

# Corporate Growth

7++

National Corporate Governance  
Rating scale

45.2%

Free float

## CORPORATE GOVERNANCE

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# Corporate Governance System

## Corporate governance framework and enhancement in 2017

PJSC Aeroflot recognises its high corporate, public, and social responsibility and undertakes to comply with high corporate governance standards set by Russian and international best practices to improve its sustainability and performance.

PJSC Aeroflot's corporate governance is based on the following core principles formalised by the Corporate Governance Code of PJSC Aeroflot:

- Ensuring the exercise and protection of shareholder rights
- Ensuring fair and equitable treatment of all shareholders in exercising their rights
- Preventing shareholders from abusing their rights, inflicting damage to the Company and other shareholders
- Efficient distribution of roles and powers among the Company's governing bodies
- Expertise, responsibility, and accountability of the Board of Directors and executive bodies
- Establishing an efficient internal control and risk management system
- Ensuring transparency and openness of the Company's business
- Taking material corporate actions on fair terms ensuring that the rights and interests of shareholders and other stakeholders are upheld
- Compliance with ethical norms and social responsibility standards when doing business

To enhance its corporate governance, PJSC Aeroflot has developed and approved a roadmap to implement expert recommendations from the nonprofit partnership, Russian Institute of Directors.

PJSC Aeroflot scored 7++ on the National Corporate Governance Rating scale, according to the 2017 assessment performed as part of the annual corporate governance practice monitoring, an improvement vs the 2016 (7+) and 2015 (7) ratings.

The rating indicates that PJSC Aeroflot complies with Russian corporate governance regulations and quite a few recommendations set out in the Corporate Governance Code recommended by the Bank of Russia. Shareholders of the Company have low exposure to the risk of loss due to the corporate governance quality.

PJSC Aeroflot made a big effort to significantly improve its corporate governance and comply with recommendations of the Russian Corporate Governance Code in 2017. In September 2017, Aeroflot-Finance, a subsidiary of PJSC Aeroflot, sold 4.84% of PJSC Aeroflot shares (quasi-treasury stock) enabling compliance with one of the material recommendations of the Corporate Governance Code not to vote with quasi-treasury shares.

The Corporate Governance Code of PJSC Aeroflot was adopted in 2017 as part of implementation of the Russian Corporate Governance Code recommendations and formalises PJSC Aeroflot's commitment to high corporate governance standards and their further improvement. Major efforts were also made to enhance Aeroflot Group's integrated risk management system.

Corporate governance at PJSC Aeroflot is exercised by the General Meeting of Shareholders, the Board of Directors, the Management Board, and the CEO.

The responsibilities of PJSC Aeroflot's Corporate Secretary are vested with the Executive Secretary of the Board of Directors, also holding the position of Director of PJSC Aeroflot's Corporate Governance Department.

The Revision Committee supervises the Company's financial and business operations,

its units and services. PJSC Aeroflot's financial and operational activities are also audited in accordance with both the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS) by external auditors and the Internal Audit Department accountable to the Audit Committee of PJSC Aeroflot's Board of Directors.

Key documents ensuring protection of PJSC Aeroflot shareholder rights include:

- Articles of Association
- Regulations on the General Meeting of Shareholders
- Regulations on the Board of Directors
- Regulations on the Management Board
- Regulations on the Revision Committee
- Corporate Governance Code
- Regulations on the Corporate Information Policy
- Dividend Policy
- Corporate Conduct Code

### Compliance with the Russian Corporate Governance Code

Code section	Principles recommended by the Code	Complied with	Not fully complied with	Not complied with
Shareholder Rights	13	11	2	—
Board of Directors	36	29	3	4
Corporate Secretary	2	2	—	—
Remuneration System	10	9	1	—
Risk Management System	6	6	—	—
Information Disclosure	7	7	—	—
Material Corporate Actions	5	4	1	—
Total	79	68	7	4

Note. Statistics are based on the Corporate Governance Code Compliance Report (Appendix to this Annual Report).

# Corporate Governance System

continued

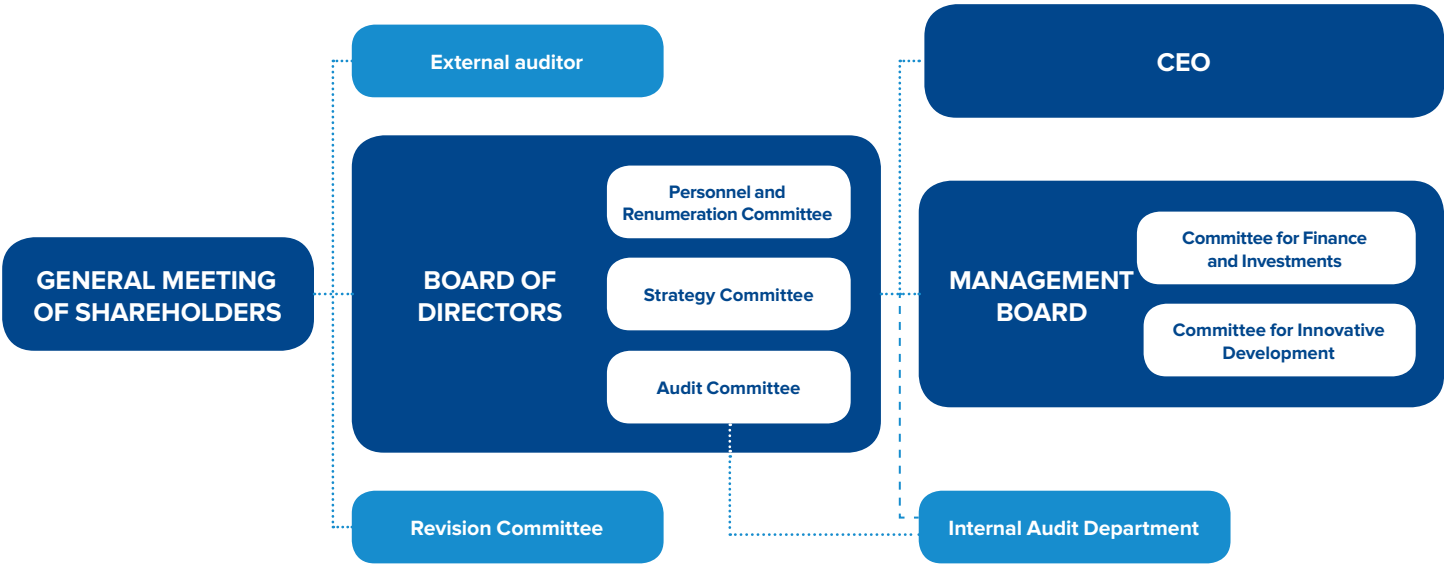
PJSC Aeroflot controls interests in (holds shares in the charter capital of) a number of subsidiaries, including airlines, where PJSC Aeroflot also ensures compliance with the top standards of corporate governance by development and implementation of Group-wide policies and principles. The Company developed a cross-functional governance system for its aviation subsidiaries.

To ensure supervision over financial and business activities of its subsidiary airlines, the Group enabled each of them to have

a dedicated revision committee made up of PJSC Aeroflot's representatives. In addition to revision committee inspections, the airlines are subject to inspections by an auditor approved pursuant to the relevant bidding procedures.

In accordance with the applicable laws and their articles of association, each subsidiary airline developed and adopted dedicated internal documents stipulating the responsibilities of its governing bodies.

PJSC Aeroflot's corporate governance structure



## General Meeting of Shareholders

The General Meeting of Shareholders is the Company's supreme governing body. The respective scope of authority and procedures for convening, holding, and summarising Annual General Meetings of Shareholders (AGMs) are set forth in the Company's Articles of Association and Regulations on the General Meeting of Shareholders. The Annual General Meeting of Shareholders is held annually no earlier than three months and no later than six months after the end of the fiscal year.

The Annual General Meeting of Shareholders of PJSC Aeroflot approved a dividend of RUB 17.4795 per ordinary share for FY2016, with total dividend payments of RUB 19,413,018,000. This resolution took into account the recommendations of the Board of Directors and was passed in line with PJSC Aeroflot's Dividend Policy, which stipulates that Aeroflot Group's net profit (under IFRS) forms the base for calculating dividends.

### Annual General Meeting of Shareholders on 26 June 2017

In 2017, PJSC Aeroflot convened the Annual General Meeting of Shareholders in Moscow on 26 June (Minutes No. 40 dated 28 June 2017). The meeting was attended by holders of 74.1% of PJSC Aeroflot's share capital. The Annual General Meeting of Shareholders approved the Company's Annual Report, 2016 financial statements (including the profit and loss statement), the Board's recommendations on the distribution of the net profit for FY2016, and the remunerations of the members of the Board of Directors and the Revision Committee, as recommended by the Board of Directors.

New Board of Directors and Revision Committee were elected. Pursuant to the relevant bidding procedures, the Company selected an auditor for 2018 (to audit the Company's statements prepared under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS)). It also adopted new versions of PJSC Aeroflot's Articles of Association, Regulations on the General Meeting of Shareholders, Regulations on the Board of Directors, Regulations on the Management Board, and Regulations on Remuneration and Compensation Payments to the Members of the Board of Directors of PJSC Aeroflot. The Company also endorsed a number of interested party transactions.

### Extraordinary General Meeting of Shareholders on 26 December 2017

The Extraordinary General Meeting (EGM) of Shareholders held on 26 December 2017 (Minutes No. 41 dated 27 December 2017) was attended by holders of 63.6% of PJSC Aeroflot's share capital.

The EGM approved the interested party transaction (several associated transactions) related to the lease of 20 new regional jets Sukhoi Superjet 100 between PJSC Aeroflot, VEB-leasing, and Sukhoi Civil Aircraft, as well as a major interested party transaction related to the commercial management of flight loads for services operated by Rossiya Airlines (including pricing and ticket sales for such flights) under the agreements for joint flight operation (code share / blocked space).

# Corporate Governance System

continued

## Board of Directors

PJSC Aeroflot's Board of Directors has overall supervising authority over the Company. The Board of Directors is responsible for the Company's operations, excluding matters within the authority of PJSC Aeroflot's General Meeting of Shareholders, Management Board, and Chief Executive Officer. The procedures for convening and holding the Board meetings, along with other Board activities, are stipulated by the Regulations on PJSC Aeroflot's Board of Directors in line with the Federal Law On Joint-Stock Companies.

The Board's key focus areas include the Company's long-term sustainable development, effective oversight of its executive bodies, uncompromising observance and protection of shareholder rights and their legitimate interests.

The main objectives of the Board of Directors are to:

- define the core areas of business for the Company (including subsidiary airlines) to increase its operating profit
- operate for the benefit of shareholders, supervise the implementation of corporate initiatives
- supervise the activities of the Company's Management Board and Chief Executive Officer
- present resolutions on matters within the authority of the General Meeting of Shareholders for approval by shareholders
- discuss and approve business plans
- determine the procedure for distributing profit and covering for loss
- develop the Company's dividend policy, work out proposals on the amount of dividend on Company shares and dividend payout procedure, and present them for approval by the General Meeting of Shareholders
- approve the annual budget and monitor its performance
- discuss and pre-approve draft annual reports, annual accounting statements, and profit and loss accounts

- analyse audit reports and opinions of the Revision Committee, and present documents featuring the results of such audits for consideration by the Company's shareholders
- present proposals to the General Meeting of Shareholders on the appointment of the Company's auditor
- determine the policy on issuing the Company's securities
- approve the Company's special registrar and the terms and conditions of the contract therewith, as well as the contract termination.

In line with the action plan for the Board of Directors, the Board meetings are held at least once a month. The action plan for the Board of Directors is approved at the end of the year preceding the year covered in the plan. As a rule, the action plan includes essential matters concerning the Company's operations (strategy, finance, budget and risks, human resources, etc.), which are to be discussed in line with the strategic and business planning cycle. Proposals made by members of the Board of Directors and the Company's management are factored in. Extraordinary meetings may be convened to make decisions on urgent matters.

The agenda of the Board of Directors' meetings must include items proposed for discussion by shareholders who in aggregate hold at least 2% of shares, members of the Board of Directors, the Revision Committee, the Management Board, the Company's auditor, and by the CEO.

All items on the agenda of the Board of Directors' meetings are generally previewed by dedicated committees to enable a more detailed discussion and prepare recommendations for voting to the Board of Directors.

The Board of Directors' meetings held in absentia consider matters on which members of the Board of Directors do not have any material comments, as well as matters of procedure. However, a matter may be moved to the agenda of a meeting held in person upon request of two members of the Board of Directors.

## Chairman of the Board of Directors

- is responsible for the general stewardship of the Board of Directors, convenes and chairs meetings, arranges for keeping the minutes of meetings, chairs the General Meeting of Shareholders
- helps ensure the timely provision to members of the Board of Directors of all the information required to pass resolutions and vote on agenda items
- ensures productive discussion of agenda items involving non-executive and independent directors
- controls the execution of resolutions passed by the Board of Directors and the General Meeting of Shareholders.

## Independent directors

Independent directors promote opinions and judgements unaffected by relations with the Company's shareholders or executive bodies, as well as decision-making which benefits different shareholder groups.

The presence of independent directors enhances corporate governance in the Company. Independent members of the Board of Directors are actively involved in the activities of the Board committees. In accordance with the requirements of the Moscow Exchange, independent directors head the Board of Directors' Audit Committee and Personnel and Remuneration Committee. The majority of members of the Board of Directors' Committees are also independent directors, which helps achieve a balanced and independent position on agenda items.

## Membership of the Board of Directors

As at 31 December 2017, PJSC Aeroflot's Board of Directors was comprised of the Chairman (non-executive director), two executive directors, four non-executive directors, and four independent directors.

Members of the Board of Directors efficiently performed their functions and tasks notwithstanding their service on boards of directors at other companies.

In the reporting year, no members of the Company's Board of Directors purchased or disposed of their shares in the Company.

In 2017, no claims were filed against members of the Board of Directors.

# Corporate Governance System

continued

Membership of the Board of Directors as at 31 December 2017



**MIKHAIL POLUBOYARINOV**  
**Chairman of the Board of Directors, Non-Executive Director**

Since 2009, Director of the Infrastructure Department and Deputy Chairman of Vnesheconombank, First Deputy Chairman of Vnesheconombank.  
Member of PJSC Aeroflot's Board of Directors since 2017.  
Born on 2 April 1966 in Moscow.  
In 1988, graduated from Moscow Financial University with a degree in Finance and Credit. In 1998, graduated from the Plekhanov Russian University of Economics with a PhD in Economics majoring in Finance, Currency Circulation and Credit. He is currently member of the boards of directors at Rosseti, Leader, Rostelecom, and FGC UES, and a member of the Supervisory board at AHML.  
From 2000 to 2009, Chief Accountant and Deputy CEO of PJSC Aeroflot.  
From 1990 to 1999, Chief Accountant and Financial Director of Avtoimport.  
He has been awarded the title of the Honoured Economist of Russia and a Letter of Acknowledgement from the Ministry of Transport of the Russian Federation. For his contribution to the preparation of the XXII Winter Olympic Games and the XI Winter Paralympic Games in Sochi in 2014, Mikhail Poluboyarinov was awarded the Order of Honour.

NO SHAREHOLDING IN PJSC AEROFLOT.



**MIKHAIL VOEVODIN**  
**Non-Executive Director**  
**Member of the Strategy Committee and the Personnel and Remuneration Committee of the Board of Directors**

Since July 2009, CEO of VSMPO-AVISMA Corporation.  
Member of PJSC Aeroflot's Board of Directors since 2017.  
Born on 3 May 1975 in Moscow.  
In 1996, graduated from the Plekhanov Russian University of Economics with a degree in Economic Cybernetics. In 2001, graduated from the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation with a degree in World Economy and International Economic Relations.  
Since March 2009 to July 2009, President of VSMPO-AVISMA Corporation.  
Since 2006, member of the Board of Directors at VSMPO-AVISMA Corporation.  
In 2005, he was appointed First Deputy CEO – Executive Director of Prominvest.  
Since 2002, he held various managerial positions at Prominvest, an investment company within Rostec Corporation.

NO SHAREHOLDING IN PJSC AEROFLOT.



**VITALY SAVELIEV**  
**Executive Director**

Since 10 April 2009, CEO of PJSC Aeroflot.  
Member of PJSC Aeroflot's Board of Directors since 2009.  
Born on 18 January 1954 in Tashkent. In 1977, graduated from Kalinin Leningrad Polytechnic Institute (St Petersburg Polytechnic University). In 1986, graduated from the Leningrad Institute of Engineering and Economics (the St Petersburg State University of Economics). Did an internship abroad. PhD in Economics.  
From 1977 to 1984, was engaged in the construction of the Sayano–Shushenskaya HPP where he worked his way up from an engineer to the general designer in one of Krasnoyarskgesstroi associations.  
From 1984 to 1987, Deputy Director of All-Union Sevzapmetallurgmontazh Trust.  
From 1987 to 1989, Deputy Head of Chief Directorate at Glavleningradinzhstroi.  
From 1989 to 1993, President of the US-Russian joint venture DialogInvest.  
From 1993 to 1995, Chairman of the Management Board at Rossiya Bank.  
From 1995 to 2001, Chairman of the Management Board at Menatep Saint Petersburg.  
From 2001 to 2002, Deputy Chairman of the Management Board at Gazprom.  
From 2004 to 2007, Deputy Minister for Economic Development and Trade of the Russian Federation.  
From 2007 to 2009, First Vice-President of Sistema Financial Corporation.  
Since 10 April 2009, CEO of PJSC Aeroflot.  
At different periods, Mr Saveliyev served as chairman of the boards of directors at All-Russian Exhibition Centre (VVC), the Russian Bank for Development, MTS, Comstar, SMM, SkyLink, Indian Shyam Telelink, and other companies.  
Recipient of the Order "For Merit to the Fatherland", 4th class, the Order of Honour, the Order of Friendship; he was awarded a Letter of Acknowledgement from the President of the Russian Federation, numerous medals of the Russian Federation, and industry awards.

HAS A 0.121% SHAREHOLDING IN PJSC AEROFLOT.



**ALEXEY GERMANOVICH**  
**Independent Director**  
**Head of the Personnel and Remuneration Committee, member of the Audit Committee and the Strategy Committee of the Board of Directors**

Currently, independent director on the boards of directors at Unipro (formerly, E.On Russia), Bank St Petersburg, and Ameriabank (Armenia).  
From 2012 to 2014, member of PJSC Aeroflot's Board of Directors. In 2016, re-elected to PJSC Aeroflot's Board of Directors.  
In 1998, graduated from the Department of Economics, and in 2002, from the Department of Journalism at Lomonosov Moscow State University; in 2008, graduated from Cranfield University, UK (Executive MBA).  
Chairman of the Corporate Governance Committee at the Expert and Advisory Council of the Federal Agency for State Property Management.  
From 2012 to 2014, Director, member of the Management Board, and advisor to the Russian Direct Investment Fund.  
From 2009 to 2012, Director of Social and Public Programmes, Professor of Practice at Moscow SKOLKOVO Management School.  
From 2002 to 2009, member of the Management Board and Deputy CEO of Severstal Group.  
At different periods, served on boards of directors at a variety of Russian transport companies, such as Siberia Airlines, Irkutsk International Airport, Rossiya State Transport Company, SG-Trans, etc. For the past five years, was named among Russia's 50 best independent directors in the rating compiled by the Russian Union of Industrialists and Entrepreneurs in cooperation with PwC and the IDA.

NO SHAREHOLDING IN PJSC AEROFLOT.



# Corporate Governance System

## continued

Membership of the Board of Directors as at 31 December 2017 (continued)



**IGOR KAMENSKOY**  
**Independent Director**  
**Head of the Strategy Committee, member of the Audit Committee and the Personnel and Remuneration Committee of the Board of Directors**

Since 2015, Managing Director of Renaissance Broker.  
Member of PJSC Aeroflot's Board of Directors since 2014.  
Born on 25 January 1968 in Kiev.  
In 1993, graduated from Moscow State Pedagogical Institute with a degree in Russian Language and Literature.  
From 2014 to 2015, Managing Partner of Renaissance Capital – Financial Consultant.  
From 2009 to 2014, Chairman of the Board of Directors at Renaissance Capital.  
From 2002 to 2009, member of the Federation Council, Deputy Chairman of the Federation Council Committee.  
From 2000 to 2002, Advisor to the Chairman of the State Duma.  
In 1999, Vice-President of Rosbank.  
From 1992 to 1998, Vice-President of Soyuzcontract.

**NO SHAREHOLDING IN PJSC AEROFLOT.**



**LARS ERIK ANDERS BERGSTROM**  
**Independent Director**  
**Member of the Audit Committee and the Personnel and Remuneration Committee of the Board of Directors**

Since 2016, Senior Advisor at UB Capital (United Bankers of Finland).  
Member of PJSC Aeroflot's Board of Directors since 2017.  
Born on 16 October 1965 in Uppsala, Sweden.  
From 1988 to 1992, studied in the Stockholm School of Economics and Business Administration majoring in Finance and Eastern European Studies.  
Since 2013, founder and manager of his own advisory and investment company, Montecito Capital.  
From 2006 to 2013, Managing Director, Head of Russia/CIS at Carnegie Investment Bank, Stockholm, Sweden.  
From 2000 to 2005, private equity investor and founder of TrustLink, a software vendor with offices in Moscow, Stockholm, and San Mateo, California.  
From 1998 to 2000, CEO of SEB Enskilda Securities Corporate Finance, Moscow, Russia.  
From 1995 to 1998, CEO of ABN Amro (Equities) Russia for emerging markets development.  
In 1994, Harvard University Officer, Advisor, and board member at the Russian Prioritisation Centre of the Russian Property Committee, Goskomimushchestvo, Moscow, where he managed restructuring of privatised Russian corporations.  
In 1993, Advisor to the Ministry of Finance of the Russian Federation, Deputy Director of the Monetary and Finance Unit, Moscow.  
In 1992, First Secretary at the Ministry of Foreign Affairs in Stockholm, Sweden, Head of the Russian Desk.  
In 1991, Vice-Consul, Consulate General of Sweden in Leningrad and Riga, the USSR.

**NO SHAREHOLDING IN PJSC AEROFLOT.**



**DMITRY PESKOV**  
**Non-Executive Director**  
**Member of the Personnel and Remuneration Committee and the Strategy Committee of the Board of Directors**

Since 2011, Director of Young Professionals at the Agency for Strategic Initiatives.  
Member of PJSC Aeroflot's Board of Directors since 2014.  
Born on 26 December 1975 in Voronezh.  
Graduated from Voronezh State University in 1998. In 1999, obtained a Master's degree in Political Studies from the Moscow School of Social and Economic Sciences and the University of Manchester.  
Member of the Government Expert Council, member of the Board of Directors at RVC.  
Since 2009, Head of Strategic Initiatives at All-Russian Exhibition Centre.  
Since 2000, has led the strategy development exercise, chaired the Internet Policy Centre, and overseen the establishment of the Russian International Studies Association at the Moscow State Institute of International Relations (MGIMO University). Last position held – Deputy Scientific Vice-President, Innovation Director.

**NO SHAREHOLDING IN PJSC AEROFLOT.**



**DMITRY SAPRYKIN**  
**Executive Director**  
**Member of the Strategy Committee of the Board of Directors**

Since November 2015, CEO of Rossiya Airlines.  
Member of PJSC Aeroflot's Board of Directors since 2011.  
Born in 1974 in Moscow.  
In 1996, graduated from Moscow State Law Academy with a degree in Law. Obtained a PhD in Law in 2000. In 2001, graduated from Cornell Law School.  
From 2013 to 2015, Deputy CEO for Sales and Property Issues at PJSC Aeroflot.  
From 2009 to 2013, Deputy CEO for Legal and Property Issues at PJSC Aeroflot.  
From 2007 to 2009, Director of Transaction Support, Deputy Head of the Legal Division at Sistema Financial Corporation.  
From 2006 to 2007, CEO of Moscow Cellular Communications.  
From 2004 to 2006, Deputy CEO for Corporate Affairs and Finance at SkyLink.  
From 2001 to 2004, Division Head and Director of M&A and Capital Markets Department at MTS.  
From 1996 to 1998, Chief Legal Adviser at Bank Menatep.

**NO SHAREHOLDING IN PJSC AEROFLOT.**

# Corporate Governance System

continued

Membership of the Board of Directors as at 31 December 2017 (continued)



**VASILY SIDOROV**  
**Independent Director**  
**Head of the Audit Committee, member of the Personnel and Remuneration Committee, and the Strategy Committee of the Board of Directors**

Since November 2012, CEO of Arida.  
Member of PJSC Aeroflot's Board of Directors since 2013.  
Born on 2 February 1971 in Athens, Greece.  
In 1993, graduated from the Moscow State Institute of International Relations (MGIMO University) with a degree in International Public Law, and from the Wharton Business School of the University of Pennsylvania with a degree in Finance.  
Since June 2012, member of the Board of Directors at Russian Railways.  
From 2010 to 2017, Managing Partner of Euroatlantic Investments Ltd.  
From 2006 to 2010, co-owner of Telecom Express Group.  
From 2003 to 2006, President of MTS.  
From 2000 to 2003, First Vice-President of Sistema Telecom.  
From 1997 to 2000, Deputy CEO of Svyazinvest.

**NO SHAREHOLDING IN PJSC AEROFLOT.**



**YURY SLYUSAR**  
**Non-Executive Director**  
**Member of the Strategy Committee of the Board of Directors**

Since January 2015, President of United Aircraft Corporation.  
Member of PJSC Aeroflot's Board of Directors since 2015.  
Born on 20 July 1974 in Rostov-on-Don.  
In 1996, graduated from Lomonosov Moscow State University with a degree in Law. In 2003, completed a post-graduate programme at the Academy of National Economy under the Government of the Russian Federation. PhD in Economics.  
In 2012, was appointed Deputy Minister of Industry and Trade of the Russian Federation.  
In 2010, Director of the Aviation Industry Department at the Ministry of Industry and Trade of the Russian Federation.  
In 2009, was appointed Assistant to the Minister of Industry and Trade of the Russian Federation.  
Since 2003, Commercial Director of Rostvertol, Rostov-on-Don.  
Until 2003, worked with various business entities.

**NO SHAREHOLDING IN PJSC AEROFLOT.**



**SERGEY CHEMEZOV**  
**Non-Executive Director**

Since December 2007, CEO of Rostec State Corporation.  
Member of PJSC Aeroflot's Board of Directors since 2011.  
Born on 20 August 1952 in Cheremkhovo, the Irkutsk Region.  
Graduated from the Irkutsk Institute of National Economy, completed Advanced Courses at the Military Academy of the General Staff of the Russian Armed Forces. Doctor of Economics, Professor, full member of the Academy of Military Science.  
Chairman of the boards of directors at Rosoboronexport, VSMPO-AVISMA Corporation, Kamaz, and Uralkali.  
Member of the boards of directors at International Financial Club, and Alliance Rostec AUTO BV Joint Venture. Member of the supervisory boards at Rostec, and Roscosmos State Corporations.  
From 2004 to 2007, CEO of Rosoboronexport.  
From 2001 to 2004, First Deputy CEO of Rosoboronexport.  
From 1999 to 2001, CEO of Promexport.  
From 1996 to 1999, Head of Foreign Economic Relations at the Administrative Office of the Russian President.  
From 1988 to 1996, Deputy CEO of Sovintersport.  
Since 1980, worked at the Luch Research-Industrial Association; from 1983 to 1988, served as Head of the Luch Association representative office in East Germany.  
Started his career at Irkutsk Scientific and Research Institute for Rare and Non-Ferrous Metals.  
Member of the Bureau of the Supreme Council of the United Russia Party. Chairman of the Russian Engineering Union.  
President of the Russian Union of Engineering Employers. Head of the Department of Military and Engineering Cooperation and High-Tech at the Moscow State Institute of International Relations (MGIMO University).  
Recipient of high government awards and winner of a large number of other prestigious awards.

**NO SHAREHOLDING IN PJSC AEROFLOT.**



**Executive Secretary of the Board of Directors**

**ALEKSEY MELEKHIN**

Born in 1977. In 2001, graduated from the Institute of Economics and Entrepreneurship. Obtained a PhD from the Russian Presidential Academy of National Economy and Public Administration. Mr Melekhin joined PJSC Aeroflot in 1998. Held a number of positions from legal counsel to regulations drafting and alignment team of the Company's Administration to Corporate Governance Department Director.  
He is currently responsible for the administrative and information support of the Company's Board of Directors and General Meeting of Shareholders, and supervises compliance by the Company's bodies and officers with corporate governance rules and procedures stipulated by the laws of the Russian Federation, the Company's Articles of Association, and internal documents.

**NO SHAREHOLDING IN PJSC AEROFLOT.**

## Corporate Governance System

continued

### Changes in the membership of the Board of Directors in 2017

- **Kirill Androssov** was removed from the Board of Directors as from 26 June 2017 by resolution of the Annual General Meeting of Shareholders (Minutes No. 40 dated 28 June 2017).
- **Roman Pakhomov** was removed from the Board of Directors as from 26 June 2017 by resolution of the Annual General Meeting of Shareholders (Minutes No. 40 dated 28 June 2017).
- **Mikhail Alekseev** was removed from the Board of Directors as from 26 June 2017 by resolution of the Annual General Meeting of Shareholders (Minutes No. 40 dated 28 June 2017).
- **Mikhail Poluboyarinov** was elected to the Board of Directors as from 26 June 2017 by resolution of the Annual General Meeting of Shareholders (Minutes No. 40 dated 28 June 2017).
- **Lars Bergstrom** was elected to the Board of Directors as from 26 June 2017 by resolution of the Annual General Meeting of Shareholders (Minutes No. 40 dated 28 June 2017).
- **Mikhail Voevodin** was elected to the Board of Directors as from 26 June 2017 by resolution of the Annual General Meeting of Shareholders (Minutes No. 40 dated 28 June 2017).

Other members of the Board of Directors were re-elected at the 2017 AGM. Mikhail Poluboyarinov, First Deputy Chairman and a member of the Management Board of State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank), was elected as the new Chairman of the Board of Directors at the meeting of the Board held on 31 August 2017.

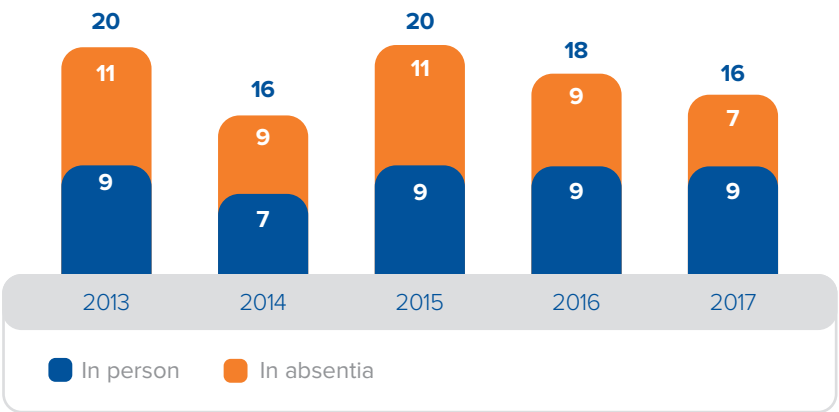
### Board of Directors Performance Report for 2017

In 2017, PJSC Aeroflot's Board of Directors held 16 meetings, including 9 meetings in person and 7 meetings in absentia, which addressed over 150 matters and passed over 330 resolutions.

In its resolutions, the Board of Directors covers a number of priority areas to:

- ensure flight safety and on-time performance
- determine Aeroflot Group's strategy and identify priority business segments
- build and maintain effective internal controls and risk management
- map out a development strategy for Aeroflot Group's aircraft fleet and route network
- improve the aircraft fleet composition through additions and aircraft mix optimisation
- improve operating, financial, and marketing practices and methods through upgrades, innovation, and implementation of best practices from global peers
- improve the performance of Aeroflot's branches and representative offices both domestically and internationally
- enforce higher standards for airport and in-flight passenger services, expand the service mix, and improve customer experience
- promote cooperation with SkyTeam partners, use the membership to expand the Company's route network, and boost the international flight performance
- promote strategic partnerships with airlines across key geographies
- improve operational performance of subsidiaries and streamline the non-core asset structure to cut unnecessary spending and increase returns on investments
- develop and upgrade information technologies
- ensure information transparency (including investor relations and procurement)
- develop and improve corporate policies.

Number of meetings held by the Board of Directors



Directors attendance at Board meetings in 2017

Board member	Status	Board of Directors	Audit Committee	Personnel and Remuneration Committee	Strategy Committee
Mikhail Alekseev*	Non-Executive Director	9(5)/9			5(3)/5
Kirill Androssov*	Chairman of the Board of Directors	9(5)/9			
Lars Erik Bergstrom**	Independent Director	7(2)/7	5(1)/6	4(1)/5	
Mikhail Voevodin**	Non-Executive Director	7(2)/7		4(1)/5	5/6
Alexey Germanovich	Independent Director	16(7)/16	12/12	8(1)/8	11/11
Igor Kamenskoy	Independent Director	16(7)/16	12(1)/12	8(2)/8	11(1)/11
Roman Pakhomov*	Non-Executive Director	9(5)/9	6/6	3/3	5/5
Dmitry Peskov	Non-Executive Director	16(9)/16		7(3)/8	10(3)/11
Mikhail Poluboyarinov**	Chairman of the Board of Directors	7(2)/7			
Vitaly Saveliev	Executive Director	16(7)/16			
Dmitry Saprykin	Executive Director	16(7)/16			10(7)/11
Vasily Sidorov	Independent Director	16(7)/16	12/12	8(1)/8	11/11
Yury Slyusar	Non-Executive Director	15(13)/16			11(10)/11
Sergey Chemezov	Non-Executive Director	16(11)/16			

Note. Data format: the number of meetings attended by the member of the Board of Directors / the total number of meetings held in 2017. Attendance through written opinions or questionnaires (for meetings held in absentia) is shown in brackets.

\* Member of the Board of Directors as from the Annual General Meeting of Shareholders held on 26 June 2017.

\*\* Member of the Board of Directors up to the Annual General Meeting of Shareholders held on 26 June 2017.



## Corporate Governance System

continued

Key matters discussed by the Board of Directors in 2017

STRATEGIC DEVELOPMENT	<div><div>— Progress in implementation of Aeroflot Group's Strategy</div><div>— Aeroflot Group's Long-Term Development Programme update and KPIs achievement</div><div>— Enhancement of Aeroflot Group's IT</div><div>— Results of PJSC Aeroflot's Innovative Development Programme in 2016</div><div>— Independent assessment of innovative development programmes update for partially state-owned companies</div></div>
FINANCIAL AND ECONOMIC PERFORMANCE AND INVESTMENTS	<div><div>— Performance of Aeroflot Group's consolidated budget KPIs</div><div>— PJSC Aeroflot's budget for 2018</div><div>— Aeroflot Group's operational KPIs forecast for 2018</div><div>— Annual accounting statements, including the Company's income statement for the fiscal year 2016</div><div>— Opinions of PJSC Aeroflot's auditors (under RAS and IFRS) for the fiscal year 2016</div><div>— Non-aviation revenues</div><div>— Exchange-Traded Bond Programme</div><div>— Approval of PJSC Aeroflot's Investment Programme and other projects to develop infrastructure in the Far Eastern Federal District</div></div>
CORPORATE GOVERNANCE	<div><div>— Dividend policy of PJSC Aeroflot</div><div>— Implementation of the Corporate Governance Code</div><div>— KPIs for 2018</div><div>— Incentive programme at PJSC Aeroflot</div><div>— Preparation for the next Annual General Meeting of Shareholders of PJSC Aeroflot</div><div>— Preparation for an Extraordinary General Meeting of Shareholders of PJSC Aeroflot</div><div>— Risk management system at Aeroflot Group</div><div>— Organisational structure of PJSC Aeroflot</div><div>— Shareholder and investor relations</div><div>— Disclosure of Aeroflot Group's Q1 2017 IFRS financial results</div><div>— PJSC Aeroflot's auditors for 2017</div><div>— Audit of the interim results of Aeroflot Group's Long-Term Development Programme for 2017</div><div>— Approval of a subsidiary's transactions</div><div>— PJSC Aeroflot's budget for 2016</div><div>— PJSC Aeroflot's internal documents</div></div>
TRANSACTIONS	<div><div>— Aircraft lease transactions</div><div>— Approval of major transactions and interested party transactions</div></div>
OTHER	<div><div>— Flight safety at Aeroflot airline</div><div>— Enhancement of service offerings within Aeroflot Group</div><div>— Customer interaction management</div><div>— Procurement at PJSC Aeroflot</div><div>— Progress in introducing professional standards in the Company's operations</div><div>— Use of the Sponsorship Fund</div><div>— Results of charitable activities</div><div>— Aeroflot Bonus expansion</div></div>

## Committees of the Board of Directors

To improve the effectiveness of resolutions passed by the Board of Directors, ensure more detailed preliminary discussions of most important matters, and prepare relevant recommendations, PJSC Aeroflot has three dedicated Committees of the Board of Directors:

- Audit Committee
- Personnel and Remuneration Committee
- Strategy Committee

The Board of Directors' Committees are elected by the Board of Directors and act in compliance with relevant Committee Regulations approved by the Company's Board of Directors. The Committees act as per the Board's resolutions and action plans based on the Board's action plan.

In 2017, the Board of Directors' Committees held a total of 14 meetings, including joint meetings, addressing matters related to the operations of Aeroflot Group and submitting detailed recommendations and proposals to the Company's Board of Directors and Management Board.

### Audit Committee

The Audit Committee supervises the Company's financial and business operations to protect shareholder interests and ensure the growth of the Company's assets. Coordinating with the Company's executive bodies, the Revision Committee, and the Internal Audit Department, the Audit Committee prepares and submits for consideration by the Board of Directors recommendations and proposals on matters of the Board.

In 2017, the Audit Committee held a total of 12 meetings (in person). The Committee's meeting agendas were compiled in line with the Committee's activities plan approved by the first post-election meeting, and reflected the instructions of the Board of Directors.

Key matters discussed in 2017:

- Performance of Aeroflot Group's consolidated budget KPIs
- Aeroflot Group's and PJSC Aeroflot's budgets
- Controls and risk management
- Initiatives to reduce Aeroflot Group's operating expenses
- Improvement of internal audit at Aeroflot Group
- Auditor's reports on the financial and business audit results
- Reports on audits conducted by the Internal Audit Department
- Shareholder and investor relations
- Procurement
- Transactions related to the aircraft fleet
- Financial hedging
- Measures to mitigate the Company's risks arising from relations with ticket sales agents
- Extending and restructuring of loans
- Reports on the results of analysis of the companies' debt to PJSC Aeroflot
- PJSC Aeroflot's key financial and business audit areas
- PJSC Aeroflot's internal documents

### Changes in the membership of the Audit Committee in 2017

Committee membership from January to June 2017	Committee membership from September to December 2017
Vasily Sidorov – Independent Director, Head of the Committee	Vasily Sidorov – Independent Director, Head of the Committee
Alexey Germanovich – Independent Director	Lars Erik Bergstrom – Independent Director
Igor Kamenskoy – Independent Director	Alexey Germanovich – Independent Director
Roman Pakhomov – Non-Executive Director	Igor Kamenskoy – Independent Director
Elected by resolution of the Board of Directors on 8 September 2016	Elected by resolution of the Board of Directors on 31 August 2017

# Corporate Governance System

continued

## Personnel and Remuneration Committee

The Personnel and Remuneration Committee promotes the development of the HR policy, supervises matters concerning the Company's organisational structure, selection and assessment of persons appointed to the Company's governing bodies, their remuneration, and the remuneration system.

In 2017, the Personnel and Remuneration Committee held a total of eight meetings, including one meeting held in absentia. The Committee's meeting agendas were compiled in line with the Committee's activities plan approved by the first post-election meeting, and reflected the instructions of the Board of Directors.

- Key matters discussed in 2017:
- Remuneration of the Company's management, members of the Board of Directors and the Revision Committee
  - Long-Term Incentive Programme
  - CEO and management KPIs
  - Aeroflot Group's Long-Term Development Programme KPIs
  - Assessment of the Board of Directors
  - The Company's organisational structure
  - Consideration of proposals and preparation of recommendations on nominees to PJSC Aeroflot's Board of Directors and Revision Committee representing the interests of the state in the corporate year 2018–2019
  - PJSC Aeroflot's internal documents

### Changes in the membership of the Personnel and Remuneration Committee in 2017

Committee membership from January to June 2017	Committee membership from September to December 2017
<b>Igor Kamenskoy</b> – Independent Director, Head of the Committee	<b>Alexey Germanovich</b> – Independent Director, Head of the Committee
<b>Alexey Germanovich</b> – Independent Director	<b>Lars Erik Bergstrom</b> – Independent Director
<b>Vasily Sidorov</b> – Independent Director	<b>Mikhail Voevodin</b> – Non-Executive Director
<b>Roman Pakhomov</b> – Non-Executive Director	<b>Vasily Sidorov</b> – Independent Director
<b>Dmitry Peskov</b> – Non-Executive Director	<b>Igor Kamenskoy</b> – Independent Director
	<b>Dmitry Peskov</b> – Non-Executive Director
<i>Elected by resolution of the Board of Directors on 8 September 2016</i>	<i>Elected by resolution of the Board of Directors on 31 August 2017</i>

## Strategy Committee

The Strategy Committee was set up to prepare recommendations and proposals to the Board of Directors, enhancing the Company's performance and improving its long-term strategy.

In 2017, the Strategy Committee held a total of 11 meetings (in person). The Committee's meeting agendas were compiled in line with the Committee's activities plan approved by the first post-election meeting, and reflected the instructions of the Board of Directors.

Key matters discussed in 2017:

- Implementation of Aeroflot Group's development strategy
- Implementation of Aeroflot Group's Long-Term Development Programme
- Implementation of Aeroflot Group's marketing strategy
- Aeroflot Group's development strategy and Long-Term Development Programme update
- Strategic partnerships with airlines
- Dividend policy
- Aeroflot Group's IT strategy
- Shareholder and investor relations
- Enhancement of Aeroflot Group's subsidiary airlines
- Enhancement of maintenance and repair operators within Aeroflot Group
- Assessment of innovative development programmes update for partially state-owned companies
- Results of PJSC Aeroflot's Innovative Development Programme
- Aircraft fleet expansion

### Changes in the membership of the Strategy Committee in 2017

Committee membership from January to June 2017	Committee membership from September to December 2017
<b>Roman Pakhomov</b> – Non-Executive Director, Head of the Committee	<b>Igor Kamenskoy</b> – Independent Director, Head of the Committee
<b>Mikhail Alekseev</b> – Non-Executive Director	<b>Mikhail Voevodin</b> – Non-Executive Director
<b>Alexey Germanovich</b> – Independent Director	<b>Alexey Germanovich</b> – Independent Director
<b>Igor Kamenskoy</b> – Independent Director	<b>Dmitry Peskov</b> – Non-Executive Director
<b>Dmitry Peskov</b> – Non-Executive Director	<b>Dmitry Saprykin</b> – Executive Director
<b>Dmitry Saprykin</b> – Executive Director	<b>Vasily Sidorov</b> – Independent Director
<b>Vasily Sidorov</b> – Independent Director	<b>Yury Slyusar</b> – Non-Executive Director
<b>Yury Slyusar</b> – Non-Executive Director	<b>Giorgio Callegari</b> – member of the Management Board, Deputy CEO for Strategy and Alliances
<b>Giorgio Callegari</b> – member of the Management Board, Deputy CEO for Strategy and Alliances	<b>Shamil Kurmashov</b> – member of the Management Board, Deputy CEO for Commerce and Finance
<b>Shamil Kurmashov</b> – member of the Management Board, Deputy CEO for Commerce and Finance	<b>Roman Pakhomov</b> – CEO of Aviacapital-Service
<i>Elected by resolution of the Board of Directors on 8 September 2016</i>	<i>Elected by resolution of the Board of Directors on 31 August 2017</i>

# Corporate Governance System

continued

## Management Board and CEO

PJSC Aeroflot's sole executive body, the CEO, and collective executive body, the Management Board, are charged with running the Company's ongoing operations. The executive bodies report directly to the Board of Directors and the General Meeting of Shareholders.

The CEO also acts as the Chairman of the Management Board, and represents the interests of the Company without power of attorney, acting in compliance with PJSC Aeroflot's Articles of Association. The CEO is elected by the Board of Directors for a maximum term of five years.

Vitaly Saveliev has been PJSC Aeroflot's CEO since April 2009; in October 2013, the Board of Directors resolved to extend his term of office until 2018.

The Board of Directors is authorised to appoint members of the Management Board, and remove them from office before the end of their term. The Management Board acts in compliance with PJSC Aeroflot's Articles of Association and Regulations on the Management Board.

PJSC Aeroflot's executive bodies' scope of authority covers all matters pertaining to management of the Company's day-to-day operations, except for those referred to the jurisdiction of the General Meeting of Shareholders or the Board of Directors.

In the reporting period, members of the Management Board did not enter into transactions with PJSC Aeroflot shares.

### Membership of the Management Board as at 31 December 2017



**VITALY SAVELIEV**  
Chairman of the Management Board, CEO

Born on 18 January 1954 in Tashkent. In 1977, graduated from Leningrad Polytechnic Institute (St Petersburg Polytechnic University). In 1986, graduated from the Leningrad Institute of Engineering and Economics (the St Petersburg State University of Economics). Did an internship abroad. PhD in Economics. From 1977 to 1984, was engaged in the construction of the Sayano–Shushenskaya HPP where he worked his way up from an engineer to the general designer in one of the Krasnoyarskgesstroi associations. From 1984 to 1987, Deputy Director of All-Union Sevzapmetallurgmontazh Trust. From 1987 to 1989, Deputy Head of Chief Directorate at Glavleningradinzhstroï. From 1989 to 1993, President of the US-Russian joint venture DialogInvest. From 1993 to 1995, Chairman of the Management Board at Rossiya Bank. From 1995 to 2001, Chairman of the Management Board at Menatep Saint Petersburg. From 2001 to 2002, Deputy Chairman of the Management Board at Gazprom. From 2004 to 2007, held the position of Deputy Minister of Economic Development and Trade of the Russian Federation. From 2007 to 2009, First Vice-President of Sistema Financial Corporation. Since 10 April 2009, CEO of PJSC Aeroflot. At different periods, Mr Saveliev served as chairman of the boards of directors at All-Russian Exhibition Centre (VVC), the Russian Bank for Development, MTS, Comstar, SMM, SkyLink, Indian Shyam Telelink, and other companies. Recipient of the Order "For Merit to the Fatherland", 4th class, the Order of Honour, the Order of Friendship; he was awarded a Letter of Acknowledgement from the President of the Russian Federation, numerous medals of the Russian Federation, and industry awards.

HAS A 0.121% SHAREHOLDING IN PJSC AEROFLOT.



**VLADIMIR ANTONOV**  
First Deputy CEO for Aviation Safety

Born in 1953. Graduated from Moscow Railway Engineering Institute. From 1977 to 1995, served in the armed forces. From 1995 to 2011, Deputy CEO for Economic and Aviation Safety, Deputy CEO for Aviation Safety, Deputy CEO for Aviation and Operating Safety, and First Deputy CEO for Operations at PJSC Aeroflot. Since 2011, First Deputy CEO for Aviation Safety at PJSC Aeroflot. Recipient of a Medal of the Order "For Merit to the Fatherland", 2nd class, other government and industry awards.

HAS A 0.000425% SHAREHOLDING IN PJSC AEROFLOT.



**VASILY AVILOV**  
Deputy CEO for Administrative Management

Born in 1954. Graduated from Dzerzhinsky Higher Naval Engineering College. From 1997 to 2013, Head of Administration, Director of the Administrative Department, Deputy CEO – Executive Director at PJSC Aeroflot. Since 2013, Deputy CEO for Administrative Management at PJSC Aeroflot. Recipient of a Medal of the Order "For Merit to the Fatherland", 1st class, a Medal "For Battle Merit", a Certificate of Honour of the President of the Russian Federation, and industry awards.

HAS A 0.0000002% SHAREHOLDING IN PJSC AEROFLOT.



**VLADIMIR ALEXANDROV**  
Deputy CEO for Legal and Property Matters

Born in 1984. In 2005, graduated from Kutafin Moscow State Law University; in 2016, graduated from the Russian Presidential Academy of National Economy and Public Administration (RANEPA). Held senior positions at the Prosecutor General's Office of the Russian Federation and the Investigative Committee of the Russian Federation. From 2013 to 2015, Deputy Head of the Legal Support Section of the Legal Department, Deputy Director of Legal Department, Advisor to the CEO for government relations. In August 2015, he was appointed Legal Department Director at PJSC Aeroflot. Since 1 July 2016, Deputy CEO for Legal and Property Matters at PJSC Aeroflot. Has a Letter of Acknowledgement from the Minister of Transport of the Russian Federation.

NO SHAREHOLDING IN PJSC AEROFLOT.



**KIRILL BOGDANOV**  
Deputy CEO for Information Technologies

Born in 1963. Graduated from Kalinin Leningrad Polytechnic Institute (St Petersburg Polytechnic University). From 2002 to 2004, Advisor to the Vice-President at United Company GROS. From 2004 to 2007, Executive Director of RAMAX International. From 2007 to 2009, Director of Development and Control at Telecom Assets at Sistema Financial Corporation. Since 2009, Deputy Head of the Information Systems Department at PJSC Aeroflot, Advisor to the CEO, Deputy CEO for Information Technologies. Has a Letter of Acknowledgement from the President of the Russian Federation.

NO SHAREHOLDING IN PJSC AEROFLOT.



# Corporate Governance System

continued

Membership of the Management Board as at 31 December 2017 (continued)



**VADIM ZINGMAN**  
**Deputy CEO for Customer Relations**

Born in 1970. Graduated from the St Petersburg University of Economics and Finance. PhD in Economics. From 2001 to 2008, Deputy Director of the Department for Government Regulation of Foreign Trade at the Ministry of Economic Development and Trade of the Russian Federation. From 2008 to 2009, Director of Government Relations at Sistema Financial Corporation. From 2009 to 2012, Advisor to the CEO, Deputy CEO for Customer Relations and Deputy CEO for Operations and Quality Management at PJSC Aeroflot. Since 2012, Deputy CEO for Customer Relations at PJSC Aeroflot. Recipient of a Medal of the Order “For Merit to the Fatherland”, 2nd class. Has a Letter of Acknowledgement from the President of the Russian Federation, a Letter of Acknowledgement from the Chairman of the Federation Council of the Federal Assembly of the Russian Federation, a Certificate of Honour of the Government of the Russian Federation, and various industry awards.

NO SHAREHOLDING IN PJSC AEROFLOT.



**GIORGIO CALLEGARI**  
**Deputy CEO for Strategy and Alliances**

Born in 1959. Graduated from Turin Polytechnic University (Italy). From 1986 to 1989, VP of Sales, member of the Board of Directors and the Executive Committee at Malan Viaggi. From 1990 to 2011, sales manager, Vice-President for Sales, Vice-President for Business Development, Vice-President for Alliances, Business Development and International Relations, Executive Vice-President for Alliances and Strategies at Alitalia. Since 2011, Deputy CEO for Strategy and Alliances at PJSC Aeroflot.

NO SHAREHOLDING IN PJSC AEROFLOT.



**SHAMIL KURMASHOV**  
**Deputy CEO for Commerce and Finance**

Born in 1978. Graduated from the Moscow State Institute of International Relations (MGIMO University). PhD in Economics. From 2004 to 2007, Deputy CEO for Finance and Investment at Sistema Telecom. From 2007 to 2009, Director of Investments, Deputy Head of the Finance and Investment Division at Sistema Financial Corporation. From 2009 to 2013, Advisor to the CEO, Deputy CEO for Finance and Investment, and Deputy CEO for Commerce and Finance at PJSC Aeroflot. From 2013 to 2016, Deputy CEO for Finance and Network and Revenue Management at PJSC Aeroflot. Since 2016, Deputy CEO for Commerce and Finance at PJSC Aeroflot. Has a Letter of Acknowledgement from the President of the Russian Federation, a medal “For Impeccable Service and Distinction”, 3rd class, prestigious Russian and international awards.

NO SHAREHOLDING IN PJSC AEROFLOT.



**GEORGY MATVEEV**  
**Director of Safety Management**

Born in 1953. Graduated from the Academy of Civil Aviation. PhD in Technical Science. From 2001 to 2012, Deputy Chief Flight Safety Inspector and Deputy Director of Flight Safety Management at PJSC Aeroflot. Since 2012, Director of Safety Management at PJSC Aeroflot. Recipient of the honorary title of the Honoured Pilot of the Russian Federation, and numerous industry awards.

NO SHAREHOLDING IN PJSC AEROFLOT.



**IGOR PARAKHIN**  
**Deputy CEO – Technical Director**

Born in 1961. Graduated from the Moscow Institute of Civil Aviation Engineers. From 2001 to 2011, Head of Programme, Deputy Director of the Aviabusiness Higher Commercial School. Since 2011, Acting Technical Director, Technical Director, Deputy CEO – Technical Director at PJSC Aeroflot. Has a Letter of Acknowledgement from the President of the Russian Federation.

HAS A 0.000007% SHAREHOLDING IN PJSC AEROFLOT.



**IGOR CHALIK**  
**Deputy CEO – Flight Director**

Born in 1957. Graduated from the Aktyubinsk Higher School of Civil Aviation. From 2003 to 2008, Commander of the A320 Air Squadron at PJSC Aeroflot. From 2008 to 2010, Commander of the A330 Air Squadron at PJSC Aeroflot. Since 2011, Deputy CEO – Flight Director at PJSC Aeroflot. Recipient of the honorary title of the Honoured Pilot of the Russian Federation, the Medal of Nesterov, and industry awards.

HAS A 0.000117% SHAREHOLDING IN PJSC AEROFLOT.

There were no changes in the membership of PJSC Aeroflot’s Management Board in 2017.

# Corporate Governance System

## continued

### Management Board Report for 2017

In 2017, the Management Board of PJSC Aeroflot held a total of 39 meetings, including 8 meetings in absentia.

- Key matters discussed in 2017:
- PJSC Aeroflot's flight safety
  - Technical condition of PJSC Aeroflot's aircraft fleet
  - Aeroflot Group's development in the context of infrastructure constraints
  - Implementation of PJSC Aeroflot's Innovative Development Programme
  - Implementation of the R&D plan
  - Enhancement of Aeroflot Group's IT
  - Results of implementing the Big Data enabled dynamic segmentation project
  - Preparation for the 2018 FIFA World Cup
  - Promotion of PJSC Aeroflot's strategic partnerships
  - Opening of representative offices
  - Shareholder and investor relations
  - Implementation of updated elements of PJSC Aeroflot's corporate philosophy
  - Mentoring concept at PJSC Aeroflot
  - Introduction of professional standards in PJSC Aeroflot's operations
  - Charity projects for a number of institutions
  - Sponsorship initiatives

### Committees

In pursuit of recommendations and proposals aiming to boost the Company's performance, PJSC Aeroflot set up the Committee for Innovative Development and the Committee for Finance and Investments.

#### Committee for Innovative Development

The Committee for Innovative Development is a permanent collective advisory body of PJSC Aeroflot's Management Board. It was set up to develop recommendations and proposals for the Management Board to boost the Company's performance.

In its operation, the Committee is guided by the laws of the Russian Federation, resolutions of PJSC Aeroflot's Board of Directors and Management Board, other regulations, rules, and procedures of the Company, and the Regulations on the Committee for Innovative Development.

The Committee is charged with reviewing innovative projects and providing assessment of their efficiency, monitoring progress on the ongoing innovative projects, passing resolutions on project suspension, setting out requirements for the design and quality of innovative development materials submitted to the Management Board, and recommending projects for implementation.

- In 2017, the Committee for Innovative Development held a total of three meetings and discussed the following matters:
- Establishing an innovation team responsible for expert review, analysis, and development of recommendations on key innovation decisions by engaging universities, research organisations, state innovation institutions, and the venture community
  - Reviewing PJSC Aeroflot's employee and manager incentive system to improve innovative performance when identifying solutions and prevent conflicts of interest when accepting third-party deliverables
  - A concept of a crowdsourcing contest to introduce Block Chain and Big Data into Aeroflot's operations
  - The Innovative Development Programme progress in 2016
  - A concept of developing an ongoing in-house innovation system
  - Summarising the automated one-stop-shop system testing results
  - Summarising expert reviews of proposals submitted via the one-stop-shop system

#### Membership of the Committee for Innovative Development as at 31 December 2017

Vadim Zingman	Deputy CEO for Customer Service, Chairman of the Committee
Andrey Polozov-Yablonsky	Advisor to the CEO, Director for Innovation, Deputy Chairman of the Committee
Sergey Krylov	Director of the Information Systems Department
Aleksey Korenevsky	Deputy Director for Flight Training and Training Methodology of the Flight Operations Department
Azat Zaripov	Deputy Director of the Aviation Security Management Department
Dmitry Saksonov	Head of Strategic Projects Coordination at the Corporate Strategy Department
Ekaterina Kryshkina	Advisor to the Deputy CEO for Commerce and Finance
Alexander Fadeev	Advisor to the Deputy CEO and Technical Director

#### Committee for Finance and Investments

The Committee for Finance and Investments is a permanent collective advisory body of PJSC Aeroflot. In its operation, the Committee is guided by the applicable laws of the Russian Federation, resolutions of PJSC Aeroflot's Board of Directors, other regulations, rules, and procedures of the Company, and the Regulations on the Committee for Finance and Investments.

The Committee is charged, among other things, with monitoring progress on the Company's ongoing investment projects, providing expert reviews of any such projects, passing resolutions on suspension of investment projects, determining their performance assessment criteria, and drafting proposals on Aeroflot Group's financial, economic, and marketing policies.

In 2017, the Committee for Finance and Investments held a total of 23 meetings including 21 meetings in absentia.

#### Membership of the Committee for Finance and Investments as at 31 December 2017

Shamil Kurmashov	Deputy CEO for Commerce and Finance, Chairman of the Committee
Giorgio Callegari	Deputy CEO for Strategy and Alliances
Irina Nikolaeva	Chief Accountant
Evgeny Zenchenko	Director of the Corporate Strategy Department
Anton Lopatin	Director of the Financial Planning and Analysis Department
Arkady Petrosyan	Director of the Risk Management Department
Mikhail Safarov	Director of the Product Management Department
Andrey Sogrin	Director of the Public Relations Department
Ilya Tonkonozhenko	Director of the Administrative Department, Secretary of the Committee
Andrey Chikhanchin	Director of the Corporate Finance Department
Vasily Timofeev	Acting Director of the Financial Operations Department
Sergey Sumarokov	First Deputy Director of the Department for Economic Security
Elena Shilina	Deputy Director of the Corporate Finance Department
Dmitry Galkin	Advisor to the Deputy CEO for Administrative Management
Andrey Polozov-Yablonsky	Advisor to the CEO, Director for Innovation

# Corporate Governance System

continued

## Remuneration of members of the Board of Directors and the management

The Company has in place a structured remuneration system for members of the governing bodies designed to link the amount of bonus payments to the achievement of short-term targets, and align the long-term interests of the Company’s management and its shareholders. Short-term incentive is provided in the form of cash bonuses, while long-term incentive implies payments based on share capitalisation benchmarked against different metrics.

### Remuneration of members of the Board of Directors

Guidelines for Board remuneration calculation and payouts are set forth in the Regulations on Remuneration and Compensation Payments to the Members of the Board of Directors of PJSC Aeroflot, in line with the Federal Law On Joint-Stock Companies, other applicable laws of the Russian Federation, and the Company’s internal documents. These Regulations were approved by PJSC Aeroflot’s AGM on 26 June 2017.

The Board remuneration framework comprises a fixed component and the Long-Term Incentive Programme (a variable component). The size of the fixed component depends on involvement of members of PJSC Aeroflot’s Board of Directors in its activities and includes the fixed base pay and additional payments for discharging extra duties. The variable remuneration component is directly linked to the Company’s market capitalisation, achievement of the capitalisation target, and the market capitalisation of key foreign airline peers. The Long-Term Incentive Programme is focused on achievement of the Company’s capitalisation target.

The Long-Term Incentive Programme for 1 January 2016 to 30 June 2019 was approved in 2016 to replace the previous Stock Option Plan for 2013–2015. During the implementation, the current Long-Term Incentive Programme is adjusted to update its metrics.

The total variable remuneration of Board members is equivalent to 0.5% of PJSC Aeroflot’s market capitalisation growth over the lifetime of the Long-Term Incentive Programme. The 2016–2019 Long-Term Incentive Programme draws heavily on the following underlying metrics:

- Metric 1 (maximum weight of ½): the Company’s market capitalisation growth in the relevant year
- Metric 2 (maximum weight of ½): PJSC Aeroflot’s ranking among five foreign airline peers based on the market capitalisation change in the relevant year

⅓ of the remuneration pool accrued for the relevant interim period is paid out to Board members simultaneously with the fixed remuneration for the relevant year.

⅔ of the remuneration pool accrued for the relevant interim period is not paid out but set aside until the end of the Long-Term Incentive Programme (June 2019), added together and paid out as a lump sum upon resolution of the General Meeting of the Company’s Shareholders, subject to the achievement of the capitalisation target. Calculations incorporate the high water mark principle, i.e. if capitalisation goes below the high water mark in the current interim period, the capitalisation growth base for the next interim period shall be the peak capitalisation value reached in the past period.

### Management remuneration

The remuneration system designed for the management and the other staff enables the Company to engage and retain highly qualified professionals. Remuneration of management is comprised of the fixed component (official salary) and the variable component (current bonuses and long-term incentives).

Current bonuses depend on the Group-wide performance and are calculated in accordance with the Company’s KPI-Based Employee Bonus System. The KPI-Based Employee Bonus System is formalised by the Regulations on Bonus Payments to the Managers and Specialists of PJSC Aeroflot. The Regulations stipulate that the variable component of the management compensation amount shall depend on their quarterly and annual performance against the KPIs approved for the relevant reporting period.

To provide for long-term incentives for PJSC Aeroflot’s management, the Long-Term Incentive Programme for 1 January 2016 to 30 June 2019 was approved by the Board of Directors on 26 May 2016 and updated by the resolution of the Board of Directors of PJSC Aeroflot on 25 May 2017. The Programme covers the CEO, members of the Management Board, department heads, Chief Accountant, and other employees of the Company, on the CEO’s resolution. As at the end of 2017, 54 employees were enrolled in the Programme. The total pool of the Long-Term Management Incentive Programme is equivalent to 3.0% of PJSC Aeroflot’s market capitalisation growth over the lifetime of the Long-Term Incentive Programme. The 2016–2019 Long-Term Management Incentive Programme draws heavily on the following underlying metrics:

- PJSC Aeroflot’s market capitalisation growth in each relevant interim period
- PJSC Aeroflot’s ranking among five international airline peers based on the market capitalisation change in each relevant interim period
- Achievement of the capitalisation target following the Long-Term Incentive Programme

The annual remuneration is paid as follows:

- ⅔ of the remuneration pool is paid out for the relevant interim period
- ⅓ of the remuneration pool is set aside until the end of the Long-Term Incentive Programme (June 2019) and paid out subject to the achievement of the capitalisation target

### KPI system

The list and weights of KPIs for the CEO of PJSC Aeroflot for 2017, which form part of the corporate KPI system, were approved by the Board of Directors of PJSC Aeroflot on 24 November 2016 (Minutes No. 6). The 2017 KPI targets for the CEO of PJSC Aeroflot were approved by the Board of Directors of PJSC Aeroflot on 22 December 2016 (Minutes No. 7).

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 and improve the Group’s overall performance. The KPIs for other employees of PJSC Aeroflot were approved by the CEO’s Order No. 465 dated 30 December 2016.

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 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 dated 20 April 2017 (Minutes No. 14), Aviation Accident with fatalities (Plane Crash) was set as the disqualification indicator (cancelling the bonus) in the KPI system.



Corporate Governance System continued

2017 KPI targets for the CEO of PJSC Aeroflot

KPI	Unit	2016				2017				Reasons for inconsistencies (2017A vs 2017P)
		Weight, %	Plan	Actual	Performance to plan, %	Weight, %	Plan	Actual	Performance to plan, %	
Total Shareholder Return (TSR)	%	10.0	89.7	176	196.2	10.0	13.5	1.2	8.89	Decrease is due to changes in the share price resulting from: <ul style="list-style-type: none"><li>the impact of macroeconomic factors on the Company's operating profit and net profit</li><li>changes in the Russian equity market (the Moscow Exchange index decreased by 5.5% in 2017, which is relatively comparable to the 9.4% decrease in Aeroflot share price).</li></ul>
ROIC	%	20.0	17.3	21.1	122.0	20.0	14.9	14.9	100.00	
Long-Term Debt / EBITDAR	–	5.0	1.3	1.0	123.1	5.0	0.93	0.86	107.53	Financial leverage reduction was due to the depreciation of the US dollar in late 2017 (plan rate – RUB 67 per US dollar, actual rate – RUB 57.6 per US dollar), which drove a reduction in the rouble equivalent of finance lease liabilities.
Integrated Innovation Key Performance Indicator (IIKPI)	%	10.0	80	96	119.7	10.0	80	80*	100.00	
Investment Programme Efficiency	–	5.0	6.05	10.22	168.9	5.0	5.22	6.88	131.80	High returns on the 2017 investment projects and lower capex.
CASK Reduction	%	5.0	2.0	2.0	100.0	N/A				As per the resolution of PJSC Aeroflot's Board of Directors, the indicator was replaced with the CASK KPI (for Aeroflot Group) (for more details see above).
CASK	cent per ASK	N/A				5.0	4.9	5.32	91.43	The rouble appreciation against the US dollar in 2017 led to a higher US dollar equivalent of the rouble-denominated costs which account for almost half of Aeroflot Group's total operating costs.
Share of State-Subsidised Funding in Total Funding Secured	%	5.0	0.0	0.0	100.0	5.0	0.0	0.0	100.0	
Punctuality	%	5.0	86.0	89.2	103.7	5.0	87.0	90.4	103.91	Aeroflot Group's initiatives to improve punctuality of aircraft departures include: <ul style="list-style-type: none"><li>Star Flights (flights with enhanced control)</li><li>air traffic management to improve flight arrival punctuality and, consequently, flight departure punctuality.</li></ul>

KPI	Unit	2016				2017				Reasons for inconsistencies (2017A vs 2017P)
		Weight, %	Plan	Actual	Performance to plan, %	Weight, %	Plan	Actual	Performance to plan, %	
PJSC Aeroflot's Flight Safety	%	15.0	99.957	99.975	104.2	15.0	99.957	99.972	103.49	Effective flight safety management, including: <ul style="list-style-type: none"><li>development and implementation of corrective measures to mitigate the impact of hazardous factors</li><li>implementation of measures to prevent aircraft damage in 2017</li><li>further implementation and development of the flight safety management system at the airline and operating business units.</li></ul>
Passenger Load Factor	%	10.0	81.1	81.5	100.5	10.0	80.0	82.8	103.50	Higher utilisation of aircraft fleet capacity through: <ul style="list-style-type: none"><li>a reduction in the frequency and optimisation of the schedule of underperforming flights</li><li>prompt changes for operational reasons.</li></ul>
Overall Productivity	mn ASK per emp.	10.0	3.951	4.010	101.5	10.0	4.235	4.431	104.62	Higher productivity levels across Aeroflot Group were supported by actual delivering the actual work loads for 2017 and optimising headcount growth.

Note. 2016 and 2017 KPIs are calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety KPI.  
\* The value shown is the minimal value achieved in 2017.

## Corporate Governance System continued

In 2017, the majority of the Long-Term Development Programme KPIs for PJSC Aeroflot's management were met/exceeded as a result of efficient operations. Failure to meet the KPI targets was due to the impact of macroeconomic factors.

The 2018 KPI list, weights, and targets for PJSC Aeroflot's CEO were approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7). The updated 2018 KPI targets for the CEO of PJSC Aeroflot were approved by the Board of Directors of PJSC Aeroflot on 26 April 2018 (Minutes No. 13).

### 2018 KPI targets for PJSC Aeroflot's CEO

KPI	Unit	Weight, %	Plan
Total Shareholder Return (TSR)	%	10.0	20.0
Return on Invested Capital (ROIC)	%	20.0	15.2
Long-Term Debt / EBITDAR	—	5.0	0.67
Integrated Innovation Key Performance Indicator (IIKPI)	%	10.0	100.0
Investment Programme Efficiency	—	5.0	4.42
CASK	cent per ASK	5.0	4.9*
Share of State-Subsidised Funding in Total Funding Secured	%	5.0	0.0
Punctuality	%	5.0	87.0
PJSC Aeroflot's Flight Safety	%	15.0	99.957
Passenger Load Factor	%	10.0	82.7
Overall Productivity	mn ASK per emp.	10.0	4.334

Note. All KPIs calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety.  
\* The target value of 4.9 cent per ASK is the lowest value achieved by Aeroflot Group in 2016.

The list and weights of the 2018 KPIs for the CEO comply with the guidelines issued by federal executive authorities, and reflect the Company's specifics and strategic priorities.

### Remuneration of the Board of Directors and the Management Board in 2017

In 2017, in line with Long-Term Incentive Programmes, remuneration was paid based on the results of two reporting periods specified in the programmes: from 1 January to 30 June 2016 and from 1 July 2016 to 30 June 2017.

On 26 June 2017, the Annual General Meeting of Shareholders resolved to:

- pay to the members of PJSC Aeroflot's Board of Directors the fixed component for the period from 1 January to 30 June 2016 in the amount of RUB 38,769,470
- approve the remuneration payable to the members of PJSC Aeroflot's Board of Directors under the Long-Term Incentive Programme for the period from 1 January to 30 June 2016 in the amount of RUB 64.2 million, of which 50% (RUB 32,118,180) shall be paid out and the remaining 50% shall be reserved, with payment postponed until the end of the Long-Term Incentive Programme
- pay to the members of PJSC Aeroflot's Board of Directors the fixed component for the period from 1 July 2016 to 30 June 2017 in the amount of RUB 69,300,000.

### Remuneration of members of PJSC Aeroflot's Board of Directors paid in 2017

Member of the Board of Directors	Remuneration for the period from 1 January 2016 to 30 June 2016		Remuneration for the period from 1 July 2016 to 30 June 2017
	Fixed component, RUB	Remuneration under the Long-Term Incentive Programme, RUB	Fixed component, RUB
Kirill Androsov	5,210,526	4,316,610	9,900,000
Mikhail Alekseev	3,107,368	2,574,270	6,750,000
Alexey Germanovich	—	—	8,550,000
Igor Kamenskoy	4,547,368	3,767,220	10,350,000
Marlen Manasov	4,232,368	3,506,260	—
Roman Pakhomov	6,752,368	5,593,930	10,350,000
Dmitry Peskov	4,232,368	3,506,260	6,750,000
Vitaly Saveliev	—	—	—
Dmitry Saprykin	—	—	—
Vasily Sidorov	6,632,368	5,494,520	10,350,000
Yury Slyusar	3,107,368	2,574,270	4,500,000
Sergey Chemezov	947,368	784,840	1,800,000
<b>Total</b>	<b>38,769,470</b>	<b>32,118,180</b>	<b>69,300,000</b>

The remuneration (salary, additional compensations, and bonuses) paid to the members of PJSC Aeroflot's Management Board in 2017 totalled RUB 694,758,610 (in 2016, the remuneration totalled RUB 598,825,846). Remuneration

under the Long-Term Incentive Programme was also paid in the reporting period and totalled RUB 2,238,417,192; in 2016, no such payments were made.

### Remuneration of members of PJSC Aeroflot's Management Board paid in 2017

Remuneration type	Amount, RUB
Salary and additional compensations	410,171,226
Bonuses	281,439,324
Other income	3,148,060
<b>Total</b>	<b>694,758,610</b>

# Corporate Governance System

continued

## Directors and officers liability insurance

As part of its efforts to provide insurance protection, PJSC Aeroflot has signed an agreement for liability insurance of the Company's directors and officers, as well as representatives of PJSC Aeroflot on governing bodies of its subsidiaries, providing for reimbursement for loss caused to third parties, arising from claims filed by third parties against the insured due to their wrongful acts committed in their management roles. A securities claim filed against the Company also constitutes an insured event.

The amount of insurance coverage is USD 100 million per claim and in total. The insurance period is one year. The total insurance premium is USD 99 thousand.

## Regulation of possible conflicts of interest within PJSC Aeroflot's governing bodies

Conflicts of interest at PJSC Aeroflot are regulated by the following documents:

- Corporate Conduct Code of PJSC Aeroflot
- Procedure for reporting to the employer on personal interest that leads or may lead to a conflict of interest
- Aeroflot Group's Anti-Corruption Policy

## Internal control and audit

Aeroflot Group has in place a centralised internal audit function, headed by the Director of the Internal Audit Department who functionally reports to the Board of Directors of PJSC Aeroflot and to the Audit Committee of the Board of Directors.

Depending on the scale of their business and related risks, the Company's controlled entities arrange for internal audit to be conducted by either PJSC Aeroflot's Internal Audit Department or the internal audit unit or permanent internal auditor of their own. Heads of such units and internal auditors of controlled entities functionally report to the Director of the Internal Audit Department of PJSC Aeroflot.

The internal control systems are designed to maximise the Aeroflot Group's transparency, financial performance, and compliance with the applicable laws.

## Audit Committee and its role

The Board of Directors of PJSC Aeroflot approves internal documents regulating its general policy on risk management and internal controls and establishes principles of, and approaches to, the risk management and internal control system within PJSC Aeroflot.

The Audit Committee of PJSC Aeroflot's Board of Directors enhances supervision over financial and business operations to optimise capex, protect shareholder interests, and ensure the growth of PJSC Aeroflot's assets.

Coordinating with the PJSC Aeroflot's executive bodies, the Revision Committee and the Internal Audit Department, the Audit Committee prepares and submits for consideration by the Board of Directors recommendations and proposals to:

- develop and provide for the implementation of the business plan
- establish and provide for compliance with effective internal controls
- provide for effective and transparent governance at PJSC Aeroflot, including prevention and termination of abuse by executive bodies and officers
- prevent, identify, and limit conditions giving rise to financial and operational risks
- provide for reliability of financial data used or disclosed by PJSC Aeroflot
- recommendations and proposals on other matters, as resolved by the Board of Directors of PJSC Aeroflot.

Risk management and internal controls assessment based on the reports by the Company's Internal Audit Department is regularly discussed by the Audit Committee of the Board of Directors. When conducting audits, the Internal Audit Department draws conclusions on the performance of the risk management and internal controls for each audited entity. To further improve risk management across key business processes within PJSC Aeroflot, the Audit Committee of the Board of Directors also receives regular reports on the Company's key risks.

PJSC Aeroflot has in place a practice of confidential reporting to the Board of Directors (the Internal Audit Department), its corporate Hotline. The Hotline operates on a confidential and anonymous basis. All received reports are reviewed by the Internal Audit Department.

## Results of internal and external audit assessments by the Audit Committee for 2017

Throughout 2017, the Audit Committee of the Company's Board of Directors reviewed the day-to-day operations of the Internal Audit Department and the audit results. The 2017 activity plan of the Internal Audit Department was approved by the Audit Committee. The Director of the Internal Audit Department held regular meetings with the Audit Committee which reviewed, approved, and gave a positive assessment of the Internal Audit Department's performance in 2017.

The Audit Committee reviews, on an annual basis, the results of external audit of PJSC Aeroflot's accounting (financial) statements prepared under the RAS, and, on a quarterly basis, of the consolidated financial statements prepared under the IFRS. Opinions issued by external auditors in 2017 received a positive assessment by the Audit Committee.

In 2017, Aeroflot Group's Internal Audit Department and internal audit units conducted a total of 40 audits of the Company's business units and subsidiaries to identify potential risks and assess the internal controls within Aeroflot Group's key business segments and processes.

Audits were followed by over 400 recommendations on further improvement of Aeroflot Group's operations, with most of them approved and implemented by the management.

In 2017, the Internal Audit Department reviewed over 1,500 reports submitted to the Board of Directors (the Internal Audit Department) via the confidential reporting Hotline. Internal investigations were conducted to follow up on some reviews.

The Internal Audit Department regularly reports to the PJSC Aeroflot's Audit Committee and Board of Directors on its progress under the annual activities plan, audits made, following the Department's recommendations, and operation of the Board of Directors' Hotline.

## Internal Audit Department

The Internal Audit Department is an independent business unit established to provide PJSC Aeroflot's governing bodies with independent and reliable guarantees and advisory services to enhance the operations of PJSC Aeroflot and Aeroflot Group companies by applying a holistic consistent approach to assessment and improvement of risk management, internal controls, and corporate governance processes.

Aeroflot Group ensures independence and objectivity of its internal audit by managing its reporting lines: the Director of the Internal Audit Department functionally reports to the Board of Directors of PJSC Aeroflot and to the Audit Committee of the Board of Directors and administratively reports to PJSC Aeroflot's CEO.

In its operation, the Department is guided by the International Standards for the Professional Practice of Internal Auditing and the underlying principles of independence, objectivity, proficiency, and professional care. The purpose of the Internal Audit Department is to support: financial and business performance of PJSC Aeroflot; achievement of financial and operational targets; protection of assets; fair disclosures of the Company's financial and business data; compliance with the applicable laws.

The Internal Audit Department strives to assist PJSC Aeroflot in achieving its strategic goals through applying a holistic consistent approach to assessment and improvement of risk management, internal controls, and corporate governance processes.

PJSC Aeroflot automated its internal audit function in 2017 to optimise auditing and monitoring recommendations compliance, as well as to comply with the International Standards for the Professional Practice of Internal Auditing. Aeroflot pioneered the selected SAP Audit Management solution in Russia and heavily invested in enhancing the standard SAP AM functionality, a joint effort of Aeroflot's project team and the SAP developer team. The product enabled much faster and more transparent auditing with lower operating costs required to ensure the internal audit quality.

In order to improve the quality of internal audit, Aeroflot's guidelines on planning, performing, and assessing the quality of internal audits were updated. In addition, over 15 model audit plans covering key business processes of the Company were standardised in 2017 to harmonise risk-oriented audit procedures.

## Revision Committee

The Revision Committee supervises PJSC Aeroflot's financial and business operations to provide reasonable assurance of the Company's business fully meeting the interests of its shareholders and requirements set forth in the applicable laws of the Russian Federation. In its operation, the Revision Committee is guided by the PJSC Aeroflot's Articles of Association and the Regulations on the Revision Committee.

As prescribed by the Regulations, the Revision Committee checked for accuracy the information contained in the RAS-based annual financial statements for 2017, including the income statement and other documents submitted to the Annual General Meeting of Shareholders. The Committee benchmarked the metrics of the Company's financial and business operations in 2013–2017 and the Company's compliance with the applicable laws in 2017.



## Corporate Governance System continued

Based on these audits, the Revision Committee prepared and approved a relevant report on the balance sheet and financial performance assessment results. The Committee's report reflected changes in the balance sheet structure and key change drivers, assessing a number of the Company's financial and business operations, including risk management, internal controls, and compliance. The audits and checks for compliance with the applicable laws enabled the Committee to develop recommendations on improvement of the Company's performance and thereby increase earnings and cut costs.

In its report, the Revision Committee passed a positive opinion on the overall accuracy of the Company's financial statements citing no material grounds to disprove the information provided in the Balance Sheet and Income Statement of PJSC Aeroflot as at 31 December 2017. The report also listed the Committee's recommendations on the Company's financial and business performance and legal compliance.

### Remuneration of PJSC Aeroflot's Revision Committee in 2017

Revision Committee member	Remuneration, RUB
Igor Belikov	1,312,761
Marina Mikhina	1,031,455
Ekaterina Nikitina	1,031,455
Sergey Ubugunov	—
Vasily Shipilov	—
<b>Total</b>	<b>3,375,671</b>

### External audit

Each year, PJSC Aeroflot engages external auditors to conduct an independent assessment of its accounting (financial) statements. External auditors are engaged through public tenders which ensure unbiased selection of the successful bidder based on auditing experience, the proposed audit scope and timeline, and the track record in the Company's industry. The audit firm which won the public tender for conducting annual audit of the Company's accounting (financial) statements is recommended by the Board of Directors for approval by the Annual General Meeting of Shareholders in accordance with the applicable laws.

The Annual General Meeting of Shareholders of 26 June 2017 (Minutes No. 40 dated 28 June 2017) elected the following members of PJSC Aeroflot's Revision Committee:

- Igor Belikov – Director of the Russian Institute of Directors
- Ekaterina Nikitina – Advisor to the President of PJSC Transneft
- Mikhail Sorokin – Head of the Management Department of the Federal Agency for State Property Management
- Sergey Ubugunov – Head of Division at the Ministry of Transport of the Russian Federation
- Vasily Shipilov – Deputy Head of Division at the Ministry of Economic Development of the Russian Federation

The Annual General Meeting of Shareholders also resolved to pay members of the Revision Committee the total remuneration of RUB 3,375,671.

The Annual General Meeting of Shareholders approved HLB Vneshtaudit (Minutes No. 40 dated 28 June 2017) as the Company's external auditor to provide an independent review of PJSC Aeroflot's 2017 accounting (financial) statements prepared under the Russian Accounting Standards (RAS).

The total audit fee paid to HLB Vneshtaudit in 2017 amounted to RUB 3,301,000 (net of VAT). The contracted scope of services rendered by HLB Vneshtaudit included the audit of interim and annual statements for 2017. No contracts for other services were signed with HLB Vneshtaudit in 2017.

The Annual General Meeting of Shareholders approved PricewaterhouseCoopers Audit (Minutes No. 40 dated 28 June 2017) as the auditor of the Company's consolidated financial statements for 2017 prepared under the International Financial Reporting Standards (IFRS).

The total fee paid to PricewaterhouseCoopers International Limited for audit, audit-related, and other services in 2017 amounted to RUB 67,416,000 (net of VAT). The key scope of services rendered under the 2017 contract included a general review of the IFRS interim and condensed consolidated financial statements for 6M and 9M 2017, audit of the IFRS consolidated financial statements for 2017, guidance, as well as streamlining, automation, and diagnostics of the Company's business processes.

### Anti-corruption policy

Aeroflot Group openly states zero tolerance for unfair and illegal business practices and takes additional voluntary anti-corruption commitments recommended by international and Russian laws.

PJSC Aeroflot is committed to public anti-corruption measures, transparent and open procurement processes, rejection illicit benefits, creates effective feedback channels, and fights corruption by sharing information. In 2015, PJSC Aeroflot signed up to the Anti-Corruption Charter of the Russian Business.

On 21 December 2015, PJSC Aeroflot's Board of Directors (Minutes No. 8) approved Aeroflot Group's Anti-Corruption Policy designed to create a uniform approach to Federal Law No. 273-FZ On Countering Corruption dated 25 December 2008, which provides for development and adoption of measures to prevent and counter corruption.

PJSC Aeroflot has in place a procedure for reporting on corrupt practices or conflicts of interest.

The Company also has a roadmap for anti-corruption risk management and internal control processes at PJSC Aeroflot, approved by the Board of Directors. We are also working to integrate the Guidelines on Anti-Corruption Risk management and Internal Controls in partially state-owned joint-stock companies, approved by Order of the Federal Agency for State Property Management No. 80 dated 2 March 2016.

The Deputy Director of the Department for Economic Security is responsible for compliance management.

PJSC Aeroflot set up a dedicated incident reporting channel – [okb@aeroflot.ru](mailto:okb@aeroflot.ru), which is described on the Company's website. The Company guarantees confidentiality when receiving and reviewing incident reports and no negative consequences for individuals who raised their concerns in good faith.

# Corporate Governance System

continued

## Information disclosure

To enhance its corporate transparency and equity story, the Company strives to ensure timely disclosure of complete and accurate material information on its operations. The Company's disclosure is guided by requirements and recommendations of federal laws, the Bank of Russia, Russian and foreign trading hubs where the Company's securities are listed, as well as corporate documents such as the Regulations on the Corporate Information Policy and the Regulations on Providing Access to Insider Information.

The main objectives of PJSC Aeroflot's corporate information policy are to:

- ensure compliance with the Russian law and regulatory requirements of the securities market
- enhance information transparency and confidence in communications with the Company's shareholders, security holders, investors, creditors, and other stakeholders, and ensure protection of their rights and legitimate interests
- focus on fully meeting the demand of shareholders, investors, professional security traders, and other stakeholders for fair disclosures of the corporate and business information
- secure shareholders' rights to receive material information required to exercise their corporate governance rights
- maintain professional and trust-based relationships of the Company with mass media providing for free information sharing without prejudice to the rights and legitimate interests of shareholders, investors, and other parties
- protect insider information.

Information on PJSC Aeroflot is promptly communicated to the widest possible audience through publication of such messages, press, and news releases in the news feed updated in real time on PJSC Aeroflot's disclosure page (<http://disclosure.skrin.ru/disclosure/7712040126>) and in the Shareholders and Investors section of Aeroflot's website (<http://ir.aeroflot.ru>).

For more details on information disclosure see the Investor Relations section.

## Internal regulations guiding the Annual Report

Baseline internal regulations used to prepare this Annual Report, including key internal regulations governing the internal audit, as well as the risk management and internal control system, are:

- Articles of Association of PJSC Aeroflot
- Corporate Governance Code of PJSC Aeroflot
- Corporate Conduct Code of PJSC Aeroflot
- Regulations on the General Meeting of Shareholders of PJSC Aeroflot
- Regulations on the Board of Directors of PJSC Aeroflot
- Regulations on the Management Board of PJSC Aeroflot
- Regulations on the Executive Secretary of the Board of Directors and the Board of Directors Office of PJSC Aeroflot
- Regulations on the Personnel and Remuneration Committee of the Board of Directors of PJSC Aeroflot
- Regulations on the Audit Committee of the Board of Directors of PJSC Aeroflot
- Regulations on the Strategy Committee of the Board of Directors of PJSC Aeroflot
- Regulations on the Revision Committee of PJSC Aeroflot
- Regulations on Internal Audit at Aeroflot Group
- Regulations on Aeroflot Group's Risk Management System
- Dividend Policy of PJSC Aeroflot
- Regulations on the Corporate Information Policy
- Regulations on Providing Access to Insider Information
- Aeroflot Group's Anti-Corruption Policy
- Regulations on the System of Disclosure of Confidential Information to the Board of Directors (Audit Committee of the Board of Directors) – Hotline
- Environmental Policy of PJSC Aeroflot.

# Risk Management

## Risk management system

Aeroflot Group's risk management policy is aimed at building up a comprehensive system that helps promptly identify risks that affect the Company, assess their materiality, and take measures to minimise both the likelihood of risks being realised and losses they can lead to.

Aeroflot Group's risk management procedures are governed by the Regulations on Aeroflot Group's Risk Management System approved in 2015 and updated in 2017.

The document lays down the framework for a unified risk assessment and management methodology: goals, tasks, principles of organisation and operation of the corporate risk management system (CRMS), and approaches to, and principles of, the distribution of rights, obligations and responsibilities of participants of the risk management system at PJSC Aeroflot and its controlled entities.

Risk management is applied across all management levels and functional and project areas. The respective functions are distributed among the Board of Directors, the Audit Committee of the Board of Directors, the Management Board, and business units of PJSC Aeroflot. A standalone unit (Risk Management Department) has been set up in the Company to:

- generally coordinate risk management processes
- develop guidelines to govern risk management processes
- arrange personnel training in risk management and internal control
- review the risk portfolio and develop proposals on response strategy and reallocation of resources to manage respective risks
- prepare consolidated risk reports
- perform day-to-day monitoring of the risk management process in the Company's business units and in its controlled entities, as prescribed
- prepare information and inform the Board of Directors and executive bodies as to the efficiency of the risk management process.

PJSC Aeroflot's business units and the Risk Management Department make comprehensive efforts to identify and assess risks, as well as prepare the Risk Register and Risk Map. In 2017, PJSC Aeroflot's CEO approved the Risk Management Standard to implement the concept of a unified risk management and internal control methodology. The Board of Directors of PJSC Aeroflot annually reviews and approves the Risk Register, Risk Map, and Risk Appetite Statement of Aeroflot Group.

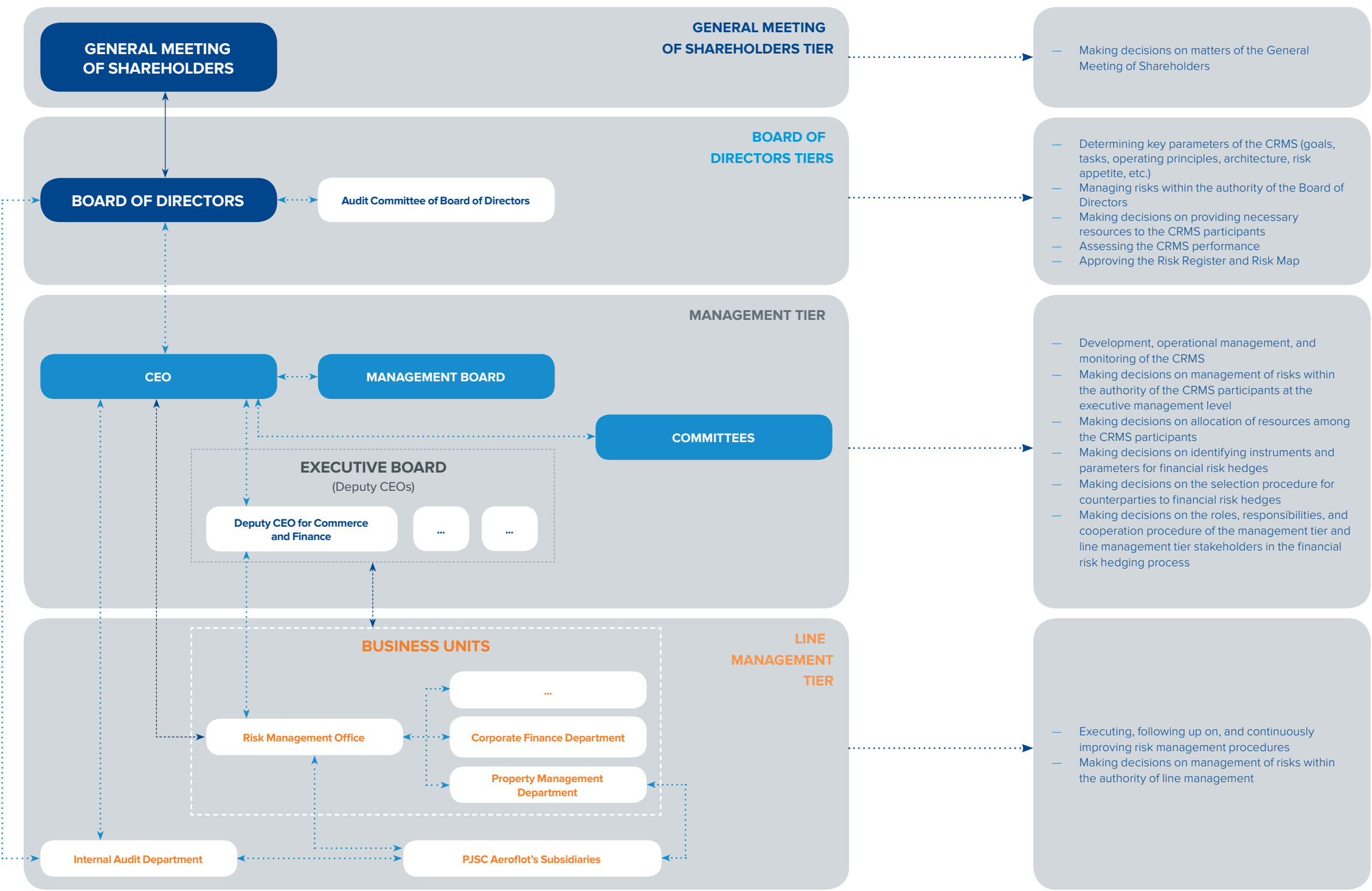
Control over PJSC Aeroflot's financial and business activities is exercised by the Audit Committee of the Board of Directors, Revision Committee, Internal Audit Department, and Risk Management Department. An independent auditor is engaged to audit PJSC Aeroflot's accounting statements prepared under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS).

Officers responsible for interaction with PJSC Aeroflot on the implementation of the CRMS have been designated in controlled entities, with controlled entities taking measures to identify and assess risks.

# Risk Management

continued

Risk management flow chart



Risk management structure





# Risk Management

continued

## Enhancement of the risk management system

Selected activities implemented in 2017 to enhance integrated risk management in PJSC Aeroflot:

- The Board of Directors of PJSC Aeroflot approved the updated Aeroflot Group's Risk Register and Risk Map prepared in line with the Risk Management Standard
- The Board of Directors of PJSC Aeroflot approved the Risk Appetite Statement of Aeroflot Group
- PJSC Aeroflot's employees were trained in risk management and internal control
- Implementation of the Risk Management Standard in controlled entities was launched

In order to improve risk management performance, Aeroflot Group carries out regular CRMS performance assessments both as part of day-to-day operations and in the form of in-house or independent third-party assessments. The management, Audit Committee of the Board of Directors, and Board of Directors receive regular reports on risk management and the CRMS performance across Aeroflot Group.

### Principal risks and mitigation measures

Risk	Description	Mitigation
FINANCIAL RISKS		
Market risks	Risks of underperformance against targets (financial, operating, strategic, etc.) due to FX rate, commodity price, or market interest rate fluctuations	To reduce market risk implications for financial performance, PJSC Aeroflot seeks to balance out revenues and liabilities in each currency. In light of the limits of operational (or natural) hedging, we diversify debt across currencies and instruments, and regularly consider financial hedging options involving derivatives on aviation fuel and FX rates. We review the use of interest rate hedges on a regular basis. No transactions were undertaken in 2017 to hedge FX risk or fuel price risk. See below an overview of the impact the realised risk may have on the Group.
Credit risk	Risk of incurring losses from a potential failure by a counterparty to meet its contractual obligations to Aeroflot Group companies	A systemic approach is used to manage credit risk, aimed at preventing the risk occurring or minimising financial losses should it occur. The approach involves: <ul style="list-style-type: none"><li>— use of financial coverage clause in service contracts with deferred payments</li><li>— capping agent sales volumes, prepayments, and receivables from counterparties</li><li>— regular credit quality assessments of counterparties (based on credit ratings and probability of default ratings)</li><li>— regular recalculation of financial coverage for credit risk</li><li>— regular monitoring of credit risk indicators that warn of potential defaults and give the Company time to respond in advance</li><li>— credit risk limits assigned to banks and financial companies.</li></ul>
Liquidity risk	Risk of incurring losses from the inability of an organisation to fully meet its obligations as they fall due	To mitigate liquidity risk, we: <ul style="list-style-type: none"><li>— plan cash inflows and outflows to identify and promptly eliminate potential gaps by raising short-term loans from partner credit institutions</li><li>— have established controls over the use of working capital by launching an operational system to enable early warnings of cash gaps, building a sufficient liquidity cushion, prompt raising of funds in the money market, and maximize the use of free cash</li><li>— regularly review limits for credit, deposit, and FX transactions with financial institutions.</li></ul>

Risk	Description	Mitigation
Capital markets access risks	Risks of incurring losses from the Group's inability to raise debt for its financial and business activities on acceptable terms	The market situation is monitored, a competitive environment for credit institutions is set up, measures to enhance the Group's equity story are taken, and relationships with credit rating agencies are managed.
BUSINESS RISKS		
Strategic risks	Risks of incurring losses from errors (flaws) made when making decisions on the Group's business and growth strategy	Efforts are taken to minimise risks related to the Aeroflot Group's Development Strategy including making decisions to improve operating performance, cut costs, and increase resource efficiency.
Risk of terrorism or armed conflicts	Risks of incurring losses from armed conflicts, terrorist attacks, or threats of attacks	PJSC Aeroflot cooperates with airport security services, airlines, and law enforcement authorities to implement an aviation and transportation security action plan to prevent unlawful interference in the Company's operations and ensure passenger and staff safety.
Risks of epidemics, and man-made or natural disasters	Risks of losses that have external (beyond the control of the Company) causes and are due to epidemics, or man-made or natural disasters	Necessary response measures, including flight suspension, route changes to avoid hazardous regions, extra measures to increase flight safety and to ensure aviation security are taken, and sanitary and epidemiological control is strengthened.
Industry risks	Risks of incurring losses from changes in the air transportation industry	Industry risks are mitigated by: <ul style="list-style-type: none"><li>— operating a high-frequency route network</li><li>— using a hub model at the base airport</li><li>— maintaining Europe's youngest aircraft fleet</li><li>— targeting the premium passenger segment (convenient departure and arrival times, high-quality service)</li><li>— driving innovation across all areas of the business</li><li>— maintaining a high level of flight safety</li><li>— promptly adjusting existing fares, running marketing campaigns and various promotions</li><li>— matching aircraft capacity to the passenger traffic on a given route</li><li>— expanding the route network to countries popular among tourists year-round</li><li>— requesting slots in advance and forecasting constraints</li><li>— applying a flexible, seasonally adjusted pricing policy to maximise revenue including the use of non-refundable fares.</li></ul>
Environmental risks	Risks of negative changes in the environment or long-term negative implications of these changes caused to anthropogenic impacts	Aeroflot Group is fully aware of its responsibility to society and future generations and strives to ensure sustainable environmental balance across all areas of business. The key focus area is improving the aircraft fleet's fuel efficiency. Aeroflot's environmental policy is aimed at improving the levers and tools ensuring high energy efficiency and environmental performance of its end air products: <ul style="list-style-type: none"><li>— A CO<sub>2</sub> calculator has been developed and implemented, required data is collected and analysed, and reports on GHG emissions and revenue tonne-kilometres (Aeroflot's entire fleet is compliant with ICAO's noise and emissions standards) are prepared</li><li>— A waste management system is in place to minimise environmental impact with a focus on recycling as the most effective method of waste disposal</li><li>— Regular inspections of waste storage sites are performed, waste generation and movement are tracked, and contracts for waste disposal and landfill are signed</li><li>— Instrumental control and fine-tuning of ground vehicle fuel systems is performed, and performance of ventilation systems is monitored in operational and office premises</li><li>— Regular water protection and water resource management activities are carried out</li></ul>

Risk Management  
continued

Risk	Description	Mitigation
Service quality risk	Risk of incurring losses from potential refusal by consumers to buy goods or services of the Group companies or outsourced services as a result of products and services offered by the companies failing to meet the quality requirements of consumers	A process to obtain feedback from customers through a number of channels and ensure timely and full consideration of all incoming communications and complaints has been put in place. The demand for services offered is also tracked, and measures to enhance service quality, improve consumer loyalty and experience, and monitor employee compliance with regulations are taken.
Reputational risks	Risks that an organisation would incur losses as a result of reduced brand value or negative perceptions of the organisation's image by customers, counterparties, shareholders, business partners, regulators, and others	Aeroflot Group takes pride in its reputation as a high-quality, safe carrier and a reliable business partner; therefore, it takes all necessary steps to protect its reputation, ensure management integrity and effectiveness, and maintain a positive image among customers, counterparties, shareholders, and business partners. A strong focus is maintained on analysing and improving customer experience, and on deploying cutting-edge customer service technologies. The information environment around Aeroflot Group is continuously monitored and analysed, communications with NGOs are maintained, and procedures to monitor compliance with process flows and regulations are set up.
OPERATIONAL RISKS		
Aviation security risks	Risks of incurring losses from unlawful interference with aviation activities	The situation is monitored and analysed and remedial measures to ensure safety at the base airport and destination airports are taken, airports are audited on a regular basis, the level of aviation security at destination airports and compliance with regulations are monitored, independent experts are engaged, and the state of external and internal access control systems is monitored on a 24/7 basis.
Flight safety risks	Forecast likelihood and severity of implications of one or several threats being realised with respect to aviation activities related to aircraft operation or directly supporting such operation (flight and ground, commercial and technical)	Aircraft condition, aircraft maintenance, and the operation of the corporate healthcare unit in terms of medical examination of flight crews are monitored, medical equipment is replaced; operations and operating processes are continuously monitored.
IT risks	Risks of incurring losses from the use of information technologies by the company	Relations with IT vendors and developers have been established, channel redundancy and data backup procedures are implemented, skilled personnel are recruited and trained, and the causes of IT failures are investigated.
HR risks	A group of risks that arise from, or affect, the Group's personnel (or an individual employee), including the lack of required/appropriate number of employees as determined based on the current and forward-looking business plans and existing business processes	An effective recruitment process has been put in place, training and professional development courses for employees are organised. Also, staff pay levels are monitored in order to remain in line with the market, and a range of social benefits and guarantees is offered to employees.
Risks of quality of purchased spare parts, units, components, and materials	Risks of losses due to quality and authenticity (originality) of spare parts and units purchased by Aeroflot Group, as well as components and materials to support its core business	Quality of supplies and suppliers' operations is monitored and analysed, and procurement and supplier selection procedures are improved.
Economic and information security risks	Risks of losses related to changes in the corporate internal and external environment that may lead to the relevant item losing its economic value	An effective system to monitor, identify, localise and prevent threats and vulnerabilities has been put in place, and steps are taken on an ongoing basis to monitor employee compliance with economic and information security requirements, and to identify and prevent offences.

Risk	Description	Mitigation
Occupational safety risks	Risks of incurring losses from factors related to the Group's financial and business activities which may cause injury or death of employees at workplaces	Local occupational health regulations have been developed, compliance with, and conformity to, applicable laws are monitored.
COMPLIANCE RISKS		
Tax risks	Risks of incurring losses from possible misinterpretation of laws with respect to financial and business activities, resulting in financial uncertainties of such activities after tax	To prevent non-compliance with tax laws, changes in tax laws are regularly monitored in Russia and other countries in which the Company operates, court practice on tax disputes is analysed, contracts to be signed are analysed to remove provisions that might lead to errors or inaccuracies when taxing relevant transactions, and a regular independent audit of the applied taxation procedures is performed during annual auditing process.
Legal and regulatory risks	Risks of incurring losses from failure to comply with laws, changes in laws that may adversely affect financial and business activities of the Company, as well as risks of incurring losses from direct or indirect implications of potential legislative restrictions imposed by regulators on Aeroflot Group	In its air transport operations, Aeroflot considers local legal requirements in every destination country, as well as the requirements and recommendations of aviation regulators, along with multiple and frequent changes to immigration policy, customs and foreign exchange laws, and licensing requirements. An action plan is implemented to reduce the probability of adverse impacts on the continuity of Aeroflot's operations, including legal monitoring, summarising and analysing court practice, and monitoring of practice for signing and executing contracts and agreements with counterparties. Aeroflot is actively involved in government and international organisations, and in drafting regulations that may impact the way the air transportation industry is regulated.
Corruption risks	Potential corruption offences by employees	Aeroflot Group does not tolerate any form of corruption, and is committed to the principles of transparency, openness, and fairness in its business and procurement activities, and rejects illicit benefits. Aeroflot continuously improves its corporate regulations, develops and introduces new rules and procedures to prevent corruption offences, raises awareness among employees and educates them on anti-corruption practices, and has in place effective feedback channels. In 2014, PJSC Aeroflot joined the Anti-Corruption Charter of the Russian Business, and actively promotes anti-corruption activities under the Charter. Aeroflot Group has in place the corporate Anti-Corruption Policy and the Committee on Preventing Corruption and Conflict of Interest Resolution.

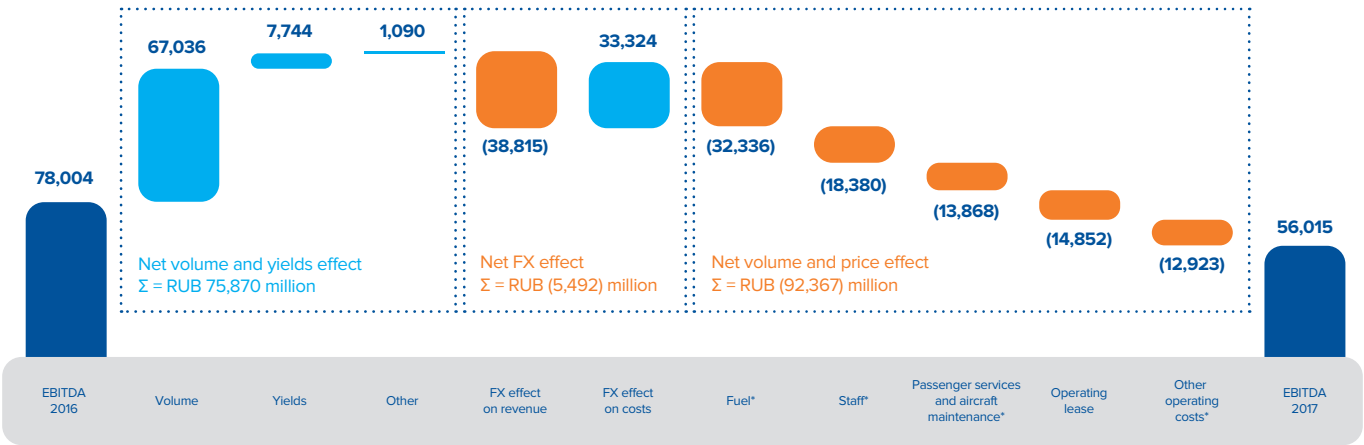
# Risk Management

continued

## Impact of key financial risks realised in 2017

Aeroflot Group's key financial risks are associated with changes in foreign exchange rates (EUR/RUB, USD/RUB, EUR/USD), jet fuel prices (in the Russian and international markets), and market interest rates (primarily LIBOR). These risk factors are interlinked, most notably changes in the EUR/RUB and USD/RUB exchange rates and jet fuel prices affected by oil prices.

Effect of changes in FX rates and other macroeconomic factors on EBITDA of Aeroflot Group  
RUB MILLION



\* Net of FX effect.

Significant changes in the above risk factors had a major impact on the Group's performance in 2017 primarily due to sharp changes in FX rates and fuel prices.

In 2017, the average RUB/USD exchange rate appreciated by 13.1% year-on-year. The rouble rose by 11.2% against the euro, and the average EUR/USD exchange rate appreciated by 2.1%. These factors put pressure on Aeroflot's FX-denominated revenue but changes in USD/EUR exchange rate had a positive impact on the Company with its foreign currency expenses mostly denominated in USD and FX revenues mostly denominated in EUR.

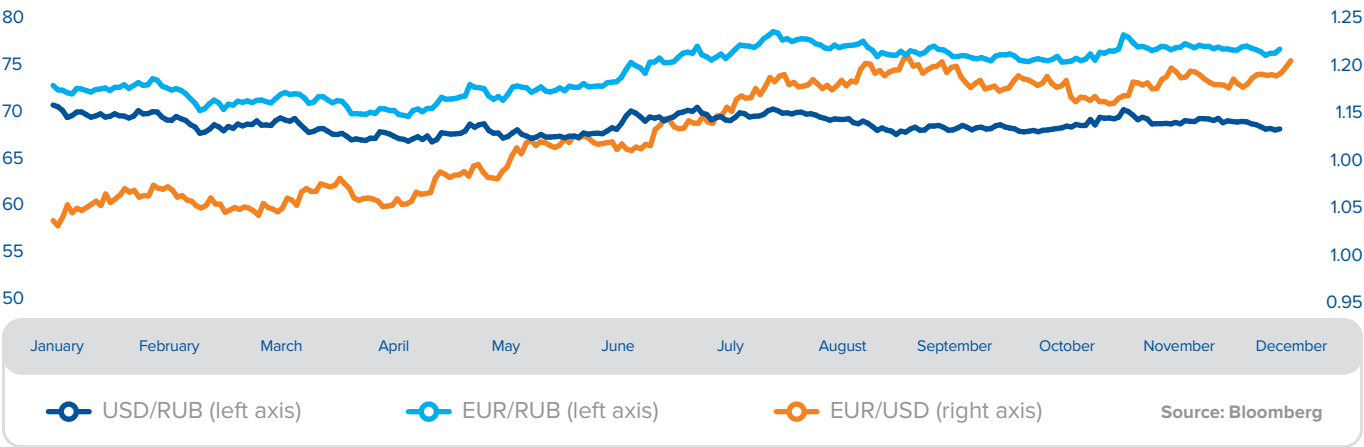
Global oil prices showed a strong growth in 2017, with the year-average price of Brent crude benchmark rising by 21.3% while the rouble appreciated against the US dollar only by 13.1%, as mentioned earlier. Thus, rouble oil prices grew by 5.6%, pushing jet fuel prices by 7.6%.

## Currency and price risks

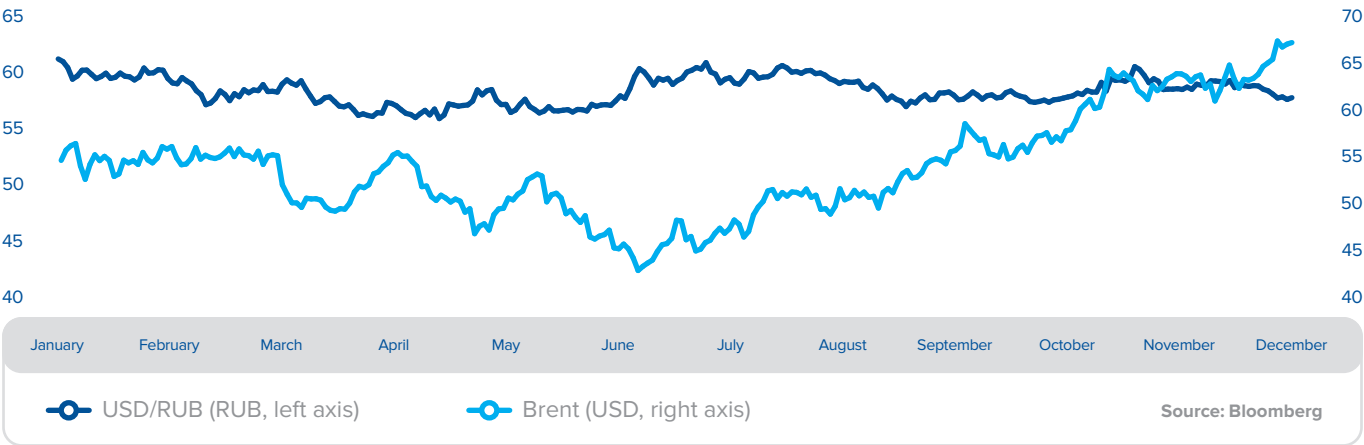
Aeroflot Group's exposure to currency risk results from the vast share of the Company's income and expenses being affected by changes in the EUR/RUB and USD/RUB exchange rates:

- Sales revenue from international flight tickets is collected in foreign currency (in foreign markets or from transit passengers), or in roubles based on euro prices, with fares across the Group's core markets priced mostly in euros
- Fuel costs, lease payments, and maintenance costs (key foreign currency expenses accounting for 24.9%, 13.4%, and 7.4% of the Group's operating costs, respectively) are denominated in US dollars with some operating expenses denominated in euros and roubles

USD/RUB, EUR/RUB, and EUR/USD dynamics in 2017



Oil price and USD/RUB rate dynamics in 2017



Our currency risk management primarily focuses on reducing the Group's exposure to currency risk factors. Aeroflot Group pursues a policy of balancing out revenues and liabilities in each currency.

Aeroflot Group's price risk arises from fuel purchase contracts, as the contractual pricing formula is linked to global oil prices. The Group traditionally uses hedging instruments to manage price risks. In 2016–2017, no such transactions were executed, and no risks for 2018 were hedged as at 31 December 2017.

## Interest rate risk

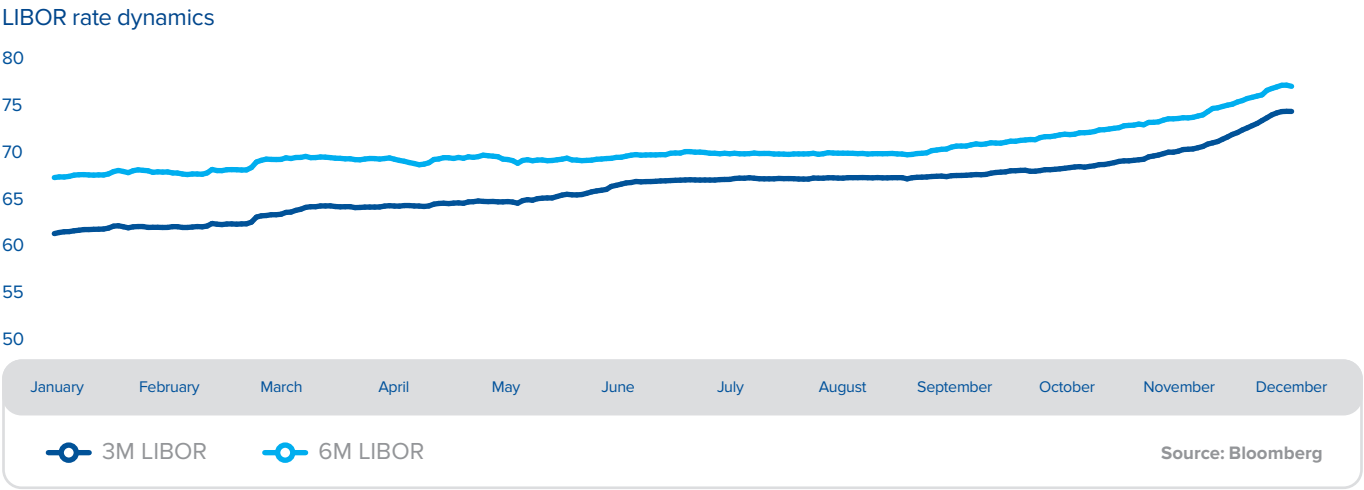
The Group's exposure to interest rate risk results from changes in the debt market interest rates affecting the costs of borrowings and loans, and driving operating lease costs escalation. Specifically, costs under lease agreements of Aeroflot Group are linked to LIBOR 6M and 3M market interest rates. In 2017, the 6M rate went up from 1.31% to 1.83%, while the 3M rate increased from 1.00% to 1.69% year-on-year (as at 31 December).

Interest rate swaps are a common instrument to mitigate interest rate risk. This risk factor has a limited materiality for the Group, and no transactions to convert the floating rates into fixed rates were undertaken.



## Risk Management

continued



### Insurance against operational risks

Aeroflot Group uses insurance as an effective tool to manage risks. Aeroflot Group’s underlying approach is to take out, whenever practically possible, full coverage for all types of risks.

The Group’s key operational risks are insured, with coverage for aviation risks, such as actual or constructive total loss, disappearance or damage of aircraft, its components and/or units, risks of airline/operator liability for injury, death, or property damage to passengers or third parties, and war risks accounting for 60% of the total insurance costs.

As part of its efforts to provide insurance protection, PJSC Aeroflot has signed an agreement for liability insurance of PJSC Aeroflot, its directors and officers with a liability limit of USD 100 million.

Aeroflot Group also uses various insurance programmes covering a wide range of non-aviation operational risks of support operations, including all types of compulsory and most types of voluntary civil liability insurance, motor insurance, property insurance (real estate, flight simulators, IT equipment), personal insurance (voluntary medical insurance for employees, their families, and retired employees of Aeroflot Group, accident insurance, disability insurance for flight crews, and travel insurance).

In 2017, all insurance contracts were renewed as scheduled. Given that all insurance policies are purchased as part of the consolidated procurement process, insurance rates and premiums of the Group companies were reduced for many types of policies.

Subsidiary airlines of PJSC Aeroflot were included in consolidated reinsurance coverage, which helped reduce the aviation risk insurance rates by 10%. Thus, despite the growing fleet, the overall aviation risk insurance premium remained almost flat versus the previous insurance period.

### Outlook and plans for 2018

Aeroflot group consistently improves its corporate risk management. As part of efforts to enhance the corporate risk management system and improve its performance, special focus will be placed in 2018 on improving approaches to quantitative risk assessment, roll-out of key risk indicator system, and streamlining information flows, infrastructure, and communication channels enabling early risk identification, analysis, and mitigation follow-up.

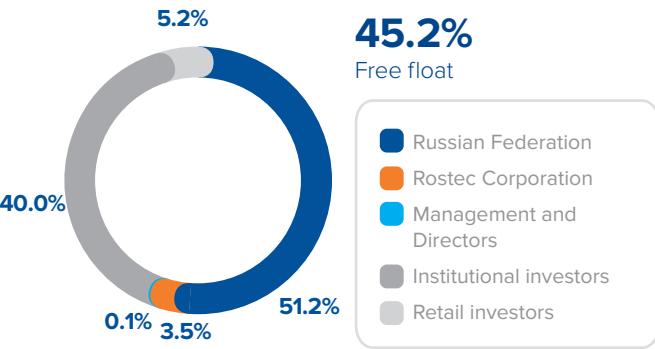
# Investor Relations, Equity and Debt

## Share capital

As at 31 December 2017, PJSC Aeroflot’s charter capital consisted of 1,110,616,299 ordinary registered uncertificated shares with a par value of RUB 1 each. The Company did not issue preferred shares.

State registration numbers of PJSC Aeroflot’s ordinary share issues are 73-1 p-5142 (dated 22 June 1995) and 1-02-00010-A (dated 1 February 1999). These issues were merged by Decree No. 04-168/r of the Federal Securities Commission of Russia dated 23 January 2004, following which the issues of PJSC Aeroflot ordinary shares were assigned state registration number 1-01-00010-A on 23 January 2004.

PJSC Aeroflot’s shareholders as at 31 December 2017



Note. Free float represents shares not owned by the state or partially state-owned companies, and not directly owned by the Company, the Group’s subsidiaries or the Company’s management.

### Key shareholders of PJSC Aeroflot

Holder	Status*	As at 31 December 2016		As at 31 December 2017		Change of shareholding, p.p.
		Number of shares	Shareholding, %	Number of shares	Shareholding, %	
<b>Legal entities</b>		<b>1,048,923,212</b>	<b>94.45</b>	<b>1,053,301,607</b>	<b>94.84</b>	<b>0.39</b>
including:						
Russian Federation (represented by the Federal Agency for State Property Management)	O	568,335,339	51.17	568,335,339	51.17	–
National Settlement Depository	N	387,462,361	34.89	445,556,945	40.12	5.23
Aeroflot-Finance**	O	53,716,189	4.84	–	–	(4.84)
RT-Business Development	O	16,720,724	1.51	16,720,724	1.51	–
Aviacapital-Service***	O	22,688,599	2.04	22,688,599	2.04	–
<b>Individuals****</b>	<b>O</b>	<b>61,693,087</b>	<b>5.55</b>	<b>57,314,692</b>	<b>5.16</b>	<b>(0.39)</b>

\* O means “owner”, N means “nominee”.  
\*\* Aeroflot-Finance’s stake includes the stake held by nominees, with the number of quasi-treasury shares unchanged in 2014–2016.  
\*\*\* Aviacapital-Service’s stake includes the stake held by nominees.  
\*\*\*\* Partially including the management and members of the Board of Directors.

## Investor Relations, Equity and Debt continued

In addition to outstanding shares, the Company has the right to issue a further 250 million ordinary registered shares (authorised shares). No additional shares were issued in 2017.

The total number of PJSC Aeroflot's shareholders as at 31 December 2017 was 11,101, vs 11,377 as at 31 December 2016, comprising mostly individuals.

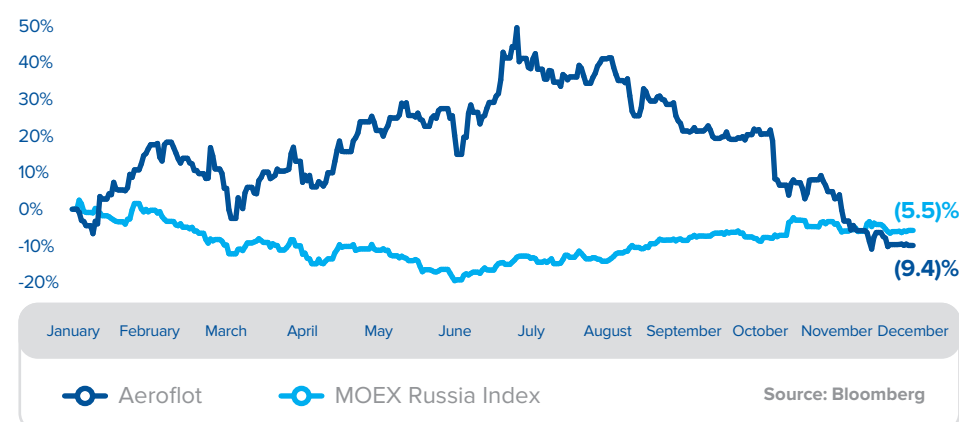
PJSC Aeroflot's register of shareholders is kept by Independent Registrar Company (License No. 045-13954-000001, issued by the Bank of Russia). The register holder's details are provided in the Contact Details appendix to this Annual Report.

## Shares

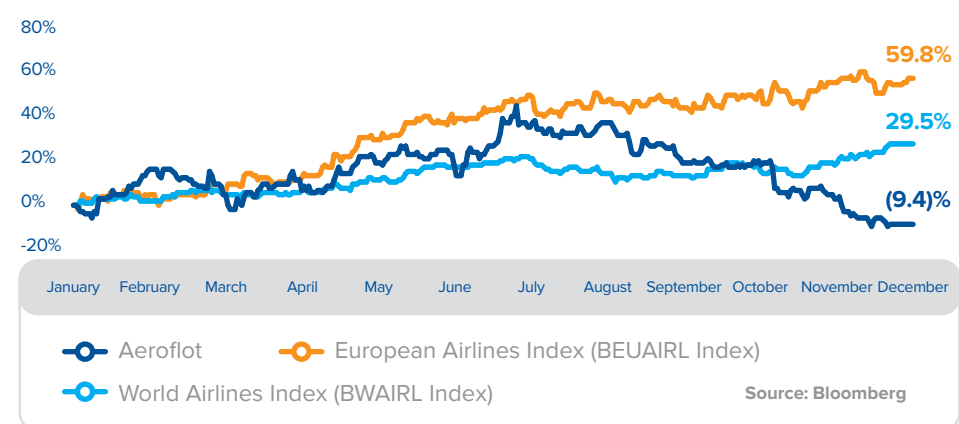
PJSC Aeroflot shares and depositary receipts are traded on the stock market. Ordinary shares are traded on the Russian market, and global depositary receipts (GDRs) are traded on foreign markets.

PJSC Aeroflot shares are traded on the Moscow Exchange, where as at 31 December 2017 they were included in the Level 1 Quotation List (AFLT: MOEX). Securities transactions are subject to the T+2 trading mode. PJSC Aeroflot shares are included in the main Russian stock indices: MOEX Russia Index, MICEX Broad Market Index (RUB and USD), MICEX Transport Index (RUB and USD), MICEX 10 Index, and RTS Index.

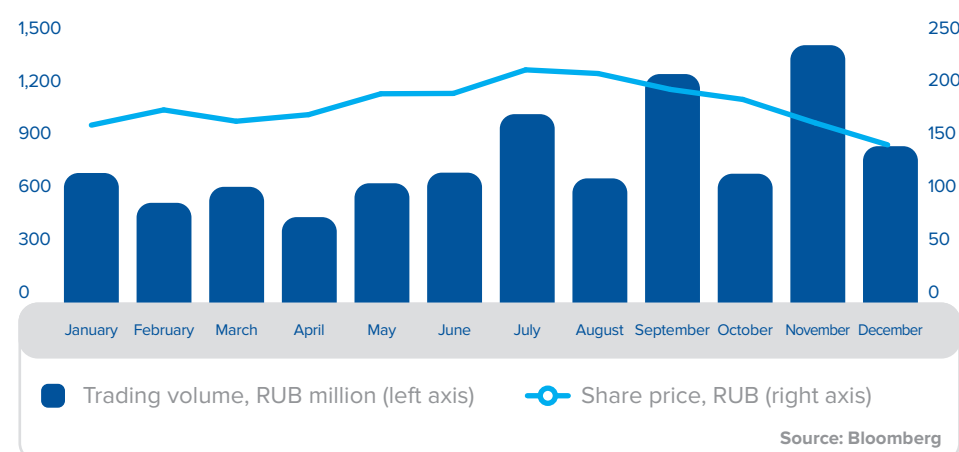
PJSC Aeroflot share price performance vs MOEX Russia Index, 2017



PJSC Aeroflot share price performance vs Bloomberg Airlines Index, 2017



PJSC Aeroflot share price and trading volumes, 2017

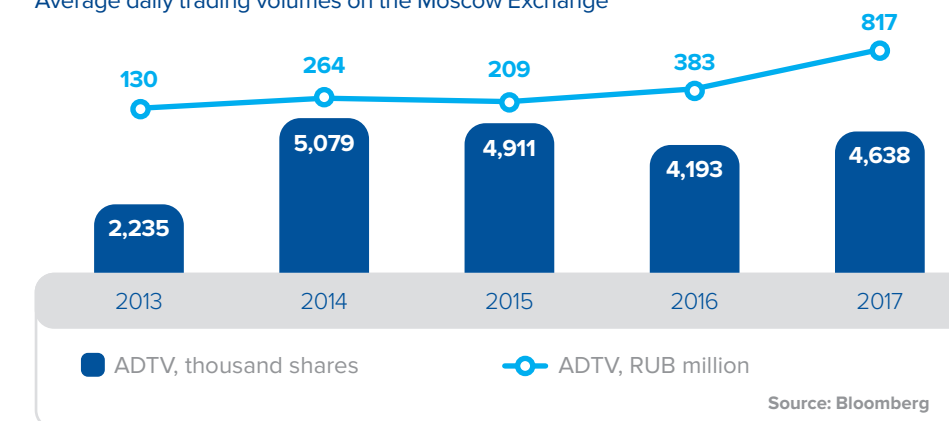


As at 31 December 2017, PJSC Aeroflot's market capitalisation was RUB 153.8 billion, down 9.4% year-on-year.

PJSC Aeroflot share price was strongly driven by the general trend in the Russian stock market: as at the year-end, PJSC Aeroflot share price changed relatively on par with MOEX Russia Index (down by 9.4% and 5.5%, respectively). The external factors that affected the Group's financial performance, including growing fuel prices due to higher oil prices in the global market and the rouble appreciation against global currencies in the reporting period (vs 2016), were an additional source of pressure on the share price.

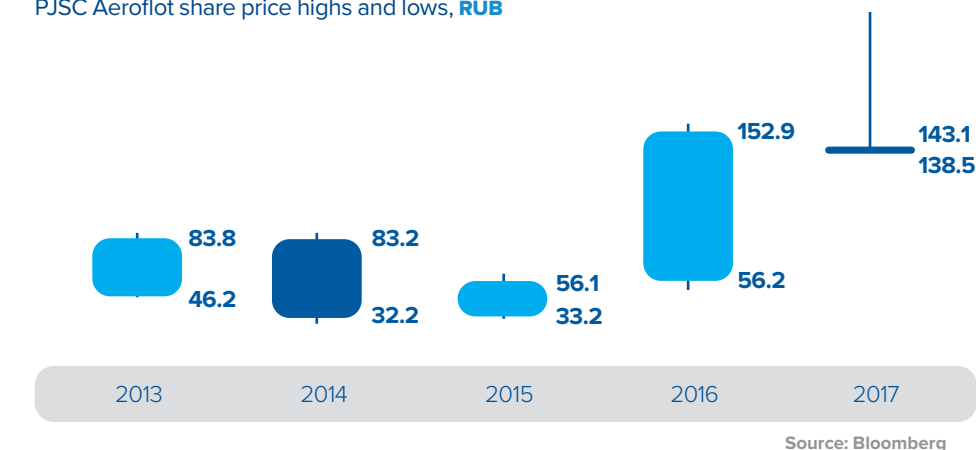
Airline stock indices grew in 2017, supported by the stronger financial performance of some companies and the overall better environment in some regional markets, which indicates that this growth was driven by the low base of the previous years. In addition, segment share prices were supported by the positive investor outlook on the air transportation industry in the medium-term.

Average daily trading volumes on the Moscow Exchange



Note. The average daily trading volume was calculated based on the closing price.

PJSC Aeroflot share price highs and lows, RUB



Price per PJSC Aeroflot share, RUB

	2013	2014	2015	2016	2017
First trading day	46.2	83.2	33.2	56.2	143.1
High	85.1	88.0	61.0	158.4	225.0
Low	46.2	29.9	32.5	50.4	137.0
Last trading day	83.8	32.2	56.1	152.9	138.5

### Analyst recommendations

Date	Recommendations	Bloomberg consensus forecast, RUB	Target price range, RUB	Number of analysts
31.12.2017	31% Buy, 46% Hold, 23% Review	186.0	132.0–233.0	13
31.12.2016	75% Buy, 17% Hold, 8% Review	158.0	121.0–184.0	12

# Investor Relations, Equity and Debt

continued

## GDR and ADR programmes

Outside Russia, PJSC Aeroflot shares are traded as global depositary receipts (GDRs) at the over-the-counter section of the Frankfurt Stock Exchange. One GDR represents five ordinary shares. Deutsche Bank Trust Company Americas acts as the depositary bank, and LLC Deutsche Bank is the custodian. A total of 8,527,895 shares were converted into GDRs as at 31 December 2017, representing 0.8% of the charter capital. No shares were converted into ADRs. As at 31 December 2017, the price of one depositary receipt stood at EUR 9.91, down 14.6% year-on-year.

### PJSC Aeroflot's GDR programme

Programme type	Sponsored Level-1 GDRs under Regulation S and Rule 144A
Ratio (shares: GDR)	5:1
Ticker	AETG
ISIN	US69343R1014

### PJSC Aeroflot's Level-1 ADR programme

Programme type	Sponsored Level-1 ADRs
Ratio (shares: ADR)	5:1
Ticker	AERZY
ISIN	US69343R3093

## Credit ratings

PJSC Aeroflot has a credit rating from Fitch Ratings. In November 2017, the rating agency affirmed the Company's Long-Term Local and Foreign Currency Issuer Default Rating (IDR) at B+ and put it under review for a possible upgrade to a Positive outlook.

Fitch Ratings upgraded Aeroflot's credit rating to BB– with a Stable outlook in March 2018.

The upgraded credit rating reflects the positive trend in the Russian transportation industry, improved financial and business performance of the Company, and updated rating guidance for partially state-owned companies. When rating the Company, Fitch Ratings considered its strengths including the extensive and diversified route network, successful hub enhancement strategy, competitive costs, and strong position of the carrier in Russia.

## Dividend policy

Dividend policy is a key corporate governance element and a key measure of a company's performance in upholding the rights of its investors.

PJSC Aeroflot has in place the Regulations on the Dividend Policy, which seek to maximise the transparency of procedures used to determine the amount of dividends and pay them out to the benefit of shareholders and investors. The Regulations determine the approach used by the Board of Directors to make recommendations for the General Meeting of Shareholders on profit distribution, including dividend payout.

The key principles of PJSC Aeroflot's dividend policy are as follows:

- Aeroflot Group's consolidated net income under the International Financial Reporting Standards (IFRS) forms the base for calculating dividends

- The amount of dividend is calculated using a tailored system of ratio indicators, which factors in the results of the reporting year, Aeroflot Group's debt ratio, and mid-term financial plan
- The target level of dividend payouts is set at 25% of Aeroflot Group's IFRS net income

The Annual General Meeting of Shareholders held on 26 June 2017 approved a dividend payout for FY2016 at 50% of Aeroflot Group's net income reported in its consolidated IFRS statements. The dividend was RUB 17.48 per ordinary share, a record high in the modern history of the Company.

### PJSC Aeroflot's dividend history

	2012	2013	2014	2015	2016
Dividend per share, RUB	1.16	2.50	—	—	17.48
Total dividends, RUB thousand	1,292,313	2,774,195	—	—	19,413,018
Total amount actually paid, RUB thousand	1,292,149	2,773,621	—	—	19,411,718
Dividend payout ratio, %	26.0	25.0	—	—	50.0
Accounting standards used to calculate the net income	RAS	RAS	IFRS	IFRS	IFRS
Form and other terms of payment for declared dividends	In cash	In cash	—	—	In cash

## Investor relations

The Company is strongly focused on its relations with existing and prospective investors. PJSC Aeroflot communicates with investors by providing objective, reliable, and consistent information about its activities and complies with current disclosure standards, seeking to maximise transparency.

The Company maintains a continued dialogue with shareholders and investors to ensure that securities market participants get complete information about its activities. The Company timely discloses material information on its operations as press releases and material facts via authorised disclosure platforms, in full compliance with Russian laws. The Company makes regular disclosures in its IFRS and RAS financial statements and releases investor presentations on its official website.

Aeroflot's Capital Markets Day held in December 2017 featured PJSC Aeroflot's management and subsidiary airlines' leaders. The event was attended by over 50 investors, with 30 more investors linked up via a video webcast.

Capital Markets Day's participants had a positive stance on the presented long-term strategic goals, 2018 business forecasts, and additional disclosures by subsidiary airlines, including Pobeda airline's financial performance.

To enhance investor transparency and experience, a Databook was launched in the IR section of the website in July 2017. The Databook discloses public information on Aeroflot Group's business and the air transportation market and is aimed at facilitating the Group's performance review by investors and analysts.

### PJSC AEROFLOT TARGETS INVESTORS VIA THE FOLLOWING CHANNELS:



Conference calls with the Company's management



Regular meetings with investors and shareholders



Involvement in major conferences hosted by brokerage houses



Site visits to the Company's facilities



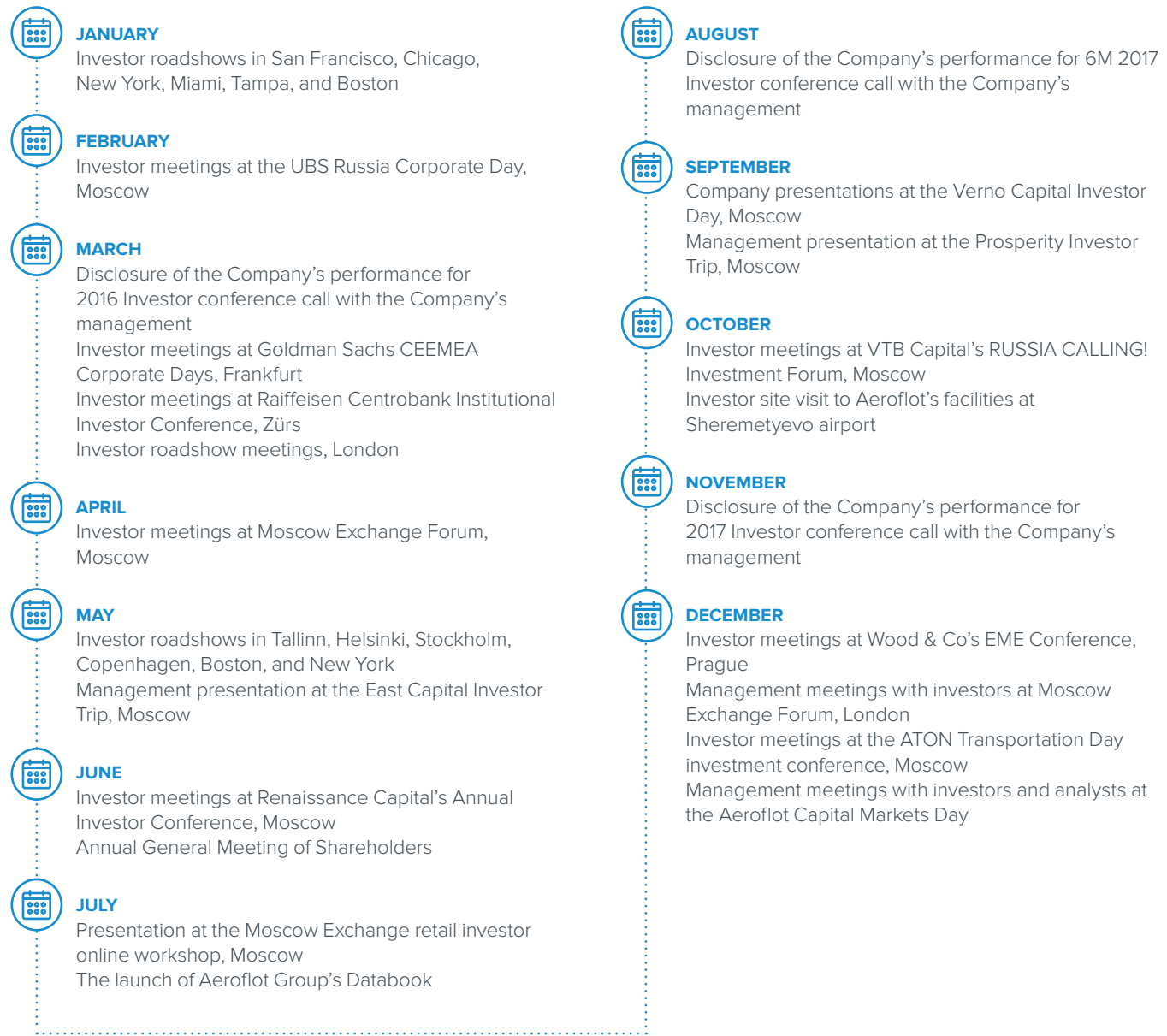
Dedicated events for investors and shareholders, with presentations by the Company's management (Capital Markets Days)



# Investor Relations, Equity and Debt

continued

## 2017 IR highlights



## IN 2017, THE COMPANY'S INVESTOR RELATIONS WERE RECOGNISED BY A NUMBER OF AWARDS

### Investor Relations



Aeroflot's IR team received **the Grand Prix** for Best Overall Investor Relations (Top 3) from **IR Magazine Russia & CIS** and for the fourth year in a row was named the best in the transport sector.

Aeroflot's IR team received the **IR Rising Star award from IR Magazine Europe**. Head of Aeroflot's IR is the only leader from Russia, Eastern Europe, and emerging markets nominated in the IR Rising Star category.

### Annual Report



Aeroflot's 2016 Annual Report was named the winner in the **Best Annual Report of the Company with the Market Capitalisation of RUB 40 Billion to RUB 200 Billion category** of the Annual Report Competition hosted by the Moscow Exchange.



Aeroflot's 2016 Annual Report also won in a number of categories at Vision Awards hosted by the League of American Communications Professionals (LACP), including:

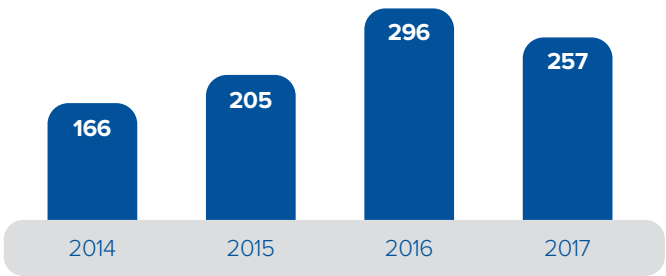
- **Platinum Medal** in the Transportation & Logistics category
- **Top 100 Reports Worldwide**
- **Top 20 Reports in the EMEA Region**
- **Top 20 Russian Reports.**

## Sale of quasi-treasury stock of PJSC Aeroflot

In September 2017, a quasi-treasury stock of PJSC Aeroflot totalling 4.84% of its charter capital was sold through accelerated bookbuilding. The buyers included a wide range of international investors from the UK and continental Europe, as well as Russian investment funds.

The bookbuild price was at RUB 182 per ordinary share, a 4.2% discount to the pre-launch closing price. Following the sale, PJSC Aeroflot's free float increased to 45.2%.

Meetings with PJSC Aeroflot's investors, shareholders, and other stakeholders



Geography of investment funds with shareholdings in PJSC Aeroflot, 2017

