives

Managing fuel efficiency is one of the Company's top priorities. PJSC Aeroflot seeks to improve its fuel efficiency and contribute to a reduction in GHG emissions. Almost the entire Aeroflot fleet complies with ICAO standards for noise levels and atmospheric pollution.

PJSC Aeroflot's system for monitoring and measuring CO₂ emissions ensures compliance with Russian and European requirements for monitoring, reporting, and verifying GHG emissions. PJSC Aeroflot's CO₂ monitoring and reporting system covers its entire route network.

In 2018, PJSC Aeroflot had a verification of its 2017 annual emission report, following which the CO₂ emissions were compensated through purchasing required EU ETS allowances.

Aeroflot develops annual fuel efficiency and cost-cutting programme while upgrading its fleet on a regular basis to further improve its fuel efficiency and reduce CO₂ emissions.

The following activities were carried out in 2018:

- Introducing standard volumes for refuelling aircraft
- Minimising the difference between projected and actual revenue loads
- Centre-of-gravity control
- Optimal use of auxiliary power unit
- Lower fuel consumption through reducing water supplies on board
- Use of ground systems for pre-flight air conditioning of aircraft cockpit and cabins
- Improving aerodynamics through quality surface washing
- Improving engine efficiency through ramjet duct cleaning
- Reducing take-off weight by tracking the weight of kitchen equipment and onboard food and comfort items

These activities helped reduce fuel consumption by 14,678.9 tonnes, equal to decreasing CO₂ emissions by 46,341.3 tonnes.

Aeroflot provides passengers with information on its CO₂ footprint from flights: the corporate website has an online CO₂ calculator that estimates a passenger's environmental footprint from the flight.

Fuel efficiency and air quality initiatives across Aeroflot airline

	2014	2015	2016	2017	2018
Fuel consumption, tonnes	2,028,842	2,183,335	2,365,190	2,588,100	2,798,389
Specific fuel consumption, g/TKM	301.6	299.2	286.3	277.6	283.5
CO ₂ emissions, tonnes	6,390,852	6,877,505	7,450,348	8,152,515	8,806,136
Specific CO ₂ emissions, g/TKM	950.7	943.5	902.8	875.1	895.1

GHG emissions (CO₂ equivalent)

Year	Greenhouse gas emissions, tonnes CO ₂			Specific GHG emissions, g/RPK		
	Aeroflot	Rossiya	Aurora	Aeroflot	Rossiya	Aurora
2014	6,390,852	620,990	201,569	95.2	61.2	117.7
2015	6,877,505	384,095	223,437	92.7	44.2	119.4
2016	7,450,348	751,800	252,399	90.2	40.2	113.5
2017	8,152,515	2,076,649	267,800	88.9	36.8	113.2
2018	8,806,136	2,444,733	269,496	89.9	82.6	108.2

Carbon Disclosure Project (CDP)

In 2018, PJSC Aeroflot continued to receive an international Carbon Disclosure Project (CDP) rating for disclosing its climate change management and GHG emissions. Under the CDP, companies from across the globe make reports on their GHG emissions and climate change activities. CDP scoring is growing in popularity, both among companies and investors.

PJSC Aeroflot's CDP score (D) remained unchanged from the previous year. To improve its CDP score, PJSC Aeroflot plans to launch a number of initiatives aimed at creating a corporate system for managing GHG emissions. The system's mission will be to monitor direct and indirect GHG emissions and prepare and verify reports on these emissions, compliant with ISO 14064 requirements.

Sustainable water use

Aeroflot is working to ensure sustainable water use and a reduced impact on waterbodies.

In 2018, the Company renovated treatment facilities for stormwater flows from PJSC Aeroflot's Melkisarovo office building. The quality of wastewater and surface water discharged by the treatment facilities was monitored every month. No excessive concentrations of pollutants in the wastewater were reported in 2018. A report was produced from observing the waterbody and impact of the wastewater and drainage water discharged by the treatment facilities in 2017.

Aeroflot promptly discloses all the required environmental data on the use of water resources to environmental authorities.

In 2018, the Company assessed the air pollutant emissions at the paint facility of the Ground Handling Department. No excessive concentrations of pollutants were reported.

Water consumption by PJSC Aeroflot,* (thousand cubic metres)

	2016	2017	2018
Total:	134.2	135.4	154.1
from the public water supply network	134.2	135.4	154.1

Water discharge by PJSC Aeroflot,* (thousand cubic metres)

	2016	2017	2018
Total:	134.9	136.3	151.8
including treated water (surface drains from the office building, buildings, and structures)	1.2	1.4	3.1
sent to other companies for treatment (sewage)	133.7	134.9	148.7

* Data for Moscow and the Moscow Region. PJSC Aeroflot Annual Report 2017 only provides similar data for the Melkisarovo office building.

Reducing and disposing of industrial and commercial waste

Aeroflot has been setting up sites for industrial waste storage and selective waste collection. In 2018, the Company created new sites for waste storage differentiated by waste type and hazard class. The Company ran checks of the sites, including those for temporary storage of industrial waste, and recorded industrial and commercial waste volumes and movement on a quarterly basis. All the required reporting documents were provided to environmental authorities.

A total of 9.6 tonnes of paper and cardboard was handed over for recycling in 2018, which helped save 95 trees and reduce CO2 emissions by 16.3 tonnes.

Seeking to raise environmental awareness among its employees, Aeroflot regularly runs environmental workshops and webinars.

No critical industrial spills were registered at PJSC Aeroflot in 2018.

Total waste by hazard class (tonnes)

	2014	2015	2016	2017	2018
Total	9,066.3	9,777.2	8,852.8	8,365.7	9,207.7
including:					
hazard class 1	3.2	2.2	3.9	2.4	2.1
hazard class 2	5.7	1.4	4.8	6.4	5.3
hazard class 3	1,337.5	2,448.5	2,508.3	2,353.4	3,038.4
hazard class 4	7,320.1	6,919.6	5,643.7	5,352.1	5,434
hazard class 5	399.8	405.5	692.0	651.4	728

Total waste by disposal method (tonnes)

	2014	2015	2016	2017	2018
Handed over for recycling	7.7	4.7	8.1	3.879	8.95
Handed over for disposal	313.3	308.5	250.6	258.3	290.7
Handed over for neutralisation	1,188.7	2,325.6	2,430.1	2,847.7	5,877.9
Landfilled	7,556.6	7,138.4	6,164	5,255.8	5,504

Energy consumption by PJSC Aeroflot in 2018

	Actual consumption	
	by volume	RUB thousand (net of VAT)
Total aviation fuel, tonnes	2,824,654	126,412,869
Heat,* Gcal	42,965	70,459
Electricity,* kWh	29,546,700	130,665
Motor fuel, total, litres	5,726,270	227,347
Aviation lubricants, litres	292,293	213,901

* Excluding representative offices and branches.

Procurement

Aeroflot Group works with a wide range of suppliers and uses modern, competitive procurement practices. The Group prioritises equality, fairness, and non-discrimination while ensuring that no unreasonable and restrictive business practices are applied towards bidders.

OUR PROCUREMENT PRACTICES ARE BASED ON:

- information transparency
- targeted, cost-effective procurement of goods, works, and services, as well as focus on cost-cutting initiatives
- unlimited access to bidding through eliminating non-measurable bidder requirements
- equality, fairness, non-discrimination, and ensuring that no unreasonable and restrictive business practices are applied towards bidders.

Procurement activities at Aeroflot Group comply with Federal Law No. 223-FZ On Procurement of Goods and Services by Certain Legal Entities dated 18 July 2011, PJSC Aeroflot's Regulations on Procurement of Goods, Works, and Services, relevant policies of Aeroflot's subsidiaries, and other procurement-related regulations adopted by the Russian government.

KEY PROCUREMENT OBJECTIVES ARE TO:

- ensure timely and uninterrupted aviation fuel supplies
- meet the Company's product and service needs in time and in full
- ensure better value for money
- foster fair competition
- increase the share of competitive procurement
- increase the share of online procurement
- support SMEs.

In 2018, Aeroflot Group's procurement totalled RUB 750.5 billion. Competitive procurement accounted for 30.8% (by value), 86.8% of which was online competitive procurement.

Procurement highlights of Aeroflot Group

	2018
Total procurement in 2018, RUB million*	750,463
Competitive procurement (by value), %	30.8
Including competitive online procurement, %	86.8
Single source procurement, %	69.2
Savings on competitive procurement in 2018, RUB billion**	7.5
Average number of bidders	3
Procurement from SMEs, %	78.0

* The volume of purchases is calculated as total payments made during the reporting year under contracts signed as a result of procurement processes.
** The savings are calculated as the difference between the initial (maximum) price of the tender and the winning price, excluding tenders where the initial (maximum) price is calculated based on a given rate, tariff, or formula.

PJSC Aeroflot's procurement in the reporting period totalled RUB 544.4 billion. Competitive procurement accounted for 40.5% (by value). Competitive online procurement accounted for 88.36%, in line with the requirements of the Federal Agency for State Property Management (Instruction No. GN-13/1206 dated 21 January 2011).

Savings on procurement in 2018 totalled RUB 7.5 billion for Aeroflot Group and RUB 3.5 billion for PJSC Aeroflot.

Procurement from small and medium-sized enterprises

Aeroflot Group seeks to support small and medium-sized enterprises (SMEs). Aeroflot significantly increased procurement from SMEs in 2018, with the total value of contracts signed with SMEs during the year tripling, from RUB 6.8 billion in 2017 to RUB 20.6 billion in 2018.

Procurement from small and medium-sized enterprises (SMEs) accounted for 85.2% of the total in 2018, one of the highest levels among large federal-level customers.This share far exceeds the target set by Russian Government Resolution No. 1352 On Specifics of Participation of Small and Medium-Sized Enterprises in Procurement of Goods, Works, and Services by Certain Types of Legal Entities dated 11 December 2014, recommending that SMEs make up no less than 18% of a company's total annual value of contracts. Overall, this reflects the priority position of SMEs when selecting suppliers along with the specific needs of Aeroflot's business.

PJSC Aeroflot also provides support to SMEs and facilitates their access to its procurement. In 2018, the pilot SME partnership initiative aimed at facilitating proposal submissions for the Company's procurement processes was updated, and the workshop programme for SMEs was extended. To ensure accurate reporting on procurement from SMEs, the Company implemented a series of initiatives:

- Optimising the list of SME-specific procurement codes
- Holding working meetings with SMEs
- Developing subsidiary-specific partnership programmes
- Organising a series of regional workshops for SMEs, arranging meetings with potential suppliers and members of PJSC Aeroflot's pilot SME partnership initiative
- Participating in conferences dedicated to expanding SME access to the procurement processes of Russia's biggest customers

Aeroflot's initiatives proved to be successful and the Company has since been recognised by two letters of commendation from RSMB Corporation – Russian Small and Medium Business Corporation – for its significant contribution to the development of small and medium-sized businesses. In the future, the Company plans on increasing its share of supplies sourced from SMEs in overall procurement contracts, prioritising innovative and high-tech products.

Procurement highlights of PJSC Aeroflot

	2017	2018
Total procurement, RUB million	448,299.9	544,448
Competitive procurement (by value), %	62.3	40.5
Including competitive online procurement, %	61.1	88.4
Single source procurement, %	62.3	59.5
Savings on competitive procurement (excluding aviation fuel), RUB billion	5.3	3.5
Average number of bidders	3.3	3
Procurement from SMEs, %	89.4	85.2

In 2018, Rossiya subsidiary airline launched its SME partnership initiative. Under the initiative, Rossiya has committed to providing methodological support to SMEs on procurement practices, arranging workshops, conferences, and round tables, and notifying SMEs on its current and potential technological needs, planned short-term and long-term procurement volumes, and cooperation terms with maximum transparency. A partnership agreement with RSMB Corporation was also signed in 2018.

The Advisory Board, in charge of independent audits of PJSC Aeroflot's procurement efficiency, continued its activities in 2018. The Advisory Board includes representatives of NGOs, economists, industry scientists, and well-known procurement experts. Proceedings of the Advisory Board, including minutes of meetings, are published on the Company's official website at <https://www.aeroflot.ru/ru-ru/content/soveshchatelnyi-organ>.

Fuel procurement

The key priority of fuel procurement is ensuring timely and uninterrupted fuel supply to Aeroflot Group's aircraft while maintaining high flight safety and maximising fuel pricing efficiency. Fuel procurement optimisation at PJSC Aeroflot is supervised by the Fuel Commission.

At the Aeroflot Group level, fuel procurement terms are determined by agency agreements. PJSC Aeroflot makes a consolidated order covering the demand of all the Group companies and initiates fuel procurement processes. PJSC Aeroflot settles accounts for supplied fuel, fuel storage, and refuelling directly with its counterparties. These arrangements cover virtually all fuel needs of the Group's subsidiary airlines, excluding a small number of Russian airports (less than 2%) which are not contracted or alternate airports as well as airports where fuel procurement is part of integrated ground handling agreements. This fuel procurement system helps optimise aviation fuel expenses through large-volume purchases.

In 2018, we noted an unusual trend of simultaneous growth in global quoted petroleum product prices and the rouble depreciation against the US dollar, which resulted in increased fuel procurement expenses. PJSC Aeroflot implemented the following measures for fuel procurement:

- For procurement with formula-based pricing linked to macroeconomic variables (such as the Platts USD/RUB exchange rate), caps on settlement prices have been introduced so that they cannot exceed the prices of the Schedule & Tariffs Centre under the Transport Clearing House, which are based on the rates and tariffs at the relevant airport within the Russian Federation as at the date of aviation fuel supply (aircraft refuelling)
- Customised management of the most expensive contracts through monthly requests for additional discounts from aviation fuel suppliers

These measures aimed at additional discounts and caps on formula-based prices proved to be quite efficient in the second half of 2018, when calculated formula-based prices linked to macroeconomic variables started growing rapidly.

Since June 2018, PJSC Aeroflot has been actively engaging with ministries, agencies, and oil industry representatives to develop a global programme aimed at jet fuel price stabilisation and airlines' aviation fuel cost reduction.

In 2018, initial contracts with jet fuel suppliers mostly used formula-based pricing linked to macroeconomic variables (over 50% of jet fuel supplies at Russian airports and 100% of the supplies at the Sheremetyevo base airport). The use of price caps and additional discounts enabled a significant reduction in our overall aviation fuel costs.