



# Prioritising Growth

ANNUAL REPORT 2017

## About this Report

This Annual Report presents data on operations of Public Joint Stock Company Aeroflot – Russian Airlines (“PJSC Aeroflot”, “Aeroflot airline”, or the “Company”) from 1 January 2017 through 31 December 2017. “Aeroflot Group” or the “Group” refer to PJSC Aeroflot and its controlled entities.

The Annual Report is published every year in the Russian and English languages. For easy navigation, the Annual Report is made available in electronic and interactive formats. The 2016 Annual Report was published in May 2017.

Other annual reports of the Company are available on its official website in the Shareholders and Investors section at <http://ir.aeroflot.ru/>.

This Report discloses the Group’s financial and operating results, the progress of the long-term and medium-term strategies in 2017, and describes the Group’s corporate governance system. This Report has a particular focus on the Group’s corporate social responsibility.

This Report has been prepared based on PJSC Aeroflot’s management reports and in line with PJSC Aeroflot’s consolidated IFRS financial statements for 2017. The sustainable development section of the Report was prepared based on the GRI Sustainability Reporting Standards (GRI SRS).

PJSC Aeroflot’s consolidated IFRS financial statements for 2017 were audited by PricewaterhouseCoopers Audit.

In this Annual Report, unless otherwise stated, performance figures pertain to PJSC Aeroflot and its subsidiaries. Immaterial deviations in numbers in the charts and tables subtotals of this Annual Report are due to rounding. The scope and wordings of performance indicators in this Report do not have any material difference from previous reports.

### DISCLAIMER ON FORWARD-LOOKING STATEMENTS

This Report has been prepared based on the information available to the Company as at the time of reporting, including information obtained from third parties. The Company reasonably believes that this information is complete and accurate as at the publication date of this Report; however, it does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future.

This Report includes estimates or forward-looking statements related to operating, financial, economic, social, and other metrics that can be used to assess the performance of PJSC Aeroflot and Aeroflot Group. The Company does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved. The Company shall not be liable to any individual or legal entity for any loss or damage which may arise from their reliance on such forward-looking statements.

## Aeroflot Group's structure

as at 31 December 2017



\* Non-operating entities.  
\*\* PJSC Aeroflot holds a stake in A-Technics via Aeroflot-Finance.

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PJSC Aeroflot’s Annual Report was approved by the Annual General Meeting of Shareholders on 25 June 2018 (Minutes No. 42 dated 26 June 2018).

# Operational Growth

❖ **15.4%**  
Aeroflot Group  
passenger traffic increase

❖ **82.8%**  
Aeroflot Group  
passenger load factor

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# Aeroflot Group Airlines



Aeroflot is Russia's biggest carrier, leader of the Russian civil aviation industry, and one of the oldest airlines in the world celebrating its 95th anniversary in 2018. Is based at Moscow Sheremetyevo Airport.



Rossiya is one of Russia's largest carriers and the market leader in the North-West of the country. Based in Saint Petersburg, the company also operates flights from Moscow's Vnukovo airport. In addition to its scheduled flights, Rossiya operates charter flights.



Pobeda is a low-cost carrier, launched to improve access to air transportation and further increase social mobility. Is based at Moscow Vnukovo Airport.



Aurora is the Group's carrier in the Russian Far East. It is based at Vladivostok, Yuzhno-Sakhalinsk, and Khabarovsk airports and operates flights between the key population centres in the Far East and Siberia, regional flights, and flights on the most popular routes.

**32.8 million PAX**  
Passengers carried

**91.8 billion RPK**  
Passenger turnover

**112.2 billion ASK**  
Available seat-kilometres



**224 aircraft**

Scheduled routes in 2017

Domestic	50
International	89
<b>TOTAL</b>	<b>139</b>

Share of the Group's passenger traffic



**11.2 million PAX**  
Passengers carried

**28.1 billion RPK**  
Passenger turnover

**33.3 billion ASK**  
Available seat-kilometres



**61 aircraft\***

Scheduled routes in 2017

Domestic	66
International	44
<b>TOTAL</b>	<b>110</b>

Share of the Group's passenger traffic



<sup>1</sup> Excluding leased aircraft.

**4.6 million PAX**  
Passengers carried

**7.9 billion RPK**  
Passenger turnover

**8.4 billion ASK**  
Available seat-kilometres



**16 aircraft**

Scheduled routes in 2017

Domestic	48
International	16
<b>TOTAL</b>	<b>64</b>

Share of the Group's passenger traffic



**1.5 million PAX**  
Passengers carried

**2.4 billion RPK**  
Passenger turnover

**3.2 billion ASK**  
Available seat-kilometres



**24 aircraft\***

Scheduled routes in 2017

Domestic	43
International	14
<b>TOTAL</b>	<b>57</b>

Share of the Group's passenger traffic



<sup>2</sup> Excluding subleased aircraft.

# 2017 Results

2017 marked another major milestone for Aeroflot Group with over 50 million passengers carried. Aeroflot Group entered the world's Top 20 carriers by passenger traffic, achieving a key goal set in its Strategy 2025 ahead of schedule.

The Group took full advantage of the growing passenger air transportation market including scheduled and chartered flights on both domestic and international routes. Aeroflot Group ensured a high utilisation rate of its much increased capacity, with the passenger load factor up to 82.8%.

## Top 20

Airlines globally by passenger traffic



FAST-GROWING OPERATIONS



EXTENSIVE ROUTE NETWORK AND A YOUNG AIRCRAFT FLEET



SKY-HIGH SERVICE STANDARDS



FOCUS ON SOCIAL RESPONSIBILITY



ADVANCED CORPORATE GOVERNANCE PRACTICE



FINANCIAL STABILITY

**50.1 million**

Passengers carried

**313**

Scheduled routes

**4 stars**

In the Skytrax rating

**38.9 thousand**

People employed by the Group companies

**7++**

Corporate governance rating assigned by the Russian Institute of Directors

**RUB 532.9 billion**

Revenue (+7.5%)

**+15.4%**

Passenger traffic increase

**52**

Countries

**Best Airline in Eastern Europe**

Skytrax World Airline Awards 2011, 2013–2017

**>1.5 million**

Passengers carried under the flat fare programme

**4**

Independent directors on the Board of Directors

**RUB 121.8 billion**

EBITDAR, 22.9% EBITDAR margin

**+23.3%**

International passenger traffic increase

**158**

Anique destinations in the summer schedule, 153 in the winter schedule

**38 aircraft**

Have Wi-Fi access points (all of Aeroflot airline's wide-body aircraft)

**6.2 thousand**

Free tickets issued as part of the Mercy Miles project

**Compliance**

With the key requirements of the Russian Corporate Governance Code

**RUB 23.1 billion**

Net profit

**+9.7%**

Domestic passenger traffic increase

**SkyTeam**

Aeroflot is a member of the global alliance

**72.5%**

Aeroflot airline's Net Promoter Score (NPS)

**Support for Russian sports, culture, and cinema**

**45.2%**

Free float

**RUB 56.2 billion**

Decrease of net debt

**82.8%**

Passenger load factor

**332**

Aircraft in the fleet

**+1.4 p.p.**

Passenger load factor increase

**+40**

Aircraft – net increase in the fleet

**40.5%**

Share of the Russian air transportation market

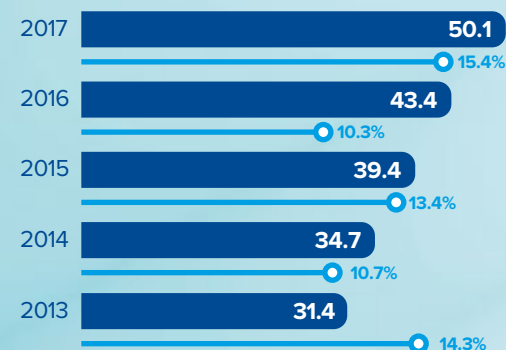
**4.1 years**

Average age of Aeroflot airline's fleet



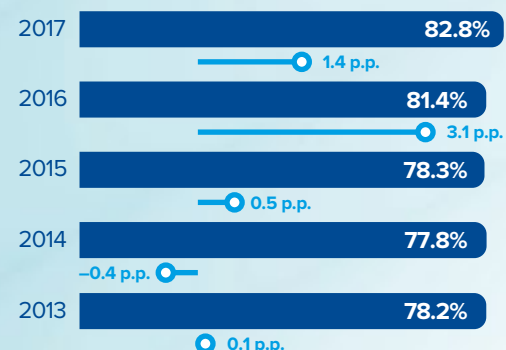
# Operating and Financial Highlights

Passenger traffic  
MILLION PAX



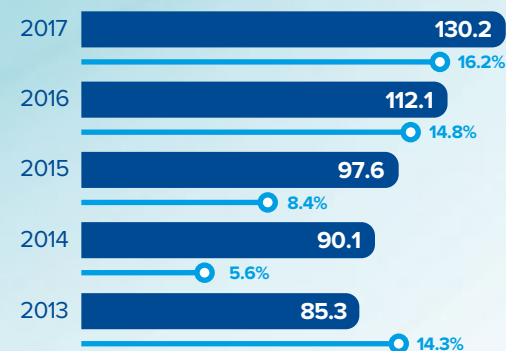
■ Passenger traffic  
● Growth rate

Passenger load factor  
%



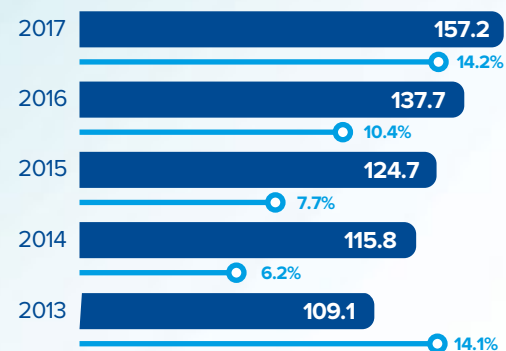
■ Passenger load factor  
● Change

Passenger turnover  
BILLION RPK



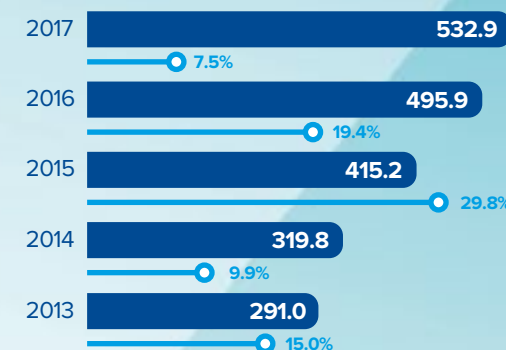
■ Passenger turnover  
● Growth rate

Available seat-kilometres  
BILLION ASK



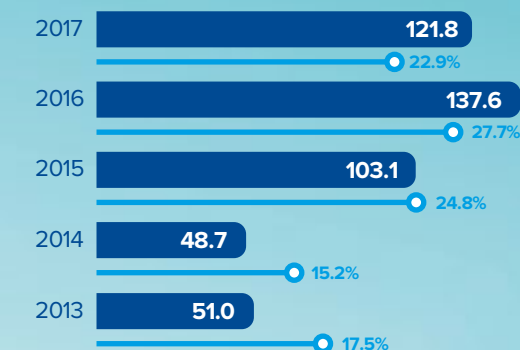
■ Available seat-kilometres  
● Growth rate

Revenue  
RUB BILLION



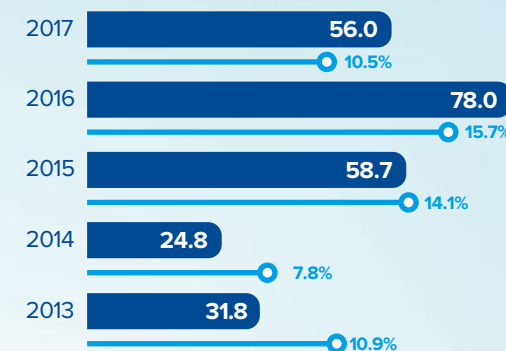
■ Revenue  
● Growth rate

EBITDAR and EBITDAR margin  
RUB BILLION AND %



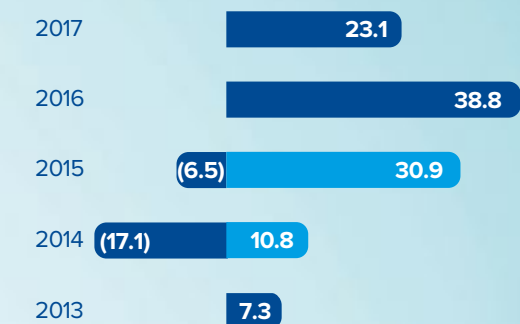
■ EBITDAR  
● EBITDAR margin

EBITDA and EBITDA margin  
RUB BILLION AND %



■ EBITDA  
● EBITDA margin

Net Profit / (Loss)  
RUB BILLION



■ Net Profit / (Loss)  
● Adjusted Net Profit

Note. Adjusted net profit for 2014 and 2015 excludes the result from derivatives, reserves, and other one-off effects.

# Investment Case

## AEROFLOT GROUP

- Leader of the Russian air transportation market, one of the largest carriers in Europe ranked among the world’s Top 20 airlines
- Young and efficient aircraft fleet
- Business highly adaptable to macroeconomic environment
- Promotion of international transfer operations via Moscow
- Stable operational growth and strong financial results
- Long-term vision

## 2025 GOALS

- Join the **Top 5** European airlines by passenger traffic and revenue
- Join the **Top 20** global players by passenger traffic and revenue
- Carry **over 70 million** passengers, including **at least 30 million** within Russia
- **Increase passenger traffic** via the main hub in Moscow
- **Ensure strong presence** in the market



### BUSINESS DIVERSIFICATION BASED ON A MULTI-BRAND STRATEGY

**Description/goal**  
Diversification of the Group’s operations by segment to maximise flexibility in any economic environment

**Progress in 2017**

- Expansion of Rossiya airline: 11.2 million passengers carried (+26.7%)<sup>1</sup>
- Expansion of Pobeda airline: 4.6 million passengers carried (+6.9%)



### PRESENCE IN ATTRACTIVE MARKET SEGMENTS

**Description/goal**  
Expansion in profitable segments and promising markets

**Progress in 2017**

- Launched flights to Lisbon and Kostanay (about 40 thousand passengers carried)
- Launched flights to Belgorod, Khanty-Mansiysk, and Salekhard (about 130 thousand passengers carried)
- Aeroflot Group’s passenger traffic on international routes increased by 23.3%



### STANDARDISED HIGH-QUALITY PRODUCT

**Description/goal**  
Ensuring consistently high product quality to attract and retain passengers

**Progress in 2017**

- Aeroflot airline is certified with the 4 Star airline rating by Skytrax
- Aeroflot airline was recognised as the Best Airline in Eastern Europe by Skytrax World Airline Awards for the sixth time



### BALANCED ROUTE NETWORK BUILT AROUND THE HUB AT MOSCOW SHEREMETYEVO AIRPORT

**Description/goal**  
Diversification of destinations to optimise presence in regions with different demand patterns and network development to promote synergies

**Progress in 2017**

- The Group continued to improve its route network quality by increasing the flight frequency on the most popular routes, and the frequency of scheduled flights, up 6.0%
- Route network expansion promotes international transit traffic growth: Aeroflot carried 4.4 million passengers in the segment (up 18.6%)



### CONTINUED IMPROVEMENT OF OPERATING AND FINANCIAL PERFORMANCE

**Description/goal**  
Optimised use of existing resources, lower fuel consumption, improved specific performance metrics

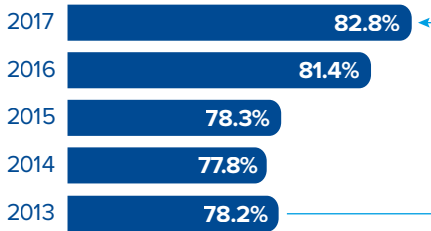
**Progress in 2017**

- Continued increase in the passenger load factor (up 1.4 p.p. to 82.8%)
- Reduced specific fuel consumption rate (to 22.8 grams per available seat-kilometre)

## KEY LONG-TERM PERFORMANCE IMPROVEMENTS: 2013–2017

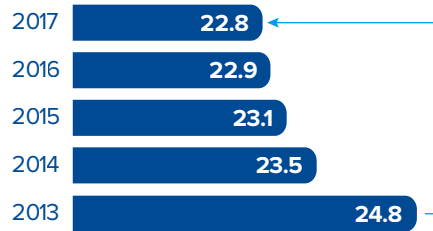
Passenger load factor  
%

**+4.6 p.p.**



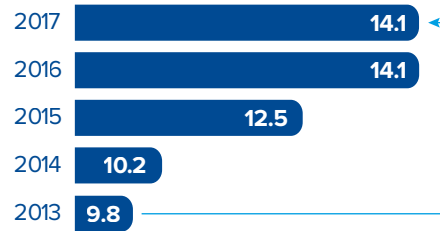
Specific fuel consumption rate  
GRAMS PER ASK

**(8.1)%**



Revenue per employee  
RUB MILLION

**1.4x increase**



<sup>1</sup> The increase includes the results of Donavia and Orenair integrated into united Rossiya airline in 2016.

# Key Events

## 2017

**6 MARCH** Fitch Ratings affirmed PJSC Aeroflot's Long-Term Foreign Currency Issuer Default Rating (IDR) at B+, outlook Stable.

**17 MAY** Aeroflot introduced an automated IT training system for flight personnel.

**29 MAY** Aeroflot successfully passed the IATA Operational Safety Audit for IOSA compliance for the seventh time.

**31 MAY** Tula honey-cake and Russian menu were added to the meal options on Aeroflot flights.

**31 AUGUST** Mikhail Poluboyarinov was elected as the new Chairman of Aeroflot's Board of Directors.

**14 SEPTEMBER** Aeroflot held its second High Flyers all-Russian cooking competition for young chefs.

**20 SEPTEMBER** Aeroflot successfully completed the sale of its quasi-treasury stock totalling 4.84% of its charter capital, thereby increasing its free float (shares held by institutional investors and individuals) to 45.2%.

**DECEMBER** Russian President Vladimir Putin held a meeting with Aeroflot's Chief Executive Officer Vitaly Saveliev to discuss the most important matters such as access to air transportation, flat fares, and flight services for the upcoming 2018 FIFA World Cup.

**7 DECEMBER** Aeroflot held its Best in the Sky contest for students – future pilots of the Russian commercial aircraft Sukhoi Superjet 100.

**21 DECEMBER** Aeroflot became the first airline in Russia to introduce SITA to deliver an online end-to-end baggage tracking.

FEBRUARY

MARCH

APRIL

MAY

JUNE

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

**3 APRIL** Aeroflot launched its in-flight magazine in English.

**7 APRIL** Aeroflot and the Russian Olympic Committee signed a sponsorship agreement.

**1 JUNE** Aeroflot launched scheduled flights from Moscow to three new destinations: Belgorod, Salekhard, and Khanty-Mansiysk.

**3 JUNE** Aeroflot launched scheduled flights from Moscow to Kostanay.

**13 JUNE** Aeroflot introduced incentive payments for new crew members.

**27 JUNE** Pobeda carried 10 million passengers since its launch.

**14 JULY** Moscow Exchange's Derivatives Market launched trading of futures contracts on Aeroflot shares.

**15 JULY** Aeroflot launched direct flights from Moscow to Lisbon.

**18 JULY** Aeroflot signed a firm contract for the delivery of 20 new SSJ100s.

**29 DECEMBER** Aeroflot extended its flat fare programme into 2018 to include its Rossiya subsidiary's flights to the cities of the Far East.

**31 DECEMBER** Aeroflot Group's airlines carried a total of more than 50 million passengers in 2017.

## EVENTS AFTER THE REPORTING PERIOD:

## 2018

**2 MARCH** Fitch Ratings raised Aeroflot's credit rating to BB–.

**1 FEBRUARY** Aeroflot signed a landmark contract with Rostec State Corporation for 50 of the state-of-the-art MC-21 passenger aircraft.

**2 FEBRUARY** Aeroflot added a bank-card recognition module together with document scanning and recognition functions to its iOS and Android apps.

**10 JANUARY** Aeroflot received the highest Level 3 status under the New Distribution Capability (NDC) programme developed by IATA.

**25 JANUARY** Aeroflot sold its first 2018 FIFA World Cup fan ticket worth five roubles.

JANUARY

FEBRUARY

MARCH

# Industry Recognition and Awards



**4 stars** in the Skytrax rating



**Best Airline in Eastern Europe** Skytrax World Airline Awards



**World's Leading Airline** World Travel Awards 2017



**Five-star rating in the Global Airline category** by APEX



**Sector Leadership** Airline Strategy Awards 2017



**World's Most Powerful Airline Brand and Strongest Brand in Russia** according to Brand Finance



**Best European Airline, Best Business Class, and Best Airline in Russia** TripAdvisor Travellers' Choice Award



**Favourite International Airline in China** Flyer Award Ceremony 2017



## Awards

Aeroflot, for the second year in a row, won the Air Transport News Readers' Choice Award, one of the world's most prestigious aviation awards.

Aeroflot won three key categories at the prestigious international Business Traveller Russia & CIS Awards 2017, retaining the titles of the Best European Airline, the Best Airline in Russia & CIS, and the Best Flight Attendant's Uniform.

Aeroflot, for the third time, was named the Best Russian Airline according to the National Geographic Traveller Awards 2017.

Aeroflot won two categories at the regional stage of the World Travel Awards 2017: Europe's Leading Airline Brand and Europe's Leading Airline – Business Class.

Aeroflot won the High Taste Award established by Business Traveller, the world's leading magazine in the travel industry.

Aeroflot won East Capital's Best Growth Award.

Aeroflot, for the third year in a row, won the prestigious international Randstad Award as the most attractive Russian employer in the Transport category.

Aeroflot received a special SAP Expanding Horizons Award for pioneering SAP Audit Management system in Russia.

Aeroflot's in-flight magazine for children, "Aeroflot. The Young Traveller", came third in the international ASTRID Awards.

Aeroflot's Internal Audit Department won the Internal Auditor of the Year Award.

Aeroflot's Legal Department won the Best Legal Department in Russia – 2017 in the Transport and Logistics category.

Aeroflot's Annual Report received an award 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 and the RCB Media Group.

The interactive version of Aeroflot's 2016 Annual Report received a platinum medal in the Transport and Logistics category of the international Vision Awards.

Aeroflot received the TADVISER IT-PRIZE 2017 in the Mobile App of the Year category.



## High ratings

Aeroflot officially reclaimed its place in the global aviation elite, having entered world's Top 20 largest airlines by passenger traffic according to Flight Airline Business.

For the second year in row Aeroflot was ranked 4th globally in the list of digitalised airlines by Bain & Co.

OAG, a heavyweight British agency, named Aeroflot as one of the world's 20 largest airlines by available seat-kilometres.

Aeroflot was named the world's leader in connecting passenger traffic between Europe and Asia according to a rating compiled by Airline Network News & Analysis (anna.aero).

Aeroflot came out on top among the world's traditional air carriers by capacity growth (the British OAG's rating).

Aeroflot topped the Transport category of Russia's Top 100 Most Capitalised Companies according to the RIA Rating Agency.

Aeroflot was named the Most Child-Friendly Russian Airline in the travel search engine Aviasales' rating.

Flight Airline Business named Pobeda the world's top low-cost carrier by revenue growth.

# Company History: Key Milestones

**AEROFLOT'S HISTORY** represents an era rich in numerous events leading us to Aeroflot's 95th anniversary celebrated in 2018. Below are selected milestones that mark the path of Aeroflot's development.

## 1923–1940 Take-off

In less than 20 years, by the late 1930s, Aeroflot became the largest airline in the world.

**9 FEBRUARY 1923** Russian civil aviation was born.

**17 MARCH 1923** Joint Stock Company Dobrolet (the Russian Society for Voluntary Air Fleet) was established.

**15 JULY 1923** The first scheduled Moscow – Nizhny Novgorod route was launched.

Distance of 420 kilometres

Four passengers

Two flight crew members

**26 MARCH 1932** The abbreviated name, "Aeroflot", was adopted by the Soviet Civil Aviation Fleet, the crew uniform and insignias were introduced.

**1940** 410 thousand passengers were carried.

## 1941–1945 Thunderstorm

Since the start of the Great Patriotic War, the Soviet Government suspended all civil aviation flights and Aeroflot switched to supporting the Red Army, with many of its pilots going to the War. Soviet aviators made daily flights to the besieged Leningrad, bringing people food and weapons. One of the hardest and most difficult tasks during the War was ferrying the crucial lend-lease military aircraft supplied by the United States to the USSR via the Alaska–Siberia–Urals route.

Over 1.5 million flights were made during the war. Over 20 thousand Aeroflot aviators were decorated with orders and medals. During the war, Aeroflot pilots carried 2.5 million wounded and paratroopers, as well as 300 thousand tonnes of military and strategic cargo. Fifteen Aeroflot employees were awarded the highest title of the Hero of the Soviet Union.

## 1946–1990 Reaching the flight level

The post-war period saw the air transportation industry recover and grow stronger with Aeroflot becoming the national symbol of progress in aviation. The Company launched the world's longest routes, operating transatlantic and transcontinental flights, and became the global leader by passenger traffic.

The world's first civilian jet air service using Tu-104 and, later, supersonic Tu-144 was launched. Aeroflot took on the new Soviet aircraft Il-12, Il-14, and Il-18 with higher-speed aircraft enabling flights to the USA, Canada, Cuba, Japan, and other countries.

**1959** The new Sheremetyevo airport opens, with its ground service handling the first Aeroflot's Tu-104 flight from Leningrad to Moscow.

**1967** The Flight Attendant Service was established.

**1971** The Aeroflot Central Administration of International Air Traffic was set up.

**1980** Aeroflot was appointed the XXII Olympic Games general carrier, with the new Sheremetyevo-2 international air terminal inaugurated to support the event.

Aeroflot set an absolute passenger traffic record of 120 million passengers.

**1989** Aeroflot became the first Russian airline to join the International Air Transport Association (IATA).



## 1990-2008 Turbulent times

Following the collapse of the Soviet Union, the unified civil aviation fleet was split into several hundred airlines. However, the state stepped in to prevent unregulated industry fragmentation and saved Aeroflot as a national carrier.

Cutting-edge foreign aircraft came into service: Airbus A310-300, Boeing 777-200, Boeing 737-400, and Boeing 767-300ER. The 2008–2009 global financial crisis left the Company in a challenging financial situation.

**1992** Joint Stock Company Aeroflot Russian International Airlines was established.

**1997** Aeroflot shares started trading on the RTS exchange (Moscow Exchange).

**1999** Launch of Aeroflot's website (www.aeroflot.ru).

**2006** Aeroflot became a member of SkyTeam Airline Alliance.

## 2009–2017 Flying high

A new management team took charge and implemented an anti-crisis action plan including massive fleet additions, the launch of the 24/7 call centre and the new website, the optimized schedule, and improved service standards. New services were launched to enhance passenger experience.

**10 APRIL 2009** Vitaly Saveliev was appointed as CEO of Aeroflot by the Russian Government.

**2011** Aeroflot was awarded the prestigious Skytrax World Airline Award as the Best Airline in Eastern Europe for the first time and successfully lived up to this rating five more times.

**2011** Adoption of Aeroflot Group Development Strategy 2025.

**2011** As per the resolution of the Russian Government, five regional carriers were transferred from Rostec State Corporation to Aeroflot. Launch of a large-scale integration.

**2013** The Internet On-Board programme progressed to the next stage targeting phased rollout of Wi-Fi networks on board all Aeroflot's wide-body aircraft.

**2013** The Group established a unified carrier in the Russian Far East, Aurora airline, through consolidating regional Sakhalin Airways and Vladivostok Avia.

**2014** Aeroflot was appointed the official carrier of the XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi.

**2014** Launch of Pobeda airline – Group's low-cost carrier.

**2015** 100% of Aeroflot's business processes were digitised.

**2016** Aeroflot was certified with the 4 Star airline rating by the global rating agency Skytrax for its high-quality service.

**2016** Big Data solutions were introduced as part of Aeroflot's effort to develop digital projects.

**2016** Aeroflot ranked 4th among its global peers by digitalisation.

**2016** Aeroflot's subsidiaries Rossiya, Donavia, and Orenair were consolidated to create a new united carrier, Rossiya Airlines. The Group's multi-brand platform was finalised.

**2017** Aeroflot Group carried over 50 million passengers, ranking among the Top 20 largest global players.

# Strategic Growth

50.1 million

Passengers carried  
by Aeroflot Group

40.5%

Share of the Russian air  
transportation market

## STRATEGIC REPORT

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# Message from the Chairman of the Board of Directors

## DEAR SHAREHOLDERS,

Aeroflot's results for 2017 confirm that the airline is operating at a completely new level, and that it is elevating the entire Russian air travel industry to new heights.

Within a short period of time, two key results have been achieved. In 2016 Aeroflot completed the reorganisation of its regional subsidiaries to establish the Group's multi-brand platform. And in 2017 the Group joined the ranks of the Top 20 airline groups globally by passengers carried, marking the return of Aeroflot to the top tier of international airlines.

The senior management team, led by CEO Vitaly Savelyev, deserves recognition. Thanks to their hard work Aeroflot Group is today one of the Russian Federation's most valuable assets, as well as an important contributor to the socio-economic development of the country.

It is important to recognise the role of Aeroflot and its subsidiary airlines in making air travel more accessible to the Russian population as a whole, and particularly in providing transport connectivity to the country's far-flung regions. Low-cost carrier Pobeda plays a key role in this regard. Alongside Aeroflot, Pobeda is delivering excellent efficiency and low fares starting from Rub 499. Pobeda has become a key growth driver for the Group.

Our flat-rate fares on routes between Moscow and the Russian Far East, Kaliningrad and Simferopol are of strategic importance for Russia. In the reporting year alone Aeroflot carried 1.5 million passengers with flat-rate tickets and since the programme began in 2015 that number has exceeded 4.3 million. Aeroflot extended this programme into 2018 and expanded it to include flights to the Far East operated by subsidiary airline Rossiya. And within the Far East Federal District, Aeroflot's subsidiary Aurora plays an irreplaceable role.

Aeroflot Group has demonstrated it can grow dynamically even in a challenging geopolitical environment. On the back of the recovery of the Russian air travel market, Aeroflot Group shows impressive traffic growth that outpaces the results of international competitors. In 2017 the number of passengers carried by the Group rose by 15.4%, with strong growth from both the domestic and international traffic segments. Further infrastructure improvements at Sheremetyevo airport are opening the door to additional traffic growth as well as continued strengthening of Aeroflot's customer service.



# Message from the Chairman of the Board of Directors

continued

One of the important events at Aeroflot in 2017 was the sale of quasi-treasury shares on Moscow Exchange. 53.7 million shares were sold, representing 4.84% of PJSC Aeroflot’s outstanding share capital. This transaction was undertaken to raise funds for general corporate purposes, increase the size of the free float and improve liquidity in the secondary market for our shares. Further improvement in corporate governance was also one of the rationales of the transaction.

In 2017 PJSC Aeroflot adopted a Corporate Governance Code that aims to strengthen the Company’s relationship with shareholders and the broader investment community.

The Group’s net profit result for the year allowed the Board of Directors to recommend that the AGM approve a high level of dividend payments of RUB 12.8 per share by allocating a total of RUB 14.2 billion (50% of Aeroflot’s net profit under Russian Accounting Standards) to be paid out to shareholders as dividends.

Nearly 100% of Aeroflot’s tendered procurement is now carried out via our electronic platform. Moreover, Aeroflot is rapidly expanding access for small and medium-sized enterprises (SMEs) to its procurement process, with procurement from SMEs in 2017 increasing by 84% year-on-year. The Small and Medium Enterprise Corporation has recognised the Company’s achievements in this area with two commendations.

Aeroflot is an iconic and historic brand, yet it possesses a completely new connotation. Its leadership in the Russian market is established not just by record metrics, but also by its adoption of cutting-edge business processes and the most modern IT solutions.

Ongoing strategic planning allows Aeroflot and its subsidiaries to adapt to changing market conditions in real time. Adjustments have been made to Aeroflot Group’s Long-Term Development Programme for the period 2018–2022. The Group continues to adopt new technologies and methodologies in line with international best practice. A programme of initiatives to further strengthen the product and service offering will position Aeroflot to continue to climb the ranks of the world’s leading airline brands. That said, the Group’s 2025 strategic goals remain unchanged, including entering the Top 5 European and Top 20 global airline groups by both passenger traffic and revenue. The Group’s 2017 results further confirm that these goals are likely to be achieved ahead of the 2025 target.

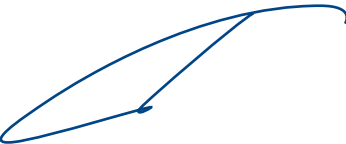
Aeroflot charts its development path and launches new initiatives in cooperation with the Russian state. The most effectual way to ensure plans are coordinated are regular meetings between Aeroflot’s CEO and the President of the Russian Federation.

President Putin has supported Aeroflot’s initiatives to develop the airline industry, including changes to the regulatory environment. For instance, the law allowing fares not inclusive of checked luggage opened new horizons in the low-cost carrier segment. Tough new laws in relation to destructive passengers were recently introduced, including the creation of a no-fly black list. These laws improve flight safety, the punctuality of flights and ultimately efficient overall operation.

Going forward Aeroflot plans to deliver on tasks of national importance: improving mobility of the population, supporting domestic aircraft manufacturing and honourably serving our nation as the flag carrier that flies to countries around the world.

It was for these reasons that Aeroflot was established 95 years ago. Today’s mission is to achieve our plans in modern conditions and by modern means, supported by leading international experience and our iconic heritage.

**Mikhail Poluboyarinov**  
Chairman of the Board of Directors  
PJSC Aeroflot



# Message from the Chief Executive Officer

## DEAR SHAREHOLDERS,

Aeroflot's biggest achievement in 2017 was its return to the top tier of global airlines after a 30-year hiatus. Aeroflot Group is now one of the Top 20 airline groups globally by passengers carried. One of the most important strategic goals that we set out to achieve by 2025 has been reached well ahead of that target.

In parallel, another important process is underway: significantly improved recognition of Aeroflot around the globe and increased customer loyalty. According to the well-known consultancy Brand Finance, in 2017 Aeroflot was the most powerful brand in Russia and was ranked number one for brand strength amongst airlines globally.

For the second year running we placed fourth in the world in US-based consultancy Bain & Co.'s ranking of digitalisation of airlines. 100% of our business processes have been automated. We rolled out SAP's enterprise management system in record time, and we were the first company in Russia to fully adopt that system. The switch to a new income recognition system cut the time that data on revenues is available from two months to two days. We are leveraging the Internet of Things, with IoT solutions allowing us to establish processes for servicing of aircraft, significantly reducing aircraft down time.

Aeroflot has maintained its ranking as the top online store in Russia, with ticket sales through the website totalling RUB 169 billion in 2017. Approximately every second passenger uses our digital services. A priority in this area is the development of our apps. They are available on all major operating systems and include functions such as search, booking and purchase of tickets, flight check-in, notifications, an online departures and arrivals board and flight status information. We are leveraging Big Data to vastly improve communication with customers and to attract ever more passengers. Big Data generated marginal revenue of nearly RUB 1 billion.

All our long-haul aircraft are equipped for Wi-Fi access. In 2018 we will complete the roll-out of Wi-Fi on our medium-haul aircraft, the largest segment of our fleet. The Aeroflot IT strategy through 2020 places a particular emphasis on continued multi-level use of Big Data and cloud technology.

In 2017 we received new confirmation of our premium quality product. In 2017 British consultancy Skytrax confirmed our Four Star rating, which we were first awarded in 2016. US industry association APEX recognised Aeroflot with a Five Star rating. APEX's ratings are an American version of Europe's Skytrax rating.



## Message from the Chief Executive Officer continued

The world's largest travel website, TripAdvisor, recognised Aeroflot as the best airline in Europe and best Business Class in the world. The World Travel Awards, known as the Oscars of the travel industry, awarded Aeroflot the prestigious recognition as Europe's Leading Airline Brand. We were also recognised as China's Favourite International Airline at the Flyer Awards 2017, edging out Qatar Airways that had won this category the previous two years.

Aeroflot fully leveraged the expanding Russian air travel market. 2017 was another record year for Aeroflot. As Aeroflot Group we carried 50.1 million passengers, 15.4% more than in 2016. Aeroflot – Russian Airlines carried 32.8 million passengers, a year-on-year increase of 13.3%. This increase reflects the strong growth of the Russian market and, as per IATA data, was nearly twice the growth rate of the global airline industry (+7.1%). Revenue passenger kilometres for Aeroflot Group in 2017 increased by 16.2% year-on-year and available seat kilometres increased by 14.2% year-on-year. The passenger load factor for the Group rose by 1.4 percentage points to 82.8%.

In 2017 Aeroflot Group strengthened its position across all market segments and expanded its route network, including routes that bypass Moscow. Low-cost carrier Pobeda occupies a unique place in the Group: it flies from many regional Russian airports and has been a big contributor to improved mobility for the Russian population. Our LCC is financially independent and is delivering profitable growth while offering the lowest fares in the Russian market. According to aviation portal Aviasales, fares on routes that Pobeda flies decline on average by 25%. Since its launch Pobeda has allowed more than one million people to fly for the first time in their lives.

Our mid-tier subsidiary, Rossiya, increased passenger traffic by 27% year-on-year. Today Rossiya is comfortably in the Top 3 largest air carriers in Russia.

Our subsidiary airline that specialises in the Russian Far East, Aurora, has consolidated its position on regional routes.

Transit traffic plays a vital role for Aeroflot. According to the aviation news and data site anna.aero, in 2017 Aeroflot flew the most capacity of any airline between Europe and Asia – one of the most competitive and open markets in civil aviation.

This breakthrough performance would have been impossible without our modern fleet of aircraft. Aeroflot's fleet averages an age of 4.1 years, making it the youngest fleet of any airline globally flying at least 100 aircraft.

Our airline is the single largest buyer of the innovative domestic aircraft manufacturers. As at the end of 2017, Aeroflot had 37 Sukhoi Superjet 100s in its fleet, of a total of 50 that have been contracted. In 2020 Aeroflot plans to take receipt of its first next-generation MC-21-300 airliner. Eventually we plan to receive 50 of these aircraft.

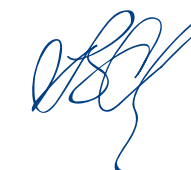
Our strong traffic results and measures to increase efficiency have delivered excellent financial results. Under IFRS, Aeroflot Group increased revenue by 7.5% year-on-year to RUB 533 billion. We ended the year with net income of RUB 23.1 billion. EBITDAR was RUB 122 billion and the EBITDAR margin came in at 22.9%. EBITDA was RUB 56 billion and the EBITDA margin – 10.5%

In 2018, the rating agency Fitch upgraded PJSC Aeroflot's credit rating from B+ to BB-, assigning a Stable outlook. In addition to the 2017 financial results, Fitch cited the Company's strong potential and positive trends on the Russian airline market.

Aeroflot is intimately involved in the socio-economic development of Russia and large-scale initiatives to secure Russia's place of prominence in the world. We expanded the flat-rate fare programme that boosts mobility for Russians who live in far-flung and strategically important regions. In 2017 we developed a unique flight schedule to accommodate the upcoming World Cup. And in 2018 Aeroflot and its subsidiary airline Aurora successfully flew a programme of flights for Russian Olympians to the XXIII Games in South Korea.

For 95 years the history of Aeroflot has been inseparable from the history of Russia. The Company will continue to work in your interests and the interests of the Russian state, our largest shareholder. With your support Aeroflot plans to continue to deliver on its most important mission: to offer our great country a powerful and modern airline that opens new historical horizons – an era of transformation.

**Vitaly Saveliev**  
Chief Executive Officer  
PJSC Aeroflot



# Market Overview

## Global airline industry

Scheduled passenger traffic grew by 7.1% to 4.1 billion passengers in 2017, with a 7.5% increase in the passenger turnover. Worldwide, the passenger load factor increased to 81.2% (vs 80.3% in 2016).

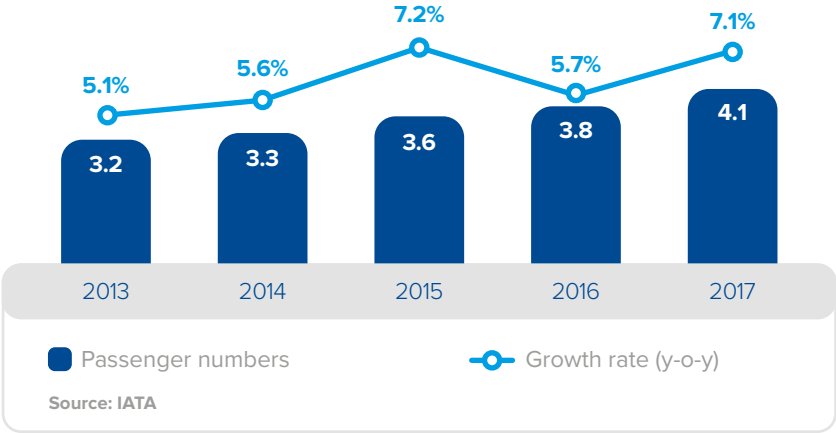
Asia-Pacific was the fastest growing market in 2017, with the passenger turnover up 10.0% year-on-year. Europe ranked second in terms of growth, with the passenger turnover growing by 8.0%. Latin America and Africa grew by 7.5% and 7.0%, respectively, while the North American market saw a 4.0% increase in the passenger turnover.

The IATA reported a 6.3% year-on-year growth in the industry-wide revenue to USD 754 billion. Passenger flights consistently account for the bulk of the industry's revenue, their share standing at 70.6%.

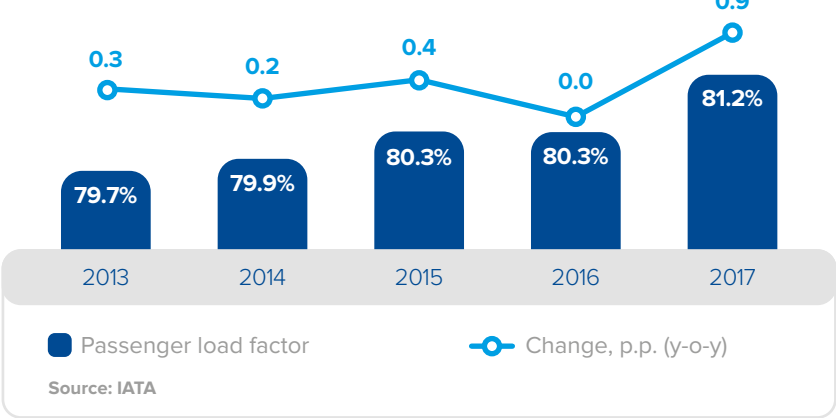
The growing passenger turnover pushed the costs up by 7.3% to USD 691 billion. During 2017, oil and, accordingly, jet fuel prices grew: overall, global jet fuel prices recovered to the 2015 level and became one of the key factors driving the EBIT margin down by 0.9 p.p. year-on-year to 8.3%. Profitability levels of different markets still vary with 13.2% in North America, 8.5% in Asia-Pacific, 6.3% in Europe, 5.7% in Latin America, and 0.6% and 0.5% in the Middle East and Africa, respectively.

The IATA pre-estimated the 2017 industry's net profit at USD 34.5 billion – one of the highest in the past decade. Despite its highly volatile financial track record, the industry has demonstrated a consistently high net profit over the last eight years. However, this metric also varies with almost half of the global net profit generated by North America while flights in Africa remain in the red.

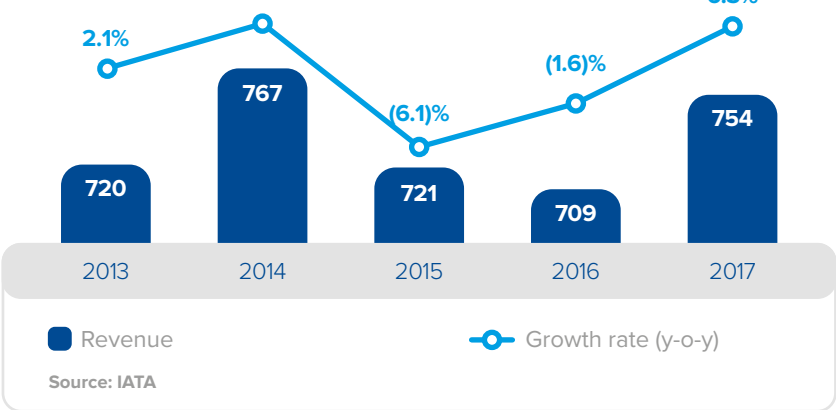
Scheduled passenger traffic in the global market  
BILLION PAX



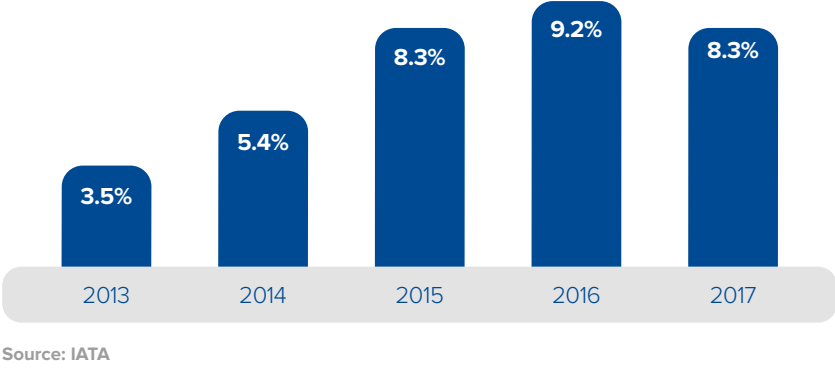
Passenger load factor in the global market  
%



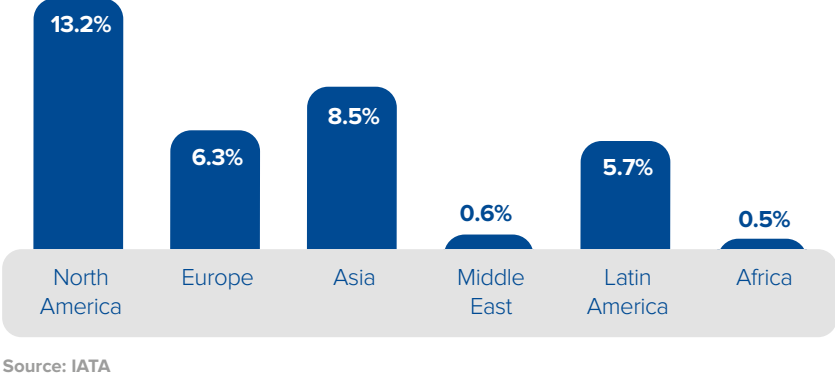
Global revenue  
USD BILLION



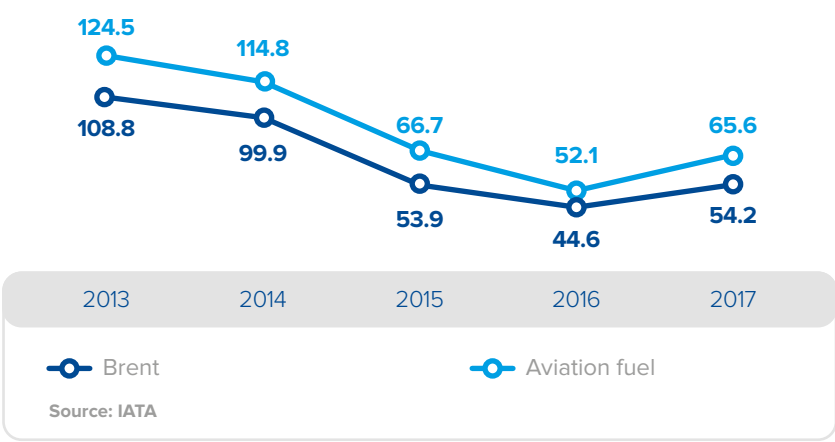
Global EBIT margin  
%



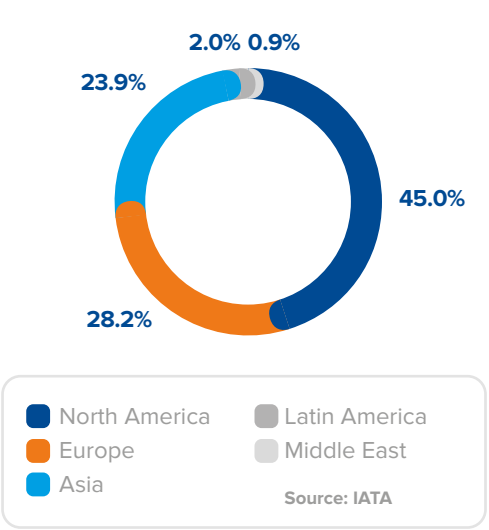
Global EBIT margin in 2017 by region  
%



Oil and aviation fuel prices  
USD PER BARREL



Global net profit in 2017 by region  
%



Note. Calculated based on data for regions with positive net profit. Excluding Africa which generated a net loss of USD 0.1 billion in 2017.

## Market Overview

continued

### Russian airline industry

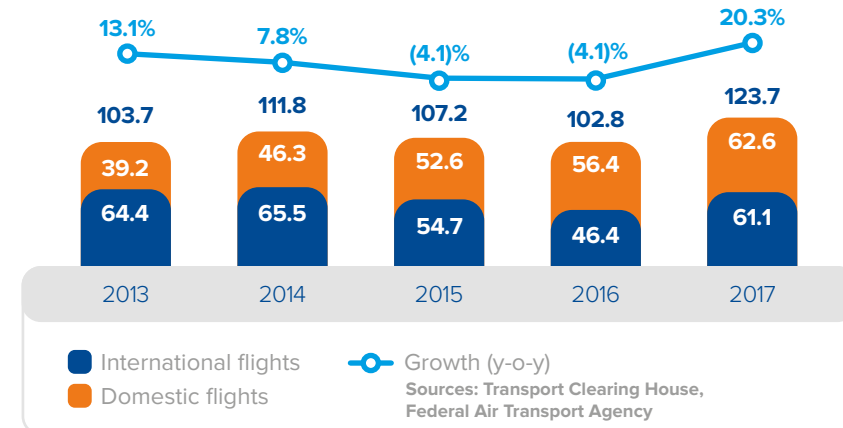
In 2017, the Russian market demonstrated a strong growth with its total size (including foreign carriers and international transit traffic serviced by Russian airlines) increasing by 20.3% to 123.7 million passengers. Russian carriers' passenger turnover was 259.4 billion revenue passenger-kilometres (RPK), up 20.3% year-on-year.

The key growth driver in 2017 was the resumed economic growth in Russia with a stronger rouble and rising oil prices. The 2015–2016 low base effect due to Transaero's market exit also supported the growth. International traffic was boosted by the resumption of charter flights to Turkey and released pent-up demand backed by the improved macroeconomic environment. During the peak summer season the traffic also grew due to cold weather in the European part of Russia, adding to the traffic both abroad and to resort destinations in Southern Russia.

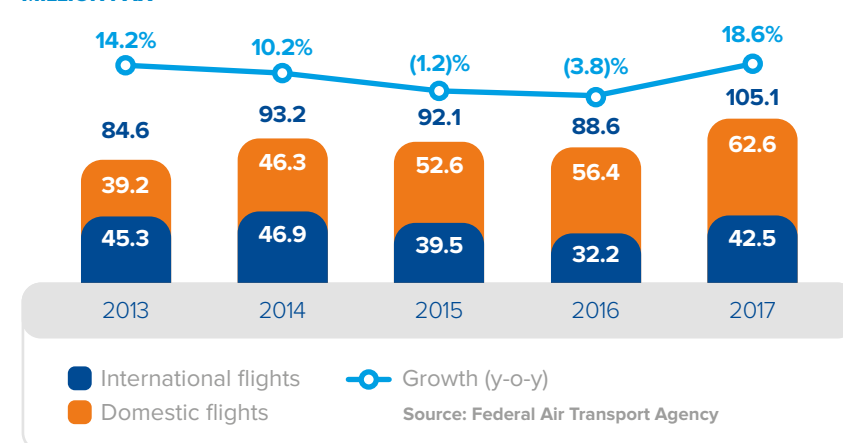
The resumption of tourist traffic to Turkey and active promotion campaigns run in the Russian market by Turkish aviation authorities and carriers ensured a 31.7% year-on-year growth in passenger traffic on international routes (including foreign carriers). The average passenger load factor for international flights was 85.2%, up 2.5 p.p. year-on-year.

Strong growth in international traffic did not cause any churn in the domestic market which maintained a strong operating performance: the total number of passengers increased by 10.9% year-on-year to 62.6 million passengers. The passenger turnover on domestic routes totalled 114.6 billion RPK, up 10.0% year-on-year due to the expansion of domestic tourism driven by a partial shift in outbound tourism flows. The average passenger load factor for domestic flights in 2017 was 80.7%, up 1.2 p.p. year-on-year.

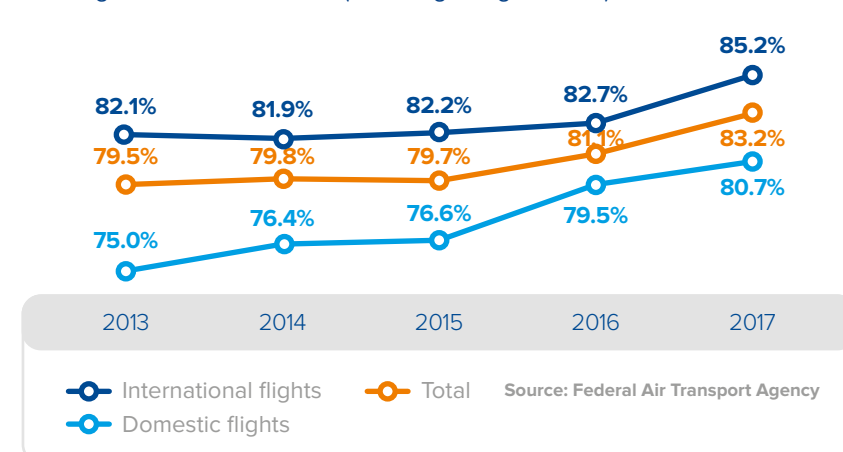
Passenger traffic in Russia (including foreign carriers)  
MILLION PAX



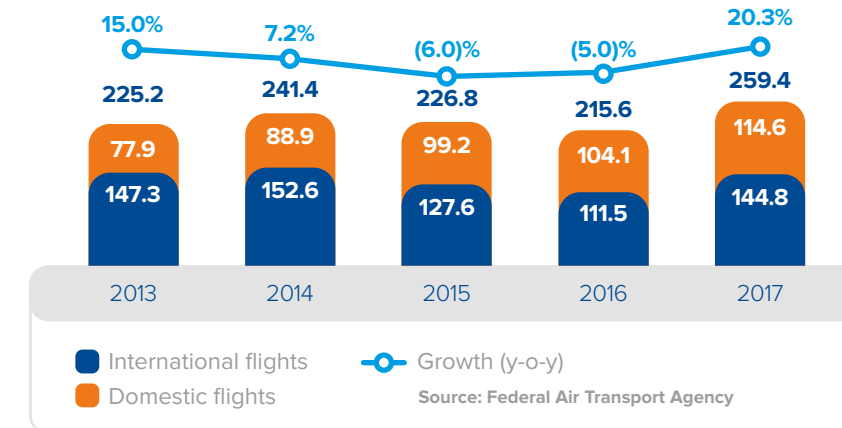
Passenger traffic in Russia (excluding foreign carriers)  
MILLION PAX



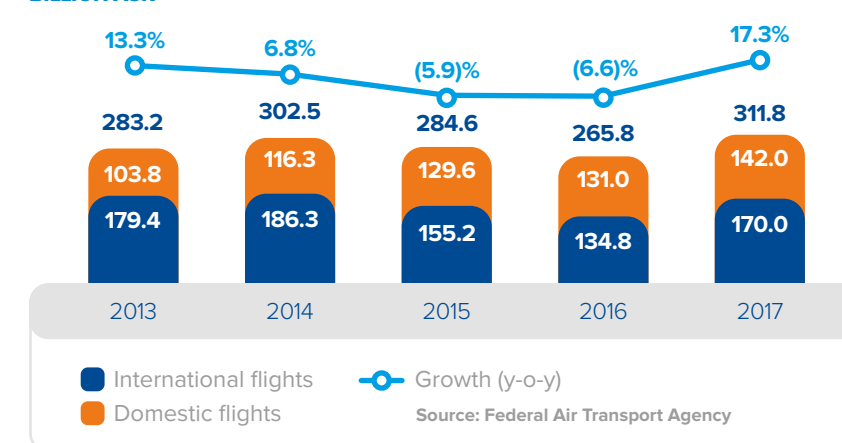
Passenger load factor in Russia (excluding foreign carriers)



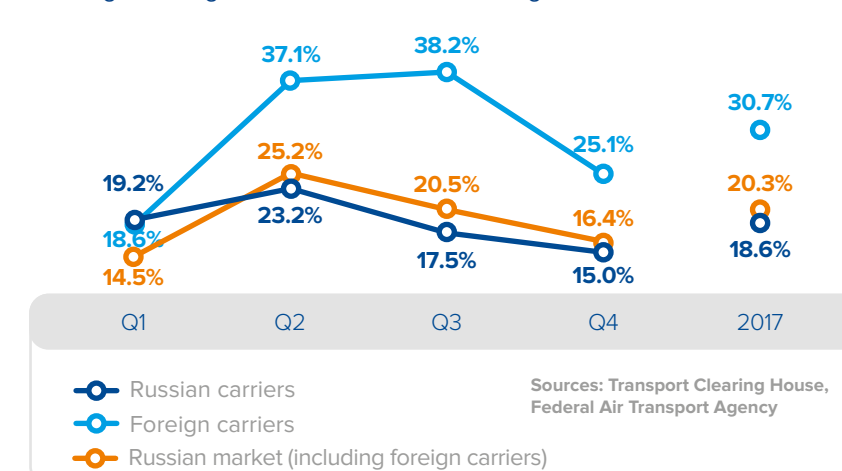
Passenger turnover in Russia (excluding foreign carriers)  
BILLION RPK



Available seat-kilometres in Russia (excluding foreign carriers)  
BILLION ASK



Passenger traffic growth\* in 2017: Russian vs foreign carriers



\* Year-on-year change.

The Russian air transportation industry is highly consolidated with four largest players accounting for 64.7% of the total passenger traffic. In 2017, Aeroflot Group had 40.5% of the total Russian market by passenger traffic (including foreign carriers) vs 42.3% in 2016 due to higher charter activity driven by the resumed flights to Turkey and increased foreign carriers' capacities. Aeroflot Group implements a targeted growth strategy focusing on the strongest market segments and despite its presence in charter segment overall exposure to it is lower compared to the market. Aeroflot Group's "net" market<sup>1</sup> share was 38.2% in 2017.

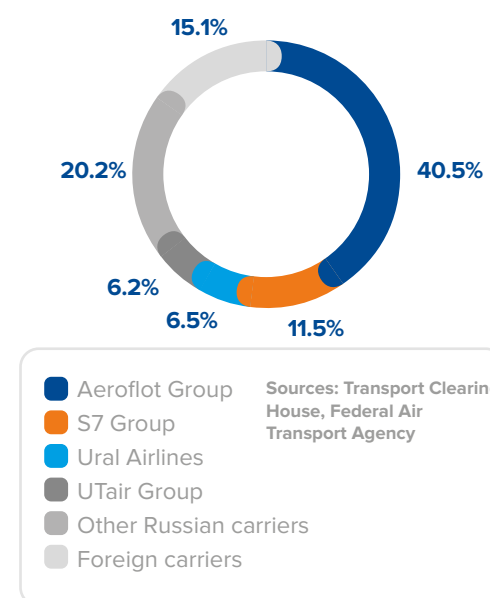
Aeroflot Group's closest competitors are S7 Group (11.5%), Ural Airlines (6.5%), and UTair Group (6.2%). The share of other Russian and foreign carriers grew the most vs 2016 – by 2.2 p.p. to 20.2% and by 1.2 p.p. to 15.1%, respectively.

<sup>1</sup> "Net" market is calculated on the base of traffic statistics for the Russian market including foreign carriers but excluding connecting passengers on international flights. The "net" market figures provide for a more accurate representation of the Group's Russian market share since passengers flying between Europe and Asia (for instance) and making connections in Moscow by definition are not originating or terminating their trips in the Russian cities.

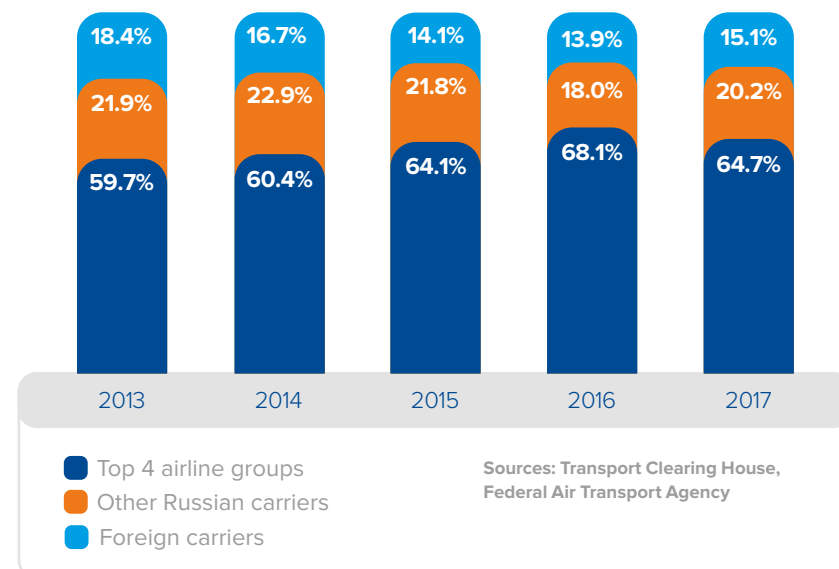
## Market Overview

continued

Key Russian airline industry players by total passenger traffic in 2017



Evolution of key players' market shares and consolidation of the passenger transportation segment



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

	2013	2014	2015	2016	2017
International traffic	27.0	26.1	29.3	39.4	36.9
Domestic traffic	36.1	38.0	44.6	44.6	44.1
<b>Total</b>	<b>30.5</b>	<b>31.0</b>	<b>36.8</b>	<b>42.3</b>	<b>40.5</b>

Aeroflot Group's market share evolution by passenger traffic ("net" market\*), %

	2013	2014	2015	2016	2017
International traffic	24.1	22.6	24.1	33.9	31.7
Domestic traffic	36.1	38.0	44.6	44.6	44.1
<b>Total</b>	<b>28.8</b>	<b>29.1</b>	<b>34.5</b>	<b>40.0</b>	<b>38.2</b>

\* "Net" market means the passenger traffic including foreign carriers but excluding connecting passengers on international flights, which are not relevant for the Russian O&Ds.

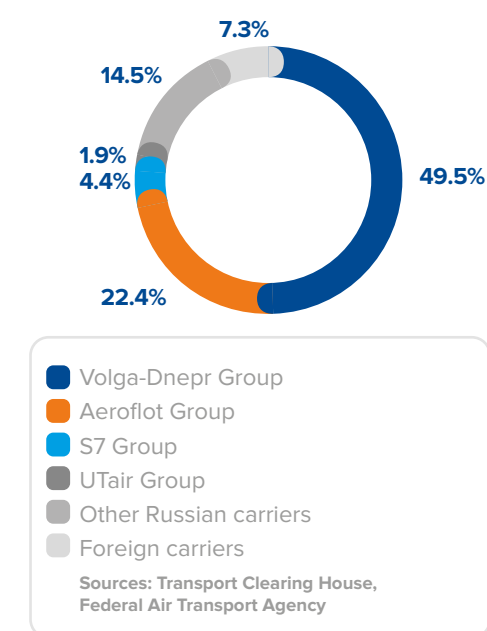
## Aircargo market

According to the IATA, the global air cargo market totalled 59.9 million tonnes in 2017, up 9.1% year-on-year. The global cargo turnover increased by 9.3% with the industry's cargo revenue up by 14.7% to USD 54.5 billion.

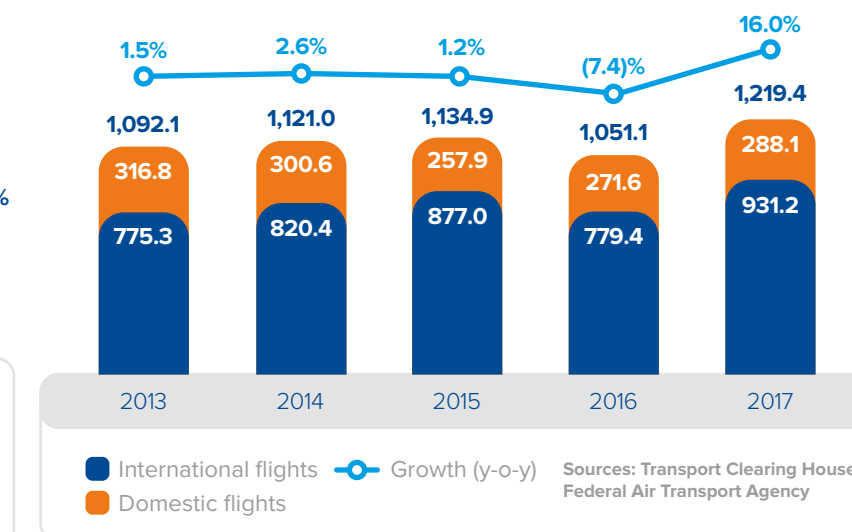
The Russian air cargo market (including foreign carriers) grew by 16.0% year-on-year in 2017 to 1.2 million tonnes. The international cargo traffic accounted for the bulk of the market at 76.4%, having increased by 19.5% to 931.2 thousand tonnes. The domestic cargo traffic was up by 6.1% to 288.1 thousand tonnes.

As at the year-end, Volga-Dnepr Group remained the aircargo market leader in Russia (49.5%), and Aeroflot Group ranked second with 22.4%. Top 4 players account for 78.2% of the total cargo traffic.

Russian air cargo market by volume in 2017



Russian air cargo market volume (including foreign carriers)  
THOUSAND TONNES



# Strategy Overview

## MISSION

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

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

## AEROFLOT GROUP'S STRATEGIC VISION

Aeroflot Group's ultimate strategic goal is to strengthen leadership in the global airline industry by seizing opportunities in the Russian and international air transportation markets.

Aeroflot Group Development Strategy 2025 was approved by PJSC Aeroflot's Board of Directors and defines the key focus areas and long-term growth targets.

To implement Aeroflot Group's long-term strategy, the Company has developed a medium-term strategic plan defining the key growth areas, operational and financial targets supporting the strategic goals. The medium-term strategic plan is reviewed and updated on an annual basis.

In line with the medium-term development strategy and pursuant to the directives of the Russian Government, Aeroflot Group has developed and updates annually its Long-Term Development Programme, which covers management-related activities, goals, and KPIs. The Group's consolidated IFRS budget and KPIs for the budget year are developed in line with the targets of the medium-term strategy of Aeroflot Group and its Long-Term Development Programme.

## AEROFLOT GROUP'S LONG-TERM STRATEGIC GOALS

2025 GOALS	PROGRESS
Join the <b>TOP 5</b> European airlines by passenger traffic and revenue	Ranked 7th by passenger traffic and 5th by revenue <sup>1</sup>
Join the <b>TOP 20</b> global players by passenger traffic and revenue	Ranked 20th by passenger traffic and 24th by revenue <sup>1</sup>
Carry <b>OVER 70 MILLION</b> passengers, including <b>AT LEAST 30 MILLION</b> on domestic routes	50.1 million passengers in total, including 27.6 million on domestic routes
Increase passenger traffic via the main hub in Moscow, with the share of transfer passengers reaching <b>AT LEAST 32%</b>	Aeroflot's share of transfer passengers (including domestic and international) is 42.9%
Ensure <b>STRONG</b> presence in the market	The Group is present in all price segments across all geographies
Sources: Airline Business, ATW, Flight Global, the Company's estimates	<sup>1</sup> As at the publication date of this Annual Report – data for 2016.



## Strategy Overview

continued

As at the end of the reporting period, Aeroflot Group achieved a number of its long-term strategic goals, e.g., joined the Top 20 global players. Analysis of Aeroflot Group's growth trends and changes in external business environment suggests that the Group is well-positioned to achieve the goals set in its Strategy 2025. However, the Group's performance against these goals may be affected by significant fluctuations of FX rates and the continued process of international market consolidation.

### 2018–2022

#### MEDIUM-TERM STRATEGY

##### KEY AREAS

- Aeroflot Group's multi-brand platform development
- Route network and fleet expansion
- IT infrastructure enhancement
- Product development
- A-Technics development

##### STRATEGIC GOALS

A set of operational and financial targets for 2018–2022, in line with the Group's long-term goals

##### THE DATE OF APPROVAL BY THE BOARD OF DIRECTORS

6 December 2017

### up to 2025

#### LONG-TERM STRATEGY

- Growth scenarios
- Growth tools
- Marketing strategy
- Network strategy
- Fleet strategy
- Constraints

Long-term passenger traffic and revenue targets benchmarked against global peers

13 July 2011

#### KEY INITIATIVES AND WORK STREAMS WITHIN THE LONG-TERM STRATEGY

<b>Develop the multi-brand platform to strengthen the positioning and synergy across the Group</b>	<b>Develop the route network through penetrating new markets and increasing the flight frequency</b>	<b>Enhance the fleet to be operated across the route network and promising markets</b>	<b>Develop the production capacity and auxiliary services</b>
<b>GROWTH SEGMENTS</b>			
Develop the premium passenger segment through improving the passenger experience, flight schedule, and expanding the route network	Develop the low-cost passenger segment, including through inter-regional flights, primarily on domestic routes	Promote transfer traffic via Sheremetyevo airport (including the international transit traffic)	Support national and regional passenger service programmes sponsored by the Government
<b>INNOVATION AND PERFORMANCE</b>			
Improve the employee performance and labour productivity	Sharpen the digital focus and drive innovation	Boost the Group's ancillary revenue	

## Impact of risks on the Group's strategy

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

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

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

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

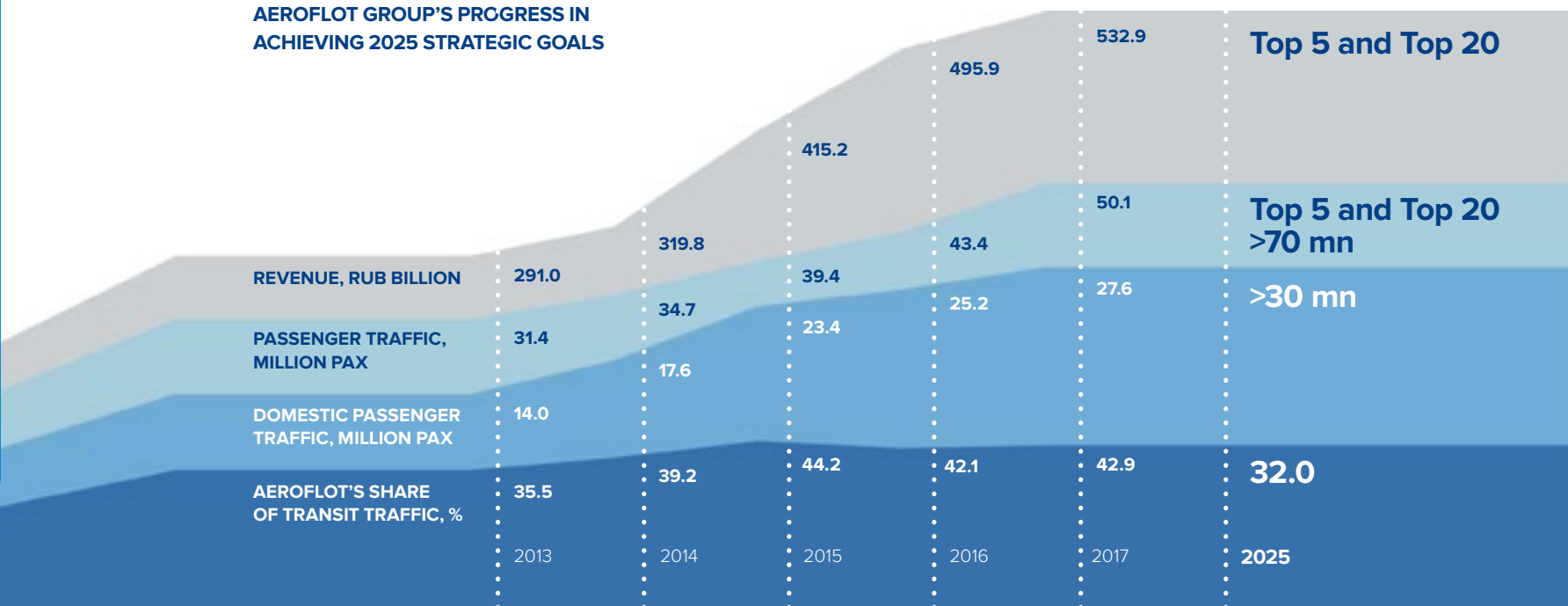
## Strategy implementation and adjustment results

The reporting period saw an upward trend in operational performance, in line with the Group's strategy and consolidated budget. The Group considerably grew its business through successful expansion across all its business segments.

In 2017, Aeroflot Group continued to enhance its route network by frequency and connectivity, supported by consistent efforts to improve the hub at Moscow Sheremetyevo airport. Aeroflot focused on reducing CASK, optimising the fleet, and boosting its sales performance. Pobeda, Aeroflot's low-cost carrier, is making good headway, having carried 4.6 million passengers in 2017.

Interim targets, including those set for passenger traffic, were revised upwards in 2017: in particular, Aeroflot Group plans to carry about 74 million passengers in 2022. According to our estimates, by this year, the Group's fleet will comprise 409 aircraft. The fleet enhancement strategy provides for increasing the share of Russian aircraft through execution of contracts for 50 SSJ100s and 50 MC-21s.

#### AEROFLOT GROUP'S PROGRESS IN ACHIEVING 2025 STRATEGIC GOALS



# Strategy Overview

continued

## Aeroflot Group's multi-brand platform



Aeroflot Group maintained a special focus on the development of its multi-brand offering to attract customers across all market segments. Each of the Group's airlines targets a dedicated market segment, thereby minimising the internal competition.

### Premium product

### Regional and charter products in the mid-price segment

### Low-cost product

### Regional product for Far East

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

**Rossiya and Aurora airlines** target the mid-market price segment and operate regional and inter-regional flights. They focus on their target regions with higher price sensitivity by primarily offering their passengers flights from the base regions with lower flight frequencies. Rossiya airline also operates in the leisure (charter) segment.

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

TYPE OF FLIGHTS	SCHEDULED FLIGHTS	SCHEDULED AND CHARTER FLIGHTS	SCHEDULED FLIGHTS	SCHEDULED FLIGHTS
BUSINESS MODEL	<ul style="list-style-type: none"><li>Hub and spoke model</li><li>Transit passenger traffic on domestic and international routes</li><li>High frequency of flights</li><li>Economy and business class</li></ul>	<ul style="list-style-type: none"><li>Point-to-point flights within Russia</li><li>Limited connectivity</li><li>Popular international destinations</li><li>Charter flights to the most popular leisure destinations</li><li>Economy and business class</li></ul>	<ul style="list-style-type: none"><li>Point-to-point flights to Moscow</li><li>Point-to-point flights between regions</li><li>High passenger load factor and fleet utilisation</li><li>Economy class</li></ul>	<ul style="list-style-type: none"><li>Passenger flights in the Far East</li><li>Local flights to remote destinations within the region</li><li>Economy and business class</li></ul>
FLIGHT RANGE	Unlimited	<ul style="list-style-type: none"><li>Short- and medium-haul flights</li><li>Long-haul routes (Far East, charters)</li></ul>	Short- and medium-haul flights	Short- and medium-haul flights
AIRCRAFT FLEET	<ul style="list-style-type: none"><li>Narrow-body aircraft</li><li>Wide-body aircraft</li></ul>	<ul style="list-style-type: none"><li>Narrow-body aircraft</li><li>Wide-body aircraft</li></ul>	Narrow-body aircraft	Narrow-body aircraft
TARGET GROUP	<ul style="list-style-type: none"><li>Business</li><li>Visiting friends and relatives</li><li>Leisure</li></ul>	<ul style="list-style-type: none"><li>Visiting friends and relatives</li><li>Leisure</li><li>Business</li></ul>	<ul style="list-style-type: none"><li>Leisure</li><li>Visiting friends and relatives</li></ul>	<ul style="list-style-type: none"><li>Visiting friends and relatives</li><li>Business</li></ul>
BASE AIRPORT	Moscow (Sheremetyevo)	<ul style="list-style-type: none"><li>Moscow (Vnukovo)</li><li>Saint Petersburg (Pulkovo)</li><li>Airports in Orenburg and Rostov-on-Don</li></ul>	<ul style="list-style-type: none"><li>Moscow (Vnukovo)</li><li>Airports in Russia's regions</li></ul>	<ul style="list-style-type: none"><li>Vladivostok</li><li>Khabarovsk</li><li>Yuzhno-Sakhalinsk</li></ul>
SHARE OF INTERNATIONAL PASSENGERS IN THE AIRLINE'S PASSENGER TRAFFIC	~50%	~35%	~20%	~25% (Asia Pacific)

## Strategy Overview

continued

### Long-term development programme and progress report

Aeroflot Group's Long-Term Development Programme (the LDP) was designed in accordance with Decree of the President of the Russian Federation No. Pr-3086 dated 27 December 2013, and approved by PJSC Aeroflot's Board of Directors on 2 December 2014.

On 21 December 2017, PJSC Aeroflot's Board of Directors approved Aeroflot Group's LDP for 2018–2022 updated to reflect the key amendments to the Group's strategy for 2018–2022, updates to LDP action plans and Aeroflot Group's target KPIs for 2018–2022.

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

The LDP details strategic areas for the Group's development and includes a list of key initiatives and action plans aimed at the strategy implementation in the medium term. The LDP complements and expands the key strategic initiatives set out in Aeroflot Group's Development Strategy to 2022.

The 2017 progress on Aeroflot Group's Long-Term Development Programme was audited by the Company's external auditor, BDO Unicon.

The independent audit was followed by an opinion on the information prepared to reflect the progress on the Long-Term Development Programme's initiatives from 1 January to 31 December 2017, on the actual 2017 KPI values, the progress against target KPIs as set out in the Long-Term Development Programme, and on the completeness and relevance of PJSC Aeroflot's management clarifications on the discrepancies between the Group's actual performance and the KPI targets stipulated by the Long-Term Development Programme, as presented in the Progress Report on Aeroflot Group's Long-Term Development Programme and Achievement of Key Performance Indicators for 2017. The auditor's opinion was issued on 30 March 2017 under No. 1658-BDO-18.

Overall, the planning and implementation of Aeroflot Group's LDP initiatives are in line with the principles set out in the LDP Development Guidelines, the KPI Guidelines, and other directives and instructions of the Russian Government and the Federal Agency for State Property Management.

In 2017, the Regulations on Updating and Managing the Implementation of Aeroflot Group's Long-Term Development Programme were approved to improve updating, reporting, and auditor communication processes.

### Development programmes

The Group is implementing its strategy through a number of programmes designed to ensure long-term development and profitable growth.

Key programmes underpinning PJSC Aeroflot's growth and development strategy:

- Investment Programme
- Cost Cutting Programme
- Innovative Development Programme
- Management Incentive Programme

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

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

#### KEY INITIATIVES TO SUPPORT THE LONG-TERM DEVELOPMENT PROGRAMME PROGRESS IN 2017:

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



# Strategy Overview

continued

## Investment Programme



The Investment Programme for 2018 was approved by PJSC Aeroflot's Board of Directors on 6 December 2017. It is designed to address long-term strategic objectives, ensure and improve the operations of business units, and is a follow-up to the dynamic development of the Company's investment activities. The 2018 Investment Programme continues on the established investment agenda such as property, plant and equipment, capital construction, and software, and sets new development projects designed to:

- ensure maintenance operations and ground handling: procurement of tools and equipment to perform maintenance for all types of aircraft; fitting-out of hangar facilities; procurement of maintenance equipment and custom machinery for aircraft ground handling
- develop a training platform: purchasing the A350 Door Trainer; upgrading and improving the visualisation system of the FFS A320 flight simulator; purchasing airport visuals for the FFS A330 flight simulator, etc.
- upgrade aircraft: ongoing equipment of aircraft with WiFEC; replacement of business class seats onboard Airbus A330s; integration of electronic devices for pre-flight and in-flight management of air navigation information on Airbus A320 family aircraft (Electronic Flight Bag – EFB); having wheelchairs onboard Boeing 777, Boeing 737, Airbus A320, and RRJ-95B aircraft

- construct new facilities: continued construction of a new hangar for aircraft servicing; designing a central power distribution station to expand the capacity of PJSC Aeroflot's power grid; designing a production and warehousing complex and a facility for custom machinery maintenance and repair
- develop the IT infrastructure: maintaining the existing and developing new information systems and further business process digitalisation; developing digitalisation projects; purchasing communication, telephone, and computer equipment
- ensure high-quality passenger experience: PJSC Aeroflot's website design; procurement of uniforms for front line employees
- provide software solutions: developing the SAP system; maintaining and developing the Company's website, commercial, operations-related, office, and other systems
- invest in R&D projects under the Innovative Development Programme
- provide other types of investment in property, plant and equipment: running fire safety initiatives, purchasing workwear, ensuring seamless operation of business units.

For details on the 2017 Investment Programme (approved by PJSC Aeroflot's Board of Directors on 24 November 2016) see PJSC Aeroflot's 2016 Annual Report.

## Cost Cutting Programme



The Cost Cutting Programme aimed to optimise and improve the operational performance is implemented in Aeroflot Group on an annual basis and is designed to:

- optimise the aircraft fleet and procurement performance
- implement the long-term fuel efficiency programme through initiatives to improve aircraft aerodynamics, centralise aviation fuel procurement while ensuring more favourable commercial terms of supply contracts for the Group's airlines
- optimise the maintenance and repair costs, including adjustment of contract terms for purchasing aircraft third-party maintenance services, improvement of the operational performance at the Company's technical facilities, establishment of A-Technics, a highly competitive provider of maintenance services, within Aeroflot Group at Vnukovo and Orenburg airports.

Successful implementation and consistent progress towards the achievement of its goals drive Aeroflot Group's leadership among the world's largest airlines by cost per available seat-kilometre (CASK) (the main unit cost and operational performance indicator in the aviation industry: a ratio of total operating expenses to passenger capacity for an airline's existing flights and schedule). With major peers featuring an average CASK at 7.3 cents, Aeroflot saved 27% in 2017 at 5.3 cents per seat-kilometre. A slight year-on-year CASK growth was due to the rouble's appreciation against the US dollar and the subsequent growth of the USD equivalent of the rouble-denominated servicing costs in Russian airports, the Group's payroll expenses, and jet fuel costs when fuelling in Russia.

## Innovative Development Programme



Aeroflot Group's Innovative Development Programme is designed until 2025 and was endorsed by the Ministry of Transport, Ministry of Education and Science, and Ministry of Economic Development of the Russian Federation, approved by the Interdepartmental Committee for Technological Development of the Presidium of the Presidential Council for Economic Modernisation and Innovative Development (15 June 2016), and adopted by PJSC Aeroflot's Board of Directors (25 August 2016).

The Innovative Development Programme covers the main focus areas and innovation activities at PJSC Aeroflot and its subsidiary airlines, as well as key mid- and long-term innovation KPIs to 2025.

## Management Incentive Programme



The Management Incentive Programme was approved by PJSC Aeroflot's Board of Directors on 25 September 2014 and amended by resolutions of PJSC Aeroflot's Board of Directors on 2 December 2014 and 20 April 2017. The Programme covers PJSC Aeroflot's employees whose remuneration is KPI-based. The remuneration is paid at the end of the year for exceeding the net income target and depends on the amount allocated by PJSC Aeroflot's General Meeting of Shareholders for this purpose from the net income, and from PJSC Aeroflot's target programme and contingency fund budgeted by the net income. The Programme sets the maximum remuneration pool which is subsequently distributed among the employees based on their individual contributions to the year-end financial results. For more details on the Management Incentive Programme see the Corporate Governance section of this Annual Report.

# Business Model

## OUR LONG-TERM STRATEGY

Aeroflot Group's strategic goal is to strengthen leadership in the global airline industry by seizing opportunities in the Russian and international air transportation markets.

### ASSETS BASE



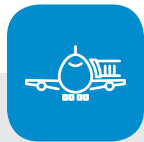
Route network

313

Scheduled routes

52

Countries



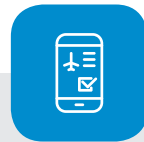
Aircraft fleet

332

Aircraft

4.1 years

Average age of Aeroflot airline fleet



Newest innovative technologies

Own data center

Integrated information security system

Information technology on board



In-house maintenance and repair facility

7

Hangars to maintain Aeroflot's own and third-party aircraft



Well-established brand and leader in the Russian market

6.7 million

Participants in the loyalty programme

40.5%

Share in Russian air transportation market



Highly skilled personnel

38.9 thousand

Employees

Training platform and simulation centre

Medical centre

### MARKETS, SUPPLIERS AND PARTNERS

#### LEASING

#### COUNTERPARTIES

Fueling facilities  
Airports  
Service providers  
Maintenance and repair

#### INTERNAL COST STREAMS

Maintenance and repair  
Staff  
General and administrative  
Other

#### SKYTEAM PARTNERS

## OPERATING PERFORMANCE

In 2017 Aeroflot Group have broken new record and reached another milestone when number of passenger surpassed 50 million. The Group posted growth across all operating segments from budget to premium.

Effective corporate strategy tailored to the market environment allowed Aeroflot Group to strengthen its global market position.

9.1%

**POBEDA**  
(Low-cost segment)

22.3%

**ROSSIYA**  
(Base segment, charter)



3.1%

**AURORA**  
(Regional flights)

65.5%

**AEROFLOT**  
(Premium segment)

**RUB 532.9 billion**

Aeroflot Group's revenue in 2017

**RUB 56.0 billion**

Aeroflot Group's EBITDA in 2017

**RUB 23.1 billion**

Aeroflot Group's net profit in 2017



**VALUE CREATION**

# Technological Growth

7  
Hangars to maintain aircraft

121.2 thousand  
Served flights from Sheremetyevo Airport

## OPERATING RESULTS

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Aircraft Maintenance and Repair Stations	80
Information Technology and Innovation	82
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Improved Customer Service and Brand Management	90

# Operating Highlights

## Aeroflot Group: all flights

Item	2013	2014	2015	2016	2017
Passenger traffic, million PAX	31.4	34.7	39.4	43.4	50.1
change, %	14.3	10.7	13.4	10.3	15.4
Passenger turnover, billion RPK	85.3	90.1	97.6	112.1	130.2
change, %	14.3	5.6	8.4	14.8	16.2
Available seat-kilometres, billion ASK	109.1	115.8	124.7	137.7	157.2
change, %	14.1	6.2	7.7	10.4	14.2
Passenger load factor, %	78.2	77.8	78.3	81.4	82.8
change, p.p.	0.1	(0.4)	0.5	3.1	1.4
Cargo and mail, thousand tonnes	204.6	166.3	156.3	205.8	273.4
change, %	(8.6)	(18.7)	(6.0)	31.6	32.8
Revenue tonne-kilometres, billion TKM	8.7	8.8	9.5	11.0	13.0
change, %	9.3	1.9	7.0	16.5	17.7
Flights, thousand	264.9	286.7	323.8	331.9	368.5
change, %	9.5	8.2	13.0	2.5	11.0
Stage length, km	2,717	2,593	2,479	2,581	2,598
change, %	0.0	(4.5)	(4.4)	4.1	0.7

## Aeroflot Group: domestic flights

Item	2013	2014	2015	2016	2017
Passenger traffic, million PAX	14.0	17.6	23.4	25.1	27.6
change, %	21.6	26.0	32.5	7.6	9.7
Passenger turnover, billion RPK	29.2	35.0	44.7	48.7	53.2
change, %	19.8	19.9	27.8	8.9	9.3
Available seat-kilometres, billion ASK	37.6	43.6	56.3	58.3	63.8
change, %	18.2	16.2	29.0	3.7	9.4
Passenger load factor, %	77.7	80.2	79.4	83.5	83.4
change, p.p.	1.0	2.5	(0.8)	4.1	(0.1)
Cargo and mail, thousand tonnes	82.8	82.0	79.1	107.8	120.0
change, %	17.1	(0.9)	(3.4)	36.2	11.3
Revenue tonne-kilometres, billion TKM	3.0	3.5	4.3	4.8	5.3
change, %	19.2	17.4	24.5	11.9	8.9
Flights, thousand	127.8	151.0	195.0	196.0	215
change, %	13.4	18.2	29.2	0.5	9.7
Stage length, km	2,083	1,982	1,912	1,935	1,929
change, %	(1.5)	(4.8)	(3.5)	1.2	(0.4)

## Aeroflot Group: international flights

Item	2013	2014	2015	2016	2017
Passenger traffic, million PAX	17.4	17.1	16.0	18.3	22.5
change, %	8.9	(1.7)	(6.2)	14.1	23.3
Passenger turnover, billion RPK	56.1	55.1	52.9	63.4	77.0
change, %	11.6	(1.8)	(3.9)	19.8	21.4
Available seat-kilometres, billion ASK	71.5	72.2	68.5	79.4	93.4
change, %	12.0	1.0	(5.2)	15.8	17.8
Passenger load factor, %	78.4	76.3	77.3	80.0	82.5
change, p.p.	(0.3)	(2.1)	1.0	2.7	2.5
Cargo and mail, thousand tonnes	121.8	84.3	77.2	98.0	153.3
change, %	(20.5)	(30.8)	(8.5)	27.0	56.5
Revenue tonne-kilometres, billion TKM	5.7	5.3	5.2	6.2	7.7
change, %	4.9	(6.1)	(4.3)	20.3	24.5
Flights, thousand	137.1	135.7	128.8	135.9	153.4
change, %	6.2	(1.0)	(5.1)	5.5	12.9
Stage length, km	3,226	3,223	3,304	3,468	3,416
change, %	2.4	(0.1)	2.5	5.0	(1.5)

# Operating Highlights

continued

## Aeroflot Group

During the year, Aeroflot Group carried a total of 50.1 million passengers, up 15.4% year-on-year, making 368,500 flights or more than 1,000 flights per day on average. The Group's turnover grew 16.2% to 130.2 billion RPK. On the back of the capacity growth by 14.2% to 157.2 billion ASK the passenger load factor increased by 1.4 p.p. to 82.8%.

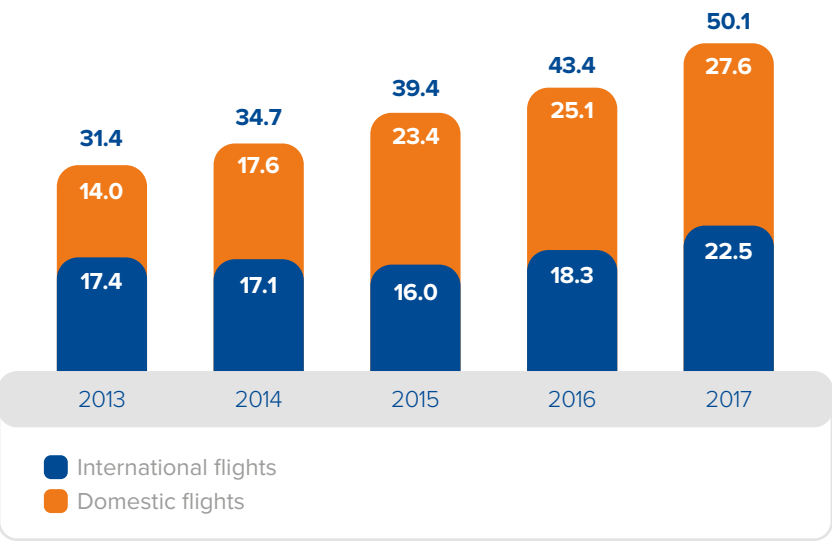
### Domestic flights

In the reporting year, Aeroflot Group's total domestic passenger traffic (scheduled and charter) increased by 9.7% year-on-year to 27.6 million passengers (with 26.7 million passengers on scheduled flights). Domestic flights accounted for 55.0% of the total carried passengers.

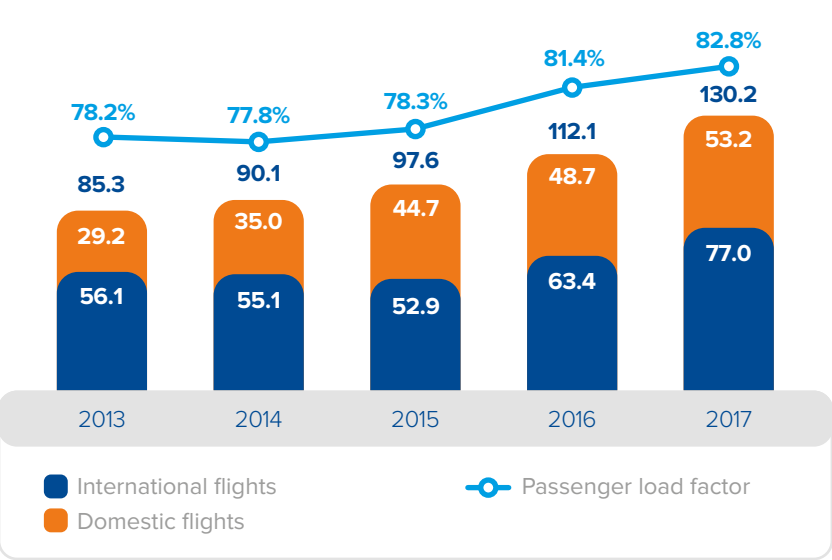
The passenger turnover grew 9.3% to 53.2 billion RPK while the capacity was up 9.4% to 63.8 billion ASK. The passenger load factor decreased by 0.1 p.p. to 83.4%.

Such performance improvements were associated with the persistently strong demand for domestic services (including domestic tourism), which allowed the Group to increase its flight frequency on the most popular routes and launch new routes.

Aeroflot Group's passenger traffic  
MILLION PAX



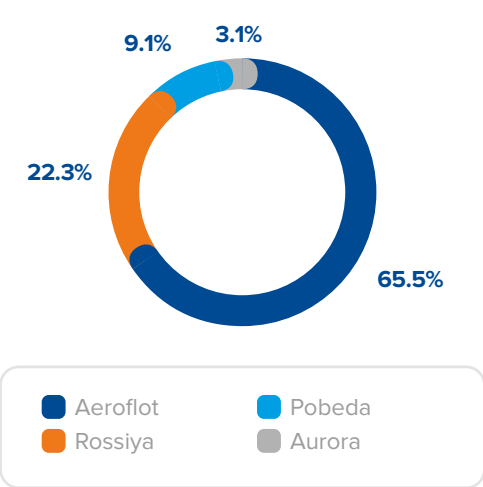
Aeroflot Group's passenger turnover, billion RPK, and passenger load factor  
BILLION RPK AND %



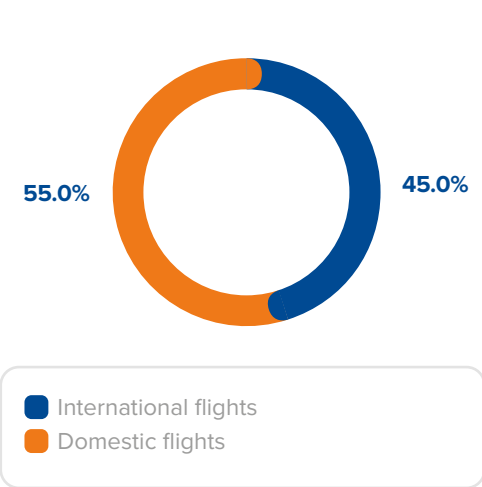
Aeroflot Group's operational performance by region (scheduled and charter flights)

Region	Passenger traffic, million PAX			Passenger turnover, billion RPK			Available seat-kilometres, billion ASK			Passenger load factor, %		
	2016	2017	change, %	2016	2017	change, %	2016	2017	change, %	2016	2017	change, p.p.
Russia	24.7	26.7	7.9	47.9	51.4	7.2	57.5	61.9	7.7	83.4	83.0	(0.4)
Europe	9.0	10.5	17.0	20.1	23.8	18.7	26.5	30.5	15.2	75.6	77.9	2.3
Asia	3.1	3.4	11.2	19.8	21.9	10.7	24.8	26.6	7.2	79.9	82.5	2.6
CIS	2.4	2.8	18.2	5.4	6.2	14.8	6.6	7.4	12.2	82.2	84.1	1.9
Middle East	1.5	1.9	26.8	4.6	5.7	23.7	6.0	7.1	19.5	77.7	80.4	2.7
Americas	0.9	1.0	11.2	7.9	8.6	9.1	9.3	10.4	12.2	84.9	82.6	(2.3)
Scheduled flights	41.7	46.4	11.5	105.7	117.7	11.3	130.6	144.0	10.2	80.9	81.7	0.8
Charter flights	1.8	3.7	108.2	6.4	12.5	96.9	7.0	13.3	89.3	91.1	94.6	3.6
Total flights	43.4	50.1	15.4	112.1	130.2	16.2	137.7	157.2	14.2	81.4	82.8	1.4

Aeroflot Group's 2017 passenger traffic breakdown by airline



Aeroflot Group's 2017 passenger traffic breakdown by destination



# Operating Highlights

continued

## International flights

In the reporting year, Aeroflot Group’s international passenger traffic increased by 23.3% year-on-year to 22.5 million passengers. International flights accounted for 45.0% of the total carried passengers.

The passenger turnover grew 21.4% to 77.0 billion RPK while the capacity was up 17.8% to 93.4 billion ASK. The passenger load factor increased by 2.5 p.p. to 82.5%.

The international segment performance was driven by such factors as the improving demand, rouble appreciation, launch of new services and increasing flight frequencies by Aeroflot airline based on obtained traffic rights, Rossiya airline’s growing exposure to leisure segment on the back of recovery, and development of Pobeda’s international network. The changing competitive environment, in particular, the return of foreign carrier capacities to the Russian market, also influenced Aeroflot’s operational performance.

The Middle East accounted for the highest passenger traffic growth in 2017, driven by the increased frequency of flights to Tel Aviv in 2016 and the recovery of the flight schedule to Turkey (Istanbul, Antalya) to historic levels, supported by the high demand for the region.

The scheduled passenger traffic on European routes grew by 17.0% to 10.5 million passengers, driven by Aeroflot’s frequency additions (including in 2016) to London, Rome, Milan, Hamburg, and some other European cities, the newly launched services to Lisbon, and Rossiya’s new route from Moscow (Vnukovo airport) to Barcelona.

Aeroflot Group continued to focus on Asian destinations, where the number of passengers carried on scheduled flights grew by 11.2% to 3.4 million, driven, among other factors, by the higher frequency of flights to Hanoi and Delhi.

The number of passengers carried on scheduled flights within the CIS grew 18.2% to 2.8 million due to the launch of a flight to Kostanay and the higher frequency of flights to Yerevan. Furthermore, the higher demand helped the Group increase the number of flights to the region’s key destinations – cities of Kazakhstan, Belarus, Uzbekistan, and Georgia.

The number of passengers carried on scheduled flights to North and Central America increased by 11.2% to 1.0 million, due to the launch of the third daily flight to New York and the stable demand of transfer passengers driven by better flight connectivity.

## Aeroflot airline

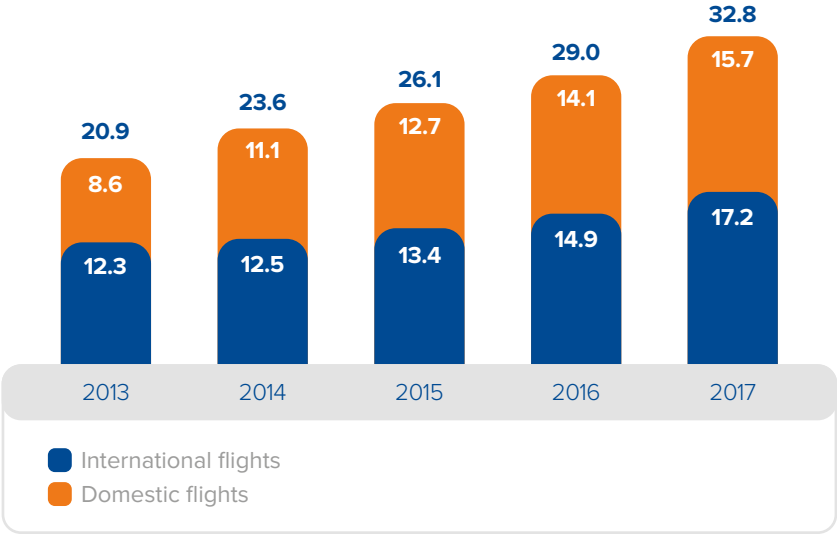
In 2017, Aeroflot airline carried a total of 32.8 million passengers, up 13.3% year-on-year, making 243,317 flights.

The airline’s passenger turnover grew 11.0% to 91.8 billion RPK, backed by the 10.3% capacity growth to 112.2 billion ASK. The passenger load factor increased by 0.5 p.p. to 81.8%.

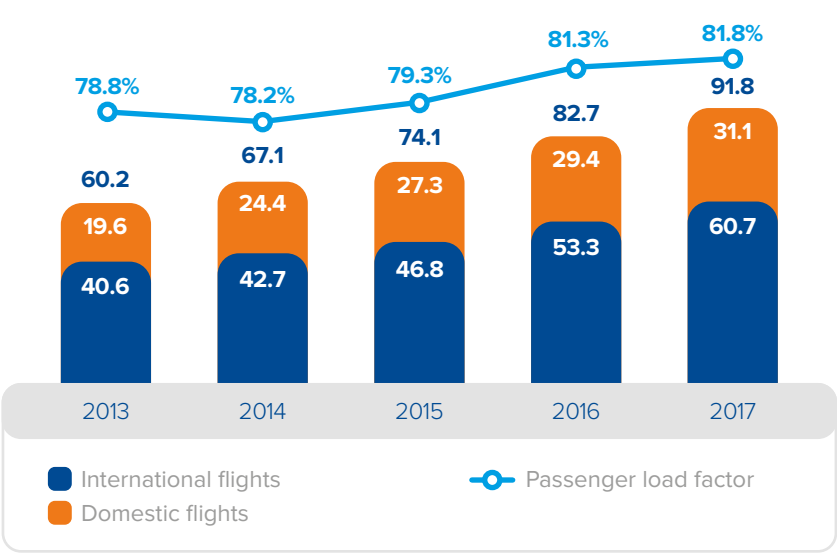
## Domestic flights

In 2017, the total number of passengers (scheduled and charter) carried by Aeroflot airline on domestic routes increased by 11.3% year-on-year to 15.7 million. The passenger turnover grew 6.1% to 31.1 billion RPK, with the capacity growing by 7.4% to 36.9 billion ASK. The passenger load factor decreased by 1.1 p.p. to 84.3%. Domestic flights accounted for 47.8% of Aeroflot airline’s total passenger traffic.

Aeroflot airline’s passenger traffic  
MILLION PAX



Aeroflot airline’s passenger turnover, billion RPK, and passenger load factor  
BILLION RPK AND %



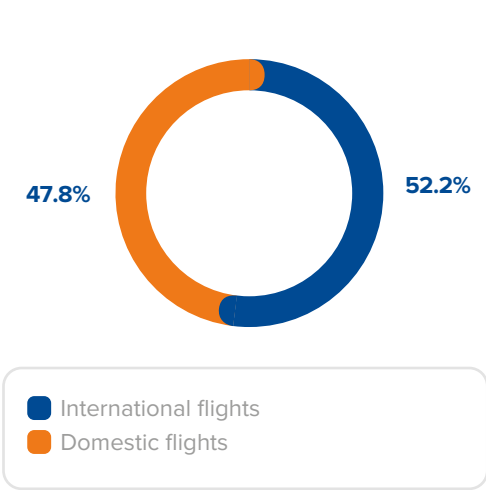
# Operating Highlights

continued

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

Region	Passenger traffic, million PAX			Passenger turnover, billion RPK			Available seat-kilometres, billion ASK			Passenger load factor, %		
	2016	2017	change, %	2016	2017	change, %	2016	2017	change, %	2016	2017	change, p.p.
Russia	14.1	15.7	11.2	29.4	31.1	6.1	34.4	36.9	7.4	85.4	84.4	(1.1)
Europe	7.7	8.9	15.3	17.3	20.1	16.7	22.9	26.2	14.5	75.4	76.9	1.5
Asia	2.8	3.1	11.3	19.3	21.4	10.6	24.1	25.8	7.1	80.2	82.8	2.6
CIS	2.1	2.5	16.5	4.7	5.4	15.0	5.7	6.4	13.1	82.5	83.9	1.3
Middle East	1.4	1.7	24.9	4.1	5.1	23.7	5.4	6.4	19.2	77.4	80.3	2.9
Americas	0.9	1.0	10.8	7.9	8.6	9.1	9.3	10.4	12.2	84.9	82.6	(2.3)
Scheduled flights	29.0	32.8	13.3	82.7	91.8	11.0	101.7	112.2	10.3	81.3	81.8	0.5
Charter flights	0.01	0.01	38.3	0.03	0.03	(0.7)	0.08	0.09	3.3	31.5	30.3	(1.2)
Total flights	29.0	32.8	13.3	82.7	91.8	11.0	101.8	112.2	10.3	81.3	81.8	0.5

Aeroflot airline's 2017 passenger traffic breakdown by destination



## International flights

In 2017, the total number of passengers carried by Aeroflot airline on international routes increased by 15.3% year-on-year to 17.2 million. The passenger turnover grew 13.7% to 60.7 billion RPK, with the capacity growing by 11.8% to 75.3 billion ASK. The passenger load factor increased by 1.4 p.p. to 80.6%. International flights accounted for 52.2% of Aeroflot airline's total passenger traffic.

Aeroflot airline's operating results by region are explained by the above-mentioned factors, which influenced the Group's overall performance.

## Charter flights

Aeroflot airline made 285 charter flights in 2017, including special flights to transport sportsmen and officials during the FIFA Confederations Cup, the national football and hockey teams, Russia's Olympic team, and Manchester United FC.

# Subsidiary airlines: Rossiya, Pobeda and Aurora

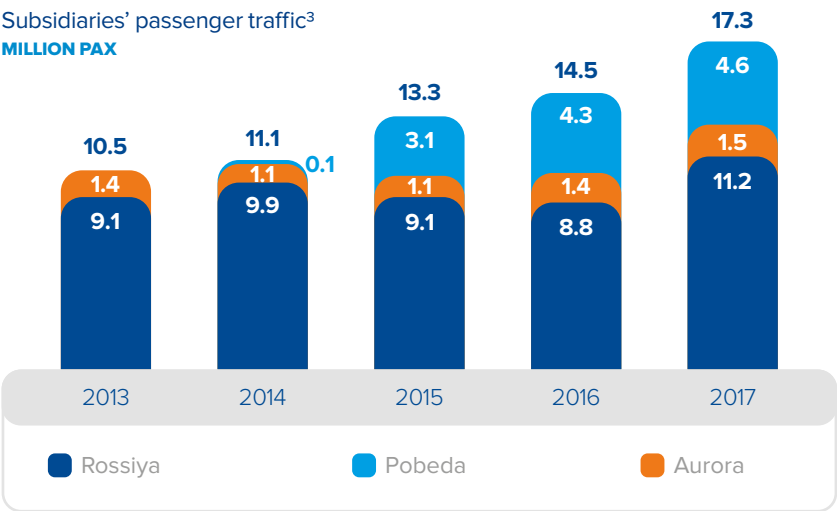
In the reporting year, the total passenger traffic of Rossiya, Pobeda, and Aurora subsidiary airlines was 17.3 million passengers, accounting for 34.5% of the total number of passengers carried by Aeroflot Group in 2017.

Rossiya airline recorded the highest growth rate in 2017, with 11.2 million passengers carried and the passenger traffic on pro-forma basis up 26.7%<sup>1</sup>, driven by the higher demand in the leisure market and the capacity supply for charter flights offered together with Biblio Globus tour operator. Saint Petersburg delivered high growth rates with Rossiya airline carrying 5.5 million passengers via Pulkovo airport, up 16.8% year-on-year<sup>2</sup>. More than a third of passengers were carried on charter flights.

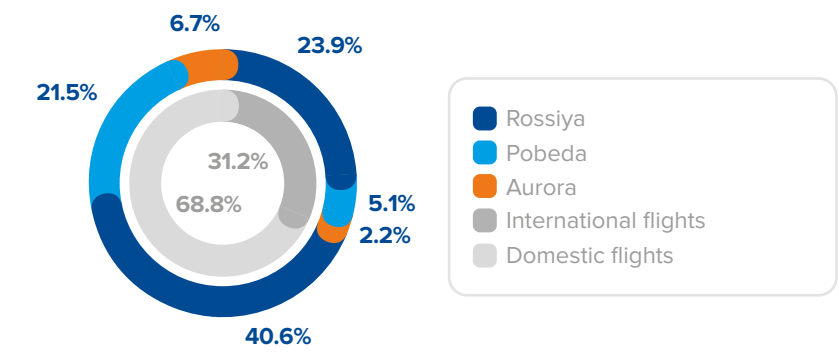
During nine months of 2017, Pobeda airline operated a 12-aircraft fleet and received four more aircraft in forth quarter. Thus, the passenger traffic growth to 4.6 million was primarily driven by the growing passenger load factor to record 94.2%, and by capacity additions in Q4 following the fleet expansion.

In the reporting period, Aurora airline continued to expand into the Far East and increase the mobility of the population. In 2017, the airline carried 1.5 million passengers, up 12.5% year-on-year. Local flights to remote destinations were also growing rapidly. The passenger traffic on these routes totalled 63,300 passengers within the Sakhalin Region, 36,200 passengers within the Primorsky Region, and 58,200 passengers on inter-regional flights.

Subsidiaries' passenger traffic<sup>3</sup>  
MILLION PAX



Subsidiaries' 2017 passenger traffic breakdown<sup>3</sup>



<sup>1</sup> The growth rate calculation includes the passenger traffic of Donavia and Orenair airlines in Q1 2016 prior to their consolidation into united Rossiya airline.

<sup>2</sup> Including the Saint Petersburg – Moscow (Vnukovo) route.

<sup>3</sup> Data on Rossiya airline for 2013–2016 includes flights of Orenair and Donavia prior to their consolidation into Rossiya airline.

## Operating Highlights

continued

### Cargo and mail operations

Aeroflot Group does not have a dedicated cargo fleet and exploits a belly cargo model for cargo and mail transportation. In 2017, Aeroflot Group carried 273,400 tonnes of cargo and mail, up 32.8% year-on-year.

In the reporting period, the cargo/mail tonne-kilometres (TKM) increased by 17.7% to 13.0 billion TKM, while the revenue load factor went up by 3.0 p.p. to 68.7%.

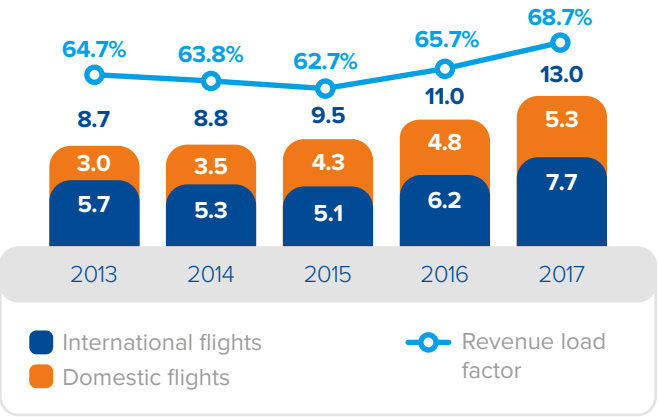
The growth in cargo and mail operations is associated with the upbeat demand and the expansion of the wide-body aircraft fleet, including high cargo capacity Boeing 747s and Boeing 777s added to the Group's fleet in 2016–2017.

In 2017, Aeroflot airline carried 226,600 tonnes of cargo and mail, up 29.1% year-on-year. The cargo/mail tonne-kilometres increased by 12.9% to 9.3 billion, while the revenue load factor grew by 3.1 p.p. year-on-year to 68.1%.

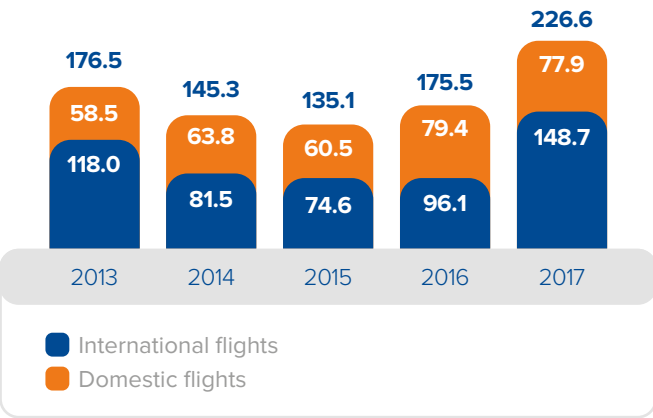
Aeroflot Group's cargo and mail operations  
THOUSAND TONNES



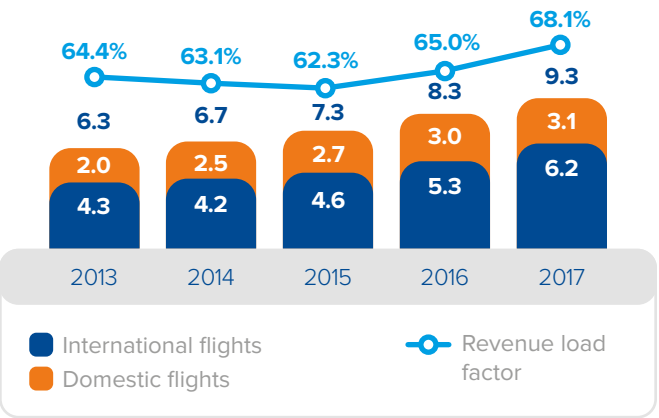
Aeroflot Group's revenue tonne-kilometres and revenue load factor, BILLION TKM AND %



Aeroflot airline's cargo and mail operations  
THOUSAND TONNES



Aeroflot airline's revenue tonne-kilometres and revenue load factor, BILLION TKM AND %



## Route Network

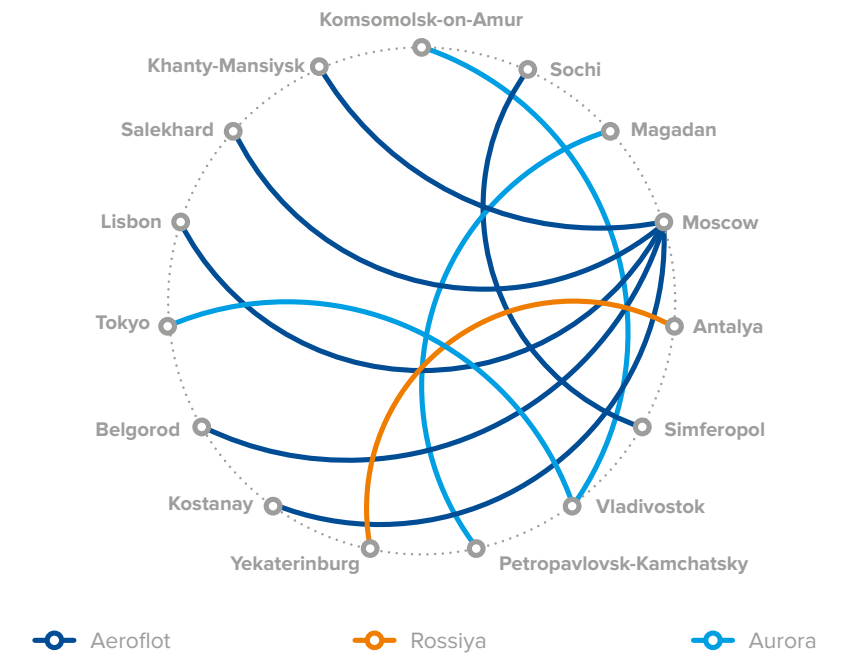
### Aeroflot Group's route network development<sup>1</sup>

In 2017, Aeroflot Group's network comprised 313 scheduled routes to 52 countries, including 35 unique routes operated by the low-cost carrier Pobeda.

Excluding the low-cost segment (Pobeda airline), the Group's airlines operated scheduled flights on 278 routes. The number of scheduled routes remained almost flat during the year (down 0.4% year-on-year). Domestic scheduled routes increased by 1.4% while international scheduled routes were down by 2.2%. The total number of the Group-operated routes increased by 13.8% to 429, driven by charter flights.

During 2017, Aeroflot Group's airlines launched scheduled flights to 13 new destinations, including 9 domestic and 4 international.

New scheduled routes in 2017



Number of Aeroflot Group's routes

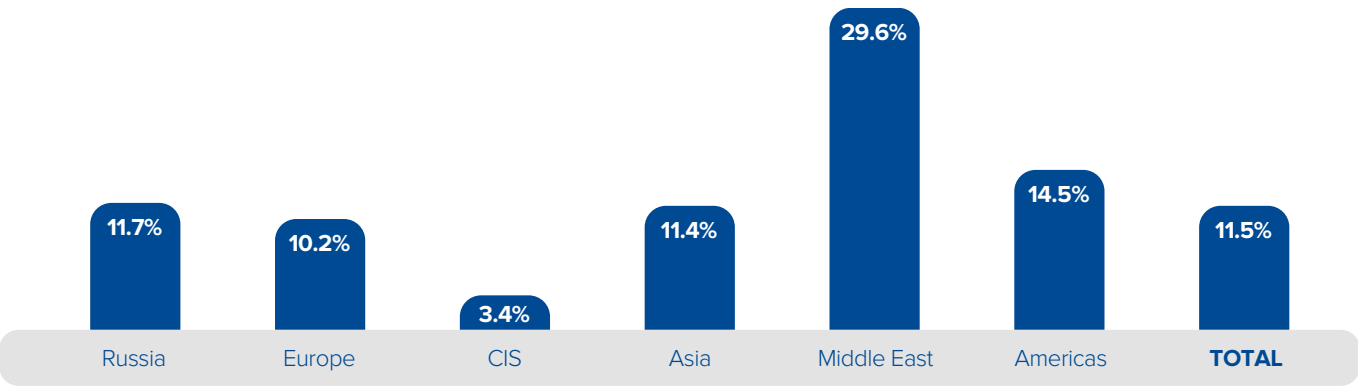
	2016			2017			Change, %		
	Sch.	Chart.	Total	Sch.	Chart.	Total	Sch.	Chart.	Total
International	139	116	214	136	146	240	(2.2)	25.9	12.1
Domestic	140	60	163	142	86	189	1.4	43.3	16.0
Medium-haul	253	161	341	252	219	392	(0.4)	36.0	15.0
Long-haul	26	15	36	26	13	37	–	(13.3)	2.8
Total	279	176	377	278	232	429	(0.4)	31.8	13.8

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

# Route Network

continued

Aeroflot Group's scheduled flights by region (2017 vs 2016)



Flights from Saint Petersburg to Baku and Yerevan under 100% commercial management of Rossiya airline were discontinued as part of the network optimisation and Group performance improvement. Flights from Saint Petersburg to Gelendzhik were suspended due to the fleet restructuring efforts.

In 2017, the number of Aeroflot Group's scheduled flights grew 11.5% year-on-year. The Middle East segment reported the highest growth due to the recovery of the flight schedule to Turkey (Istanbul, Antalya) to historic levels, and the increased frequency of flights to Tel Aviv in 2016.

European destinations saw the number of scheduled flights increase by 10.2%. The frequencies of flights to London, Rome, Milan, Hamburg, and some other European cities increased (including throughout 2016).

Aeroflot airline launched a route to Lisbon, the capital of Portugal and Rossiya airline launched a flight to Barcelona from Moscow's Vnukovo airport.

The number of scheduled flights to Southeast Asia was up 11.4%, including due to the higher frequency of flights to Hanoi and Delhi.

The number of scheduled flights to the CIS increased by 3.4%, driven by the launch of the Kostanay route and more frequent flights to Yerevan and other key cities in the region.

The launch of the third daily flight to New York in the summer of 2016 and the higher frequency of flights to Miami pushed the number of scheduled flights to North and Central America up by 14.5%.

Aeroflot Group continued increasing the frequency of scheduled service to the most popular and lucrative destinations, with the average weekly frequency of scheduled flights in 2017 growing by 6.0% year-on-year (from 12.4 to 13.1). This figure grew 8.4% (from 10.0 to 10.9) for international and 3.3% (from 15.0 to 15.5) for domestic scheduled routes.

In planning its flight schedule, Aeroflot Group focuses on:

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

## Aeroflot Airline's route network development

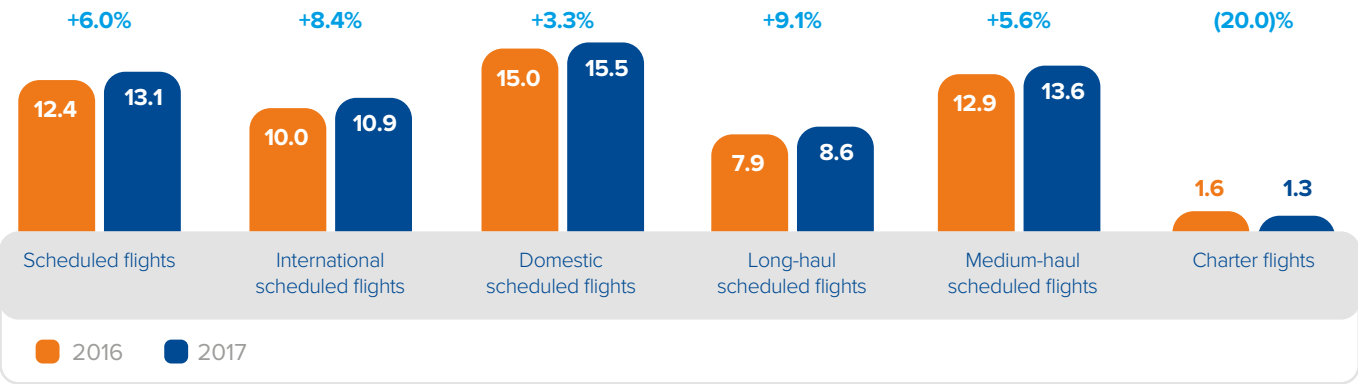
In 2017, Aeroflot airline's network covered 139 scheduled routes to 51 countries (including Russia). The number of both international and domestic scheduled routes grew 2.3% and 8.7% year-on-year, respectively.

Aeroflot continued expanding its network by launching six new scheduled routes, including two international (from Moscow to Kostanay and Lisbon) and four domestic (from Moscow to Belgorod, Salekhard, and Khanty-Mansiysk, as well as from Sochi to Simferopol).

In 2017, the total number of Aeroflot airline's scheduled flights grew 11.2% year-on-year due to the increase in capacity on the most popular routes and the above restructuring of the route network. The connectivity ratio for Aeroflot airline's own flights improved from 19.1 in 2016 to 21.2 in 2017.

The average weekly frequency of Aeroflot airline's scheduled flights grew 55.4%, from 16.2 to 17.0 flights per route per week. International and domestic scheduled destinations saw the frequency grow by 5.4% (from 12.5 to 13.1 flights) and 4.5% (from 23.1 to 24.2 flights), respectively.

Average weekly frequency of Aeroflot Group's flights

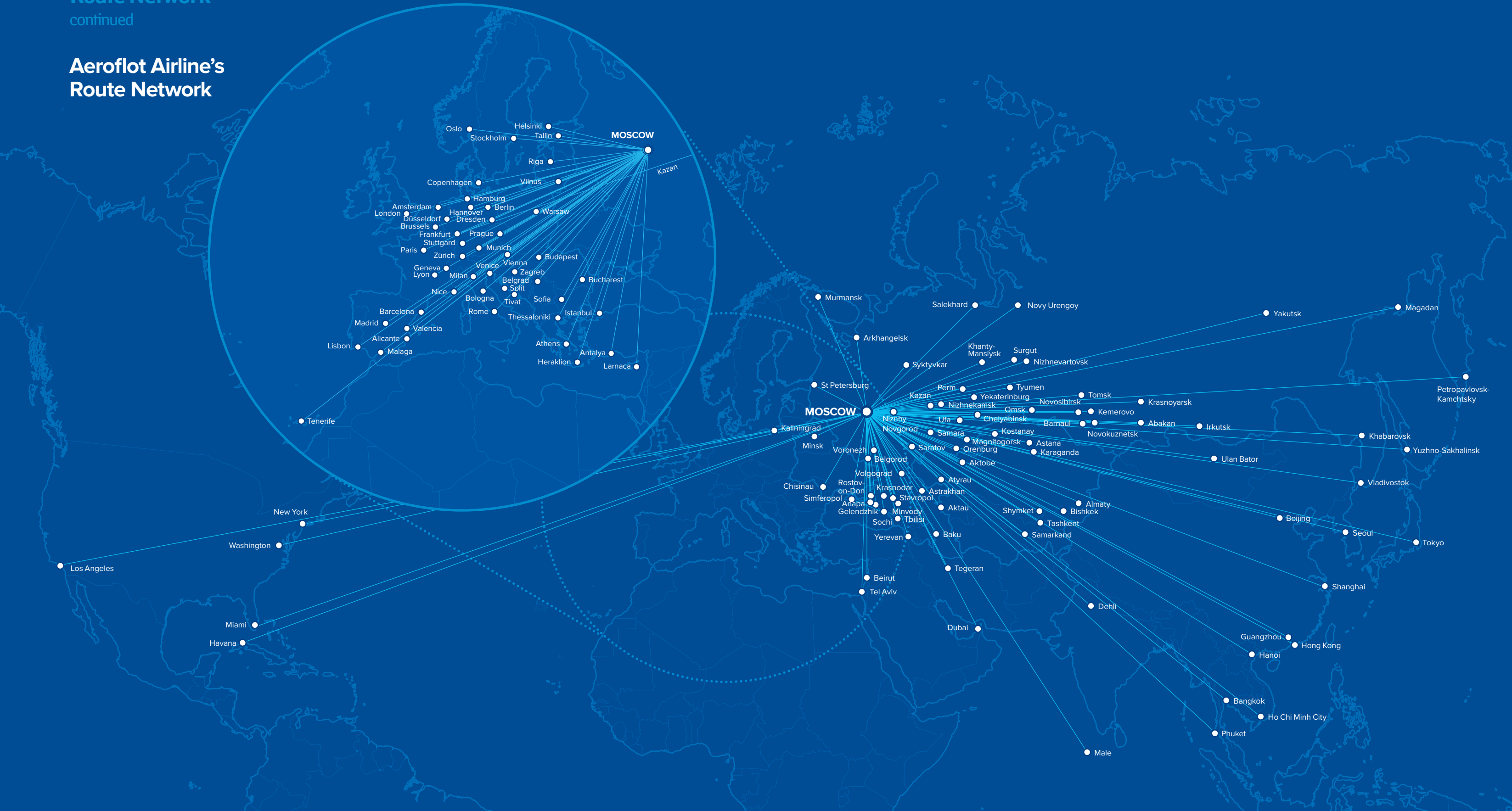


Number of Aeroflot airline's routes

	2016			2017			Change, %		
	Sch.	Chart.	Total	Sch.	Chart.	Total	Sch.	Chart.	Total
International	87	20	99	89	31	103	2.3	55.0	4.0
Domestic	46	13	48	50	25	64	8.7	92.3	33.3
Medium-haul	108	30	119	114	56	142	5.6	86.7	19.3
Long-haul	25	3	28	25	—	25	—	—	(10.7)
Total	133	33	147	139	56	167	4.5	69.7	13.6

Route Network  
continued

Aeroflot Airline's  
Route Network



## Route Network

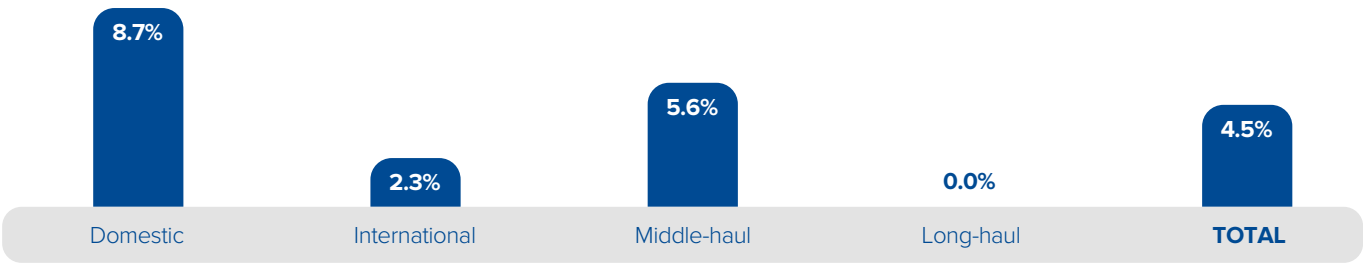
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## Rossiya and Aurora Airlines' Route Network

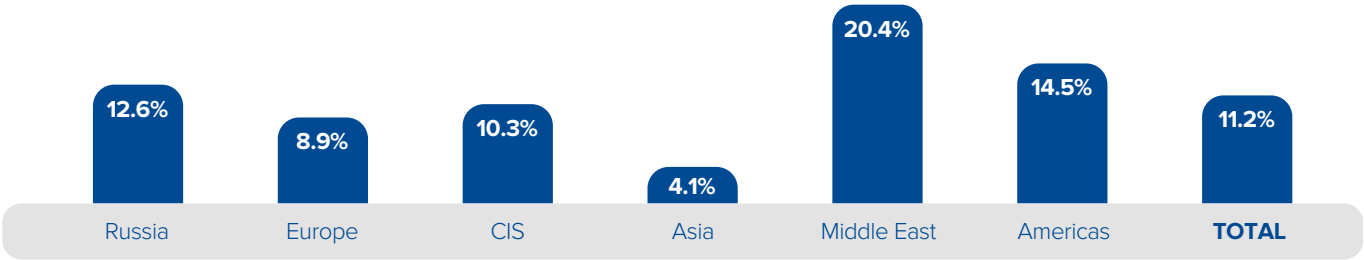
# Route Network

continued

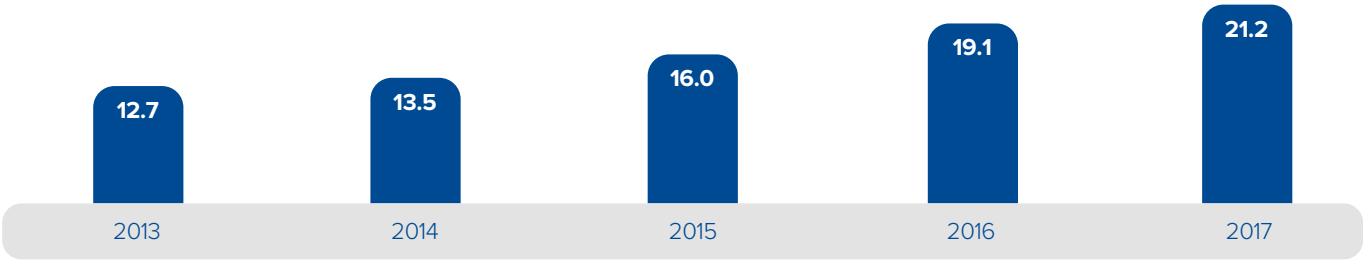
Aeroflot airline's scheduled routes (2017 vs 2016)



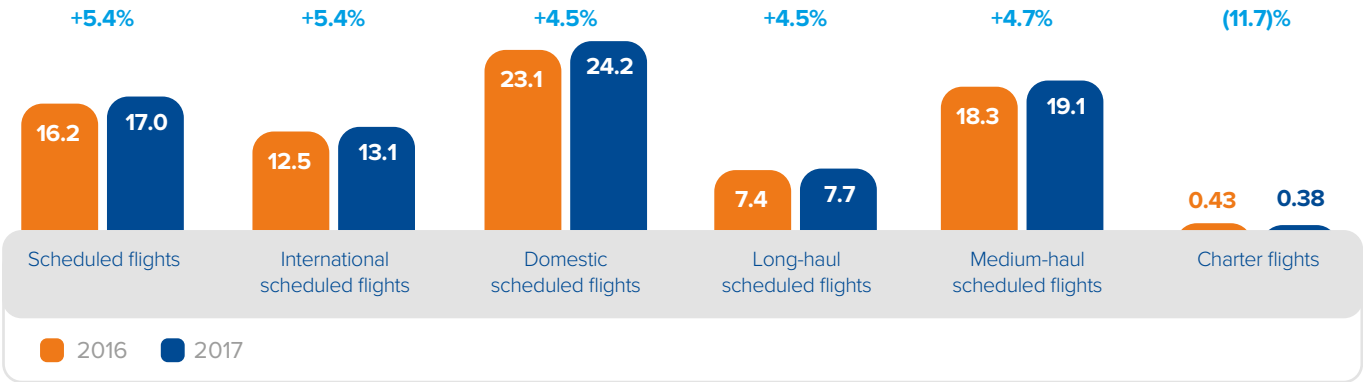
Aeroflot airline's scheduled flights by region (2017 vs 2016)



Connectivity ratio for Aeroflot airline's own flights



Average weekly frequency of Aeroflot airline's flights



# Subsidiary airlines' route network development

## Rossiya airline

In 2017, Rossiya airline operated scheduled services on 110 routes to 22 countries (66 domestic and 44 international), including 83 routes under commercial management of PJSC Aeroflot.

Rossiya airline continued to enhance its route network to improve its operating and financial performance. Higher-demand routes from Moscow and Saint Petersburg to Sochi and Simferopol were operated using wide-body high-capacity Boeing 747s and Boeing 777s. Rossiya improved connections with flights from airports in Southern Russia on routes from Moscow to the Russian Far East.

The airline enhances its route network to create a regional transport hub at Pulkovo airport to provide services in the North-West region and improve its connectivity to other regions of Russia and cities in Europe. Rossiya airline's route network from Moscow's Vnukovo airport complements the Group's network of high-demand routes.

## Aurora airline

In 2017, Aurora airline operated scheduled services on 57 routes to three countries (43 domestic and 14 international), including 21 routes under commercial management of PJSC Aeroflot.

Aurora is focused on improving transport accessibility in the Russian Far East and accommodating the demand for flights both within this region and to such major Siberian cities as Irkutsk, Krasnoyarsk, Novosibirsk, and Yakutsk. Aurora also operates international services from Khabarovsk, Vladivostok, and Yuzhno-Sakhalinsk to South Korea, China, and Japan. Local flights between major cities and remote destinations within the region are an important part of Aurora's route network covering 22 socially important destinations.

In the reporting year, the airline strengthened its position in the region's international air transportation market, including through increasing the frequencies of its services from Vladivostok to Busan and Seoul, South Korea. Aurora also remained the only carrier operating flights from Vladivostok and Yuzhno-Sakhalinsk to Harbin (China), from Vladivostok to Busan (South Korea) and Dalian (China), and from Khabarovsk to Krasnoyarsk and Beijing.

Following the runway repairs at Yuzhno-Sakhalinsk airport, Aurora ramped up the frequency of its flights to Vladivostok and Khabarovsk, whereas the frequency of services from Vladivostok to Hong Kong was reduced to improve cost efficiency.

Aeroflot Group continues to integrate Aurora's own domestic local routes into the Group's network to improve travel experience and accessibility for passengers flying to/from destinations in the Russian Far East from/to other domestic and international destinations.

Aurora's local routes in 2017



# Route Network

continued

Pobeda airline's route network in 2017



## Pobeda airline

During 2017, Pobeda airline operated flights on 64 routes, including seasonal routes from Russian regions to the Black Sea resorts in Sochi and Anapa (48 domestic and 16 international), 35 of which were unique and were not serviced in 2017 by any other airline within the Group. Pobeda is based at Moscow's Vnukovo airport and operates services from Moscow, as well as a number of regional routes.

Domestic flights from Moscow to Russia's regions connecting the capital with key regional centres make up the bulk of the airline's route network. During 2017, Pobeda launched flights to Saint Petersburg and Ulan-Ude.

It also continues to expand its regional programme which included the following routes in 2017:

- from Saint Petersburg to Yekaterinburg, Vladikavkaz, Volgograd, Makhachkala, Nalchik, and Rostov-on-Don
- from Yekaterinburg to Krasnoyarsk, Novosibirsk, Saint Petersburg, Sochi, and Anapa
- from Novosibirsk to Krasnoyarsk
- from Makhachkala to Saint Petersburg and Surgut
- seasonal flights from Sochi to six regional destinations including Yekaterinburg, Kazan, Nizhnekamsk, Perm, Tyumen, and Chelyabinsk, as well as from Anapa to Yekaterinburg and Perm
- international flights from Rostov-on-Don to Baku and Tbilisi and from Samara to Almaty.

Pobeda continued efforts to enhance its international route network and launched flights to Istanbul, Alanya, Baden-Baden, and Reus (Barcelona).

Aeroflot airline's key international transit routes in 2017



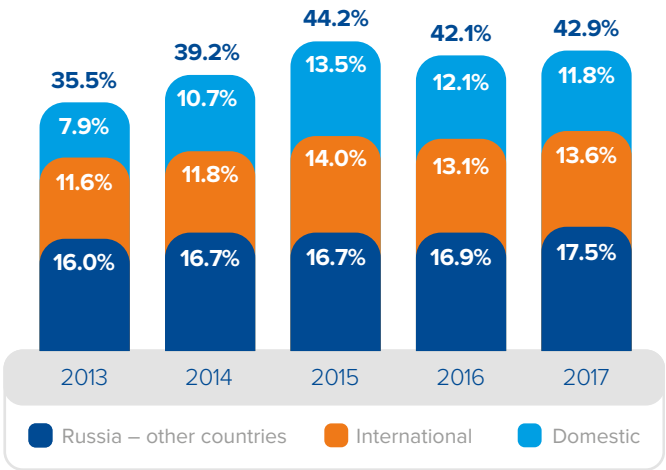
## Transfer traffic on domestic and international routes

Aeroflot Group's route network not only provides passengers with the benefits of flying point-to-point, but also offers travelling options with connections at Moscow's Sheremetyevo airport, its main hub, and in base airports of regional airlines. The bulk of the Group's transfer passengers are handled by Aeroflot airline, which takes advantage of Russia's beneficial geographical position to pick up passenger traffic between Europe and Asia and from other O&D markets.

In 2017, the total transfer traffic on Aeroflot airline's flights increased by 16.4% year-on-year to about 14.0 million passengers. Passengers in transit accounted for 42.9% of Aeroflot airline's total passenger traffic in 2017.

The increase in the transfer passenger traffic was mainly driven by the transit services between Russia and other countries, reaching 17.5% of Aeroflot's total passenger traffic. The share of international transfer was 13.6% while the domestic transfer accounted for 11.8%. International transfer has the highest impact since it provides the Company with an opportunity to capture more value from international markets and global passenger flows.

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



## Route Network

continued

### Obtaining approvals and operating permits to increase the frequencies of services and launch new flights

In 2017, the Federal Air Transport Agency issued the following operating permits to PJSC Aeroflot and its subsidiaries under the commercial management of PJSC Aeroflot:

#### Aeroflot airline

- Seven new permits to operate international scheduled passenger services from Moscow to Burgas, Verona, Kaunas, Melbourne, Naples, Auckland, and Sidney
- Nineteen additional permits to increase the frequencies of international scheduled passenger services from Moscow to Aktobe, Astana, Athens, Barcelona, Bologna, Budapest, Hong Kong, Dubai, Heraklion, Kyzylorda, Lyon, Madrid, Milan, Minsk, Prague, Rome, Helsinki, Shanghai, and Stuttgart
- One new permit to operate international non-scheduled (charter) passenger service from Moscow to Grenoble

In 2017, permits were renewed for Aeroflot airline (for 17 routes) and Rossiya airline (for 16 routes) to operate services on Transaero's routes until the end of the year with an extension option. Permits were not renewed for three routes on which Aeroflot, as agreed with aviation authorities, may now operate under its own permits (Moscow – London, Moscow – Tbilisi, and Moscow – Delhi – Singapore), and for two Rossiya's suspended routes (Moscow – Nha Trang and Moscow – Istanbul). The permits were renewed for another year in February 2018 with an option to extend.

#### Rossiya airline

- Three new permits to operate international scheduled passenger services from Moscow to Punta Cana, from Saint Petersburg to Goa, and from Yekaterinburg to Antalya
- Three additional permits to increase the frequencies of international scheduled passenger services from Saint Petersburg to Nice, Paris, and Rimini
- Eight new permits to operate international non-scheduled (charter) passenger service from Moscow to Barcelona, Burgas, Varna, and Sofia, from Saint Petersburg to Burgas, Varna, and Barcelona, and from Yekaterinburg to Barcelona

PJSC Aeroflot was appointed as scheduled services operator by the Russian Foreign Ministry on the following new routes: Moscow – Burgas and Moscow – Kaunas, and obtained a permit to sign a codeshare agreement with partner airlines to operate Moscow – Melbourne, Moscow – Auckland, and Moscow – Sidney routes.

#### Aurora airline

- Four additional permits to operate international scheduled passenger services from Vladivostok to Hong Kong, Tokyo, and Yanji and from Yuzhno-Sakhalinsk to Sapporo.

### Codeshare and interline agreements

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

In 2017, joint flights with Delta Air Lines were resumed on routes beyond New York, Los Angeles, and Miami. Aeroflot continued to expand partnerships under codeshare agreements on new routes with China Southern, Alitalia, Air Serbia, Air France, and Siberia Airlines.

During 2017, PJSC Aeroflot had 30 codeshare agreements with foreign and Russian airlines:

- Twenty agreements under which Aeroflot airline acted both as a partner operator and a marketing operator: Air France, KLM, Alitalia, Finnair, Czech Airlines, LOT-Polish Airlines, Bulgaria Air, Korean Air, Air Serbia, MIAT, Air Baltic, Air Europa, Garuda Indonesia, Icelandair, Kenya Airways, Saudi Arabian Airlines, China Eastern Airlines, China Southern Airlines, Delta Air Lines, and Siberia Airlines
- Four agreements under which Aeroflot airline acted as a partner operator only: Cubana de Aviacion, Iran Air, Tarom, and Middle East Airlines
- Four agreements under which Aeroflot airline acted only as a marketing operator, selling partner flights under its code: Adria Airways, Air Malta, Bangkok Airways, and Royal Air Maroc
- Two codeshare agreements with Aeroflot Group's airlines under special arrangements with Rossiya and Aurora (commercial management)

PJSC Aeroflot's major partners by scope of operations under their codeshare agreements were foreign-based Alitalia, Air France, LOT Polish Airlines, Finnair, and KLM and Russian-based Aeroflot Group's carriers and Siberia Airlines.

As at the end of 2017, PJSC Aeroflot had interline agreements with 134 carriers, including four Russian carriers and four CIS-based airlines.

### Interline employee travel agreements

Since 2006, PJSC Aeroflot has been a member of ZED/MIBA FORUM, a non-profit organisation uniting over 230 member airlines and regulating the offering of special terms for employee personal and duty travel.

As at the end of 2017, PJSC Aeroflot teamed up with 63 airlines under interline employee travel agreements, including with SkyTeam Alliance member airlines.



### Membership in the Skyteam Alliance

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

In 2017, the Alliance's aggregate route network comprised 1,074 destinations in 177 countries. SkyTeam's members, including Aeroflot airline, were making a total of 16,609 flights on a daily basis.

SkyTeam Alliance had 20 members in 2017, including Aeroflot – Russian Airlines, Aerolineas Argentinas, Aeromexico, Air Europa, Air France, KLM, Alitalia, China Airlines, China Eastern Airlines, China Southern Airlines, Czech Airlines, Delta Air Lines, Kenya Airways, Korean Air, Middle East Airlines, Saudi Arabian Airlines, TAROM, Vietnam Airlines, Xiamen Airlines, and Garuda Indonesia.

As a SkyTeam partner, Aeroflot carried over 513 thousand passengers in 2017 under codeshare and interline agreements with Alliance members. About 334 thousand Aeroflot passengers were carried by its SkyTeam partners.

# Aircraft Fleet




## Fleet development strategy

Aeroflot Group's fleet development strategy is focused on:

- operating a highly unified aircraft fleet (limited number of aircraft types in each segment)
- operating a young fleet
- improving the average seating capacity and efficiency of aircraft
- increasing the share of Russian aircraft through execution of contracts for 50 SSJ100s and 50 MC-21s.

Between 2013 and 2017, the average age of aircraft in operation dropped from 7.7 to 6.2 years for Aeroflot Group and from 5.2 to 4.1 years for Aeroflot airline (as at the year-end). Aeroflot airline's fleet is one of the youngest in the world.

Over the last years, the Group has invested much effort in optimisation and upgrade of the fleet to improve the efficiency of the Group's operations and cost control. In 2013–2017, the types of aircraft in operation reduced from 13 to 8.

AEROFLOT GROUP'S AIRCRAFT FLEET EVOLUTION			
	2013	2017	
Narrow-body (regional)	SSJ100 An-148 An-24 DHC-8-200/300	SSJ100 DHC-8-200/300/400 DHC-6-400	
Narrow-body (medium-haul)	Airbus A319/320/321 Boeing 737 Classic Boeing 737 NG	Airbus A319/320/321 Boeing 737 NG	
Wide-body	Airbus A330 Boeing 767 Boeing 777 Il-96 Tu-204 MD-11F	Airbus A330 Boeing 747 Boeing 777	
	13 types of aircraft	8 types of aircraft	

### AVERAGE AGE OF AIRCRAFT FLEET AEROFLOT AIRLINE

5.2 years

2013

4.1 years

2017

### AVERAGE AGE OF AIRCRAFT FLEET AEROFLOT GROUP

7.7 years

2013

6.2 years

2017

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

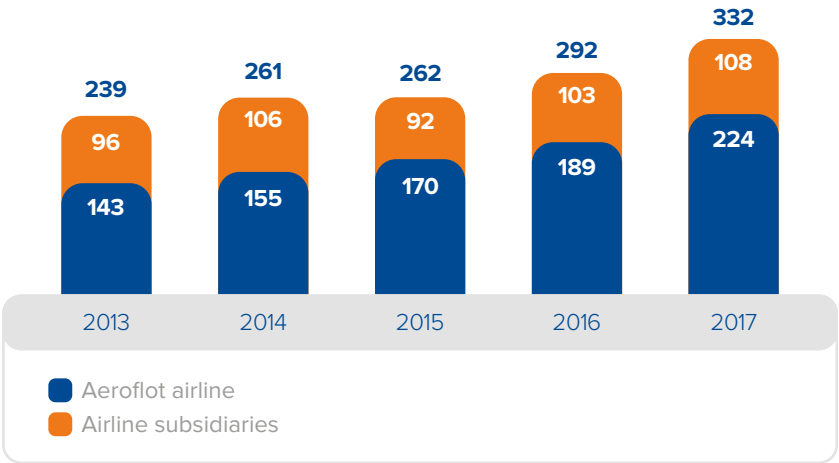
Aeroflot airline's fleet comprises several types of aircraft produced by major manufacturers and focuses on addressing the needs of both the mass-market and premium segments. Aircraft offer two to three travel classes to serve passengers in flight.

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

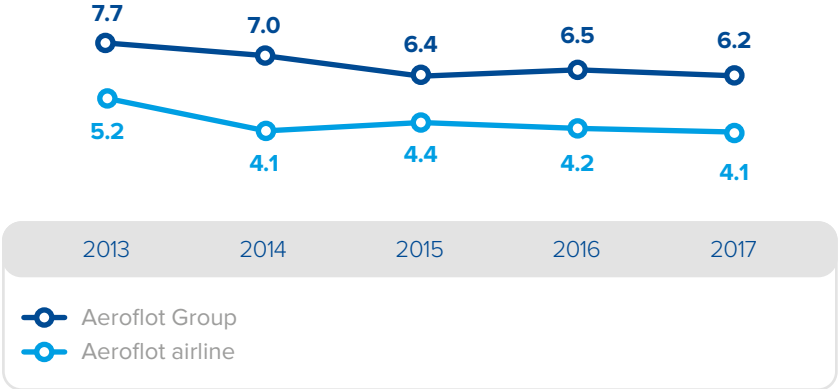
Aurora airline operates Airbus A319 narrow-body aircraft on scheduled routes and turboprops for local flights.

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





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



Average age of aircraft fleet in operation  
YEARS



Aeroflot Group's aircraft fleet by type

Airline	Manufacturer	Types	Models	
			Narrow-body	Wide-body
 <b>AEROFLOT</b> Russian Airlines	<b>AIRBUS</b> <b>BOEING</b> <b>UAC</b>	5	— Airbus A320 (family) — Boeing 737 NG — SSJ100	— Airbus A330 — Boeing 777
 <b>ROSSIYA</b>	<b>AIRBUS</b> <b>BOEING</b>	4	— Airbus A320 (family) — Boeing 737 NG	— Boeing 747 — Boeing 777
 <b>Aurora</b>	<b>VIKING</b> <b>BOMBARDIER</b> <b>AIRBUS</b>	3	— DHC-6-400 — DHC-8-200/300/400 — Airbus A319	
 <b>pobeda</b>	<b>BOEING</b>	1	— Boeing 737 NG	

Note. Data exclude aircraft that were out of operation by the Group's airlines (Mi-8 in 2013, An-148 and An-24 in 2017).

# Aircraft Fleet

continued

## Wide-body

LONG-HAUL

	<b>Airbus A330-300</b>	<b>17 aircraft</b>
Length, m	63.69	
Wingspan, m	60.3	
Seating capacity, seats	296–302	
Maximum take-off weight, kg	230,000	
Engines	RR Trent 772B	
Flight range, km	9,500	

	<b>Boeing 777-300ER</b>	<b>16 aircraft</b>
Length, m	73.86	
Wingspan, m	64.8	
Seating capacity, seats	402	
Maximum take-off weight, kg	317,515	
Engines	GE 90-115BL	
Flight range, km	11,200	


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

	<b>Boeing 747-400</b>	<b>9 aircraft</b>
Length, m	70.7	
Wingspan, m	64.4	
Seating capacity, seats	447–522	
Maximum take-off weight, kg	385,553–396,893	
Engines	CF6-80C2, PW4056	
Flight range, km	13,400	

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

## Narrow-body

MIDDLE-HAUL

	<b>Boeing 737-800</b>	<b>68 aircraft</b>
Length, m	39.5	
Wingspan, m	35.8	
Seating capacity, seats	158–189	
Maximum take-off weight, kg	79,015	
Engines	CFM 56-7B x 2	
Flight range, km	4,500	

	<b>Airbus A321</b>	<b>38 aircraft</b>
Length, m	44.5	
Wingspan, m	34.1	
Seating capacity, seats	170–183	
Maximum take-off weight, kg	89,000	
Engines	CFM 56-5B	
Flight range, km	3,800	

	<b>Airbus A320</b>	<b>80 aircraft</b>
Length, m	37.6	
Wingspan, m	34.1	
Seating capacity, seats	140–168	
Maximum take-off weight, kg	75,500–77,000	
Engines	CFM 56-5A/5B	
Flight range, km	4,000–5,500	

	<b>Airbus A319</b>	<b>36 aircraft</b>
Length, m	33.8	
Wingspan, m	34.1	
Seating capacity, seats	128–138	
Maximum take-off weight, kg	70,000	
Engines	CFM 56-5A/5B	
Flight range, km	3,500–6,800	

## Narrow-body

REGIONAL

	<b>SSJ100</b>	<b>37 aircraft</b>
Length, m	29.9	
Wingspan, m	27.8	
Seating capacity, seats	87	
Maximum take-off weight, kg	45,880	
Engines	Power Jet SaM146	
Flight range, km	2,400	

	<b>DHC 8-402</b>	<b>5 aircraft</b>
Length, m	32.8	
Wingspan, m	28.4	
Seating capacity, seats	70	
Maximum take-off weight, kg	29,574	
Engines	PW150A	
Flight range, km	2,532	

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

	<b>DHC 8-200</b>	<b>2 aircraft</b>
Length, m	22.2	
Wingspan, m	25.9	
Seating capacity, seats	37	
Maximum take-off weight, kg	16,466	
Engines	PW123 C	
Flight range, km	1,713	

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



Aircraft Fleet  
continued

Aeroflot Group’s aircraft fleet

Aeroflot Group operates a balanced aircraft fleet of which, as at the end of 2017, 68.3% were narrow-body aircraft for medium-haul flights, 16.0% were wide-body aircraft for long-haul flights, and 15.7% were narrow-body aircraft for regional flights.

The majority of the fleet of 85.8% was operated under operating lease agreements, 12.3% – under finance lease agreements. The share of aircraft owned by Aeroflot Group is 1.8%, representing six DHC-8s and one An-24 (leased out and not operated by Aeroflot Group).

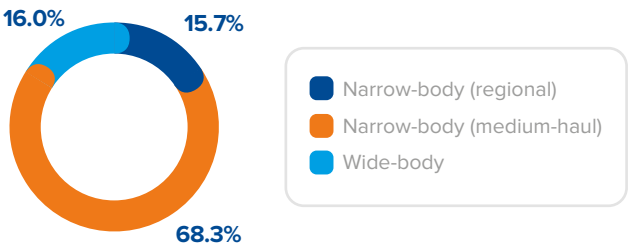
During 2017, Aeroflot Group was actively expanding its operating capacity with 54 new aircraft added to the fleet. Over the same period, Aeroflot Group phased out 14 aircraft: thus, the net fleet increase amounted to 40 aircraft.

Aeroflot Group’s aircraft fleet

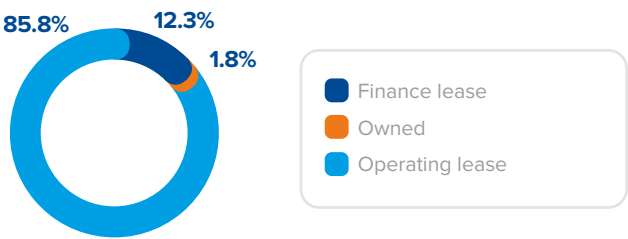
Type of aircraft	As at 31 December 2016	Change 2017		As at 31 December 2017	Owned	Operating lease	Finance lease
		Phased in	Phased out				
Airbus A330-200	5	–	–	5	–	–	–
Airbus A330-300	17	–	–	17	–	9	8
Boeing 777-200ER	1	–	(1)	–	–	–	–
Boeing 777-300ER	20	1	–	21	–	11	10
Boeing 747-400	7	2	–	9	–	9	–
<b>Wide-body</b>	<b>50</b>	<b>3</b>	<b>(1)</b>	<b>52</b>	<b>–</b>	<b>34</b>	<b>18</b>
Airbus A319	36	–	–	36	–	27	9
Airbus A320	75	11	(6)	80	–	80	–
Airbus A321	32	8	(2)	38	–	25	13
Boeing 737-800	49	24	(5)	68	–	68	–
<b>Narrow-body (medium-haul)</b>	<b>192</b>	<b>43</b>	<b>(13)</b>	<b>222</b>	<b>–</b>	<b>200</b>	<b>22</b>
DHC-6-400	2	1	–	3	–	3	–
DHC-8-200	2	–	–	2	–	2	–
DHC-8-300	4	–	–	4	1	3	–
DHC-8-402	5	–	–	5	5	–	–
SSJ100	30	7	–	37	–	37	–
An-148*	6	–	–	6	–	–	6
An-24*	1	–	–	1	1	–	–
<b>Narrow-body (regional)</b>	<b>50</b>	<b>8</b>	<b>–</b>	<b>58</b>	<b>7</b>	<b>45</b>	<b>6</b>
<b>Total</b>	<b>292</b>	<b>54</b>	<b>(14)</b>	<b>332</b>	<b>7</b>	<b>279</b>	<b>46</b>

\* Aircraft were out of operation and were subleased or leased out.

Aeroflot Group’s fleet by type of aircraft as at 31 December 2017

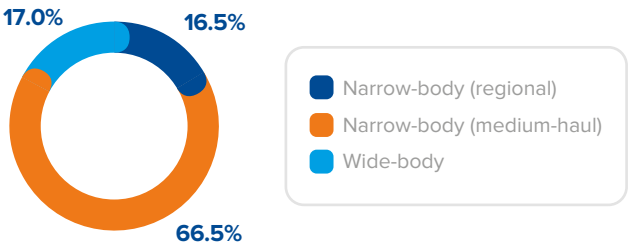


Aeroflot Group’s fleet by type of ownership as at 31 December 2017

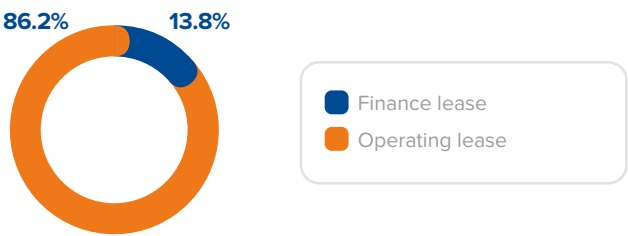


Note. Excluding six An-148s and one An-24 subleased and leased out.

Aeroflot airline’s fleet by type of aircraft as at 31 December 2017



Aeroflot airline’s fleet by type of ownership as at 31 December 2017



Aeroflot airline’s aircraft fleet

As at the end of 2017, the flagship airline of Aeroflot Group had 224 aircraft including 37 regional narrow-body aircraft, 149 narrow-body medium-haul aircraft, and 38 wide-body aircraft.

SSJ100, Boeing 737-800, Airbus A320, Airbus A321, and Boeing 777-300ER aircraft were added to Aeroflot airline’s fleet in 2017. The net fleet increase amounted to 35 aircraft.

Aeroflot airline’s aircraft fleet

Type of aircraft	As at 31 December 2016	As at 31 December 2017	Change
Airbus A330	22	22	–
Boeing 777	15	16	1
<b>Wide-body</b>	<b>37</b>	<b>38</b>	<b>1</b>
Airbus A320	70	75	5
Airbus A321	32	38	6
Boeing 737	20	36	16
<b>Narrow-body (medium-haul)</b>	<b>122</b>	<b>149</b>	<b>27</b>
SSJ100	30	37	7
<b>Narrow-body (regional)</b>	<b>30</b>	<b>37</b>	<b>7</b>
<b>Total</b>	<b>189</b>	<b>224</b>	<b>35</b>

# Aircraft Fleet

continued

## Subsidiaries' aircraft fleet

Subsidiaries' fleet size remained almost flat in 2017 with five aircraft added. Two wide-body Boeing 747-400s were added to the fleet of Rossiya airline which started to phase in this type of aircraft in 2016. One wide-body Boeing 777-200ER and one narrow-body Boeing 737 were phased out.

Four new narrow-body Boeing 737-800s were added to the fleet of Pobeda airline in Q4 2017.

Aurora airline phased in one regional DHC-6-400 aircraft to operate local flights.

Subsidiaries' aircraft fleet

Type of aircraft	As at 31 December 2016	As at 31 December 2017	Change
Airbus A319	26	26	—
Boeing 737	17	16	(1)
Boeing 747	7	9	2
Boeing 777	6	5	(1)
Airbus A320	5	5	—
An-148*	6	6	—
<b>Rossiya airline</b>	<b>67</b>	<b>67</b>	<b>—</b>
Airbus A319	10	10	—
DHC-8	11	11	—
DHC-6	2	3	1
An-24*	1	1	—
<b>Aurora airline</b>	<b>24</b>	<b>25</b>	<b>1</b>
Boeing 737	12	16	4
<b>Pobeda airline</b>	<b>12</b>	<b>16</b>	<b>4</b>
<b>Total</b>	<b>103</b>	<b>108</b>	<b>5</b>

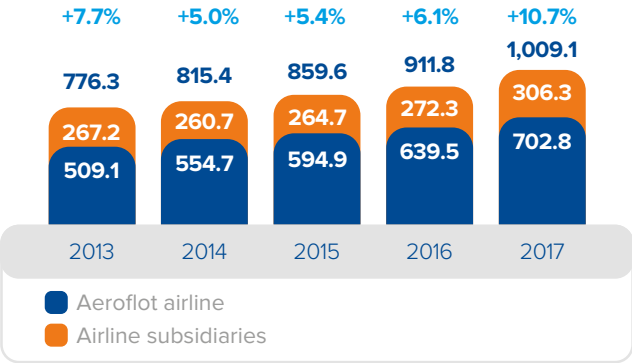
\* Aircraft were out of operation and were subleased or leased out.

## Flight hours

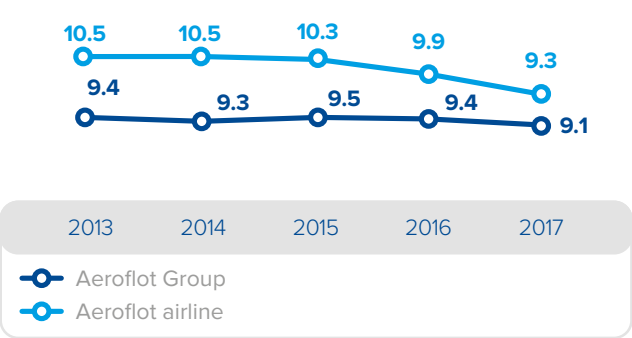
Aeroflot Group maintains high fleet utilisation efficiency. Due to the expansion of Aeroflot Group operations in 2017, flight hours increased by 10.7% year-on-year to 1,009 thousand hours. Aeroflot airline posted a 9.9% increase to 703 thousand hours.

Aeroflot Group's flight hours per aircraft in operation per day averaged at 9.1 vs 9.4 in the previous year. This decline was driven by substantial fleet additions throughout the year, which required some time to maximise the utilisation efficiency. Aeroflot airline's flight hours per aircraft in operation per day averaged at 9.3.

Flight hours, THOUSAND HOURS



Average flight hours per aircraft in operation per day



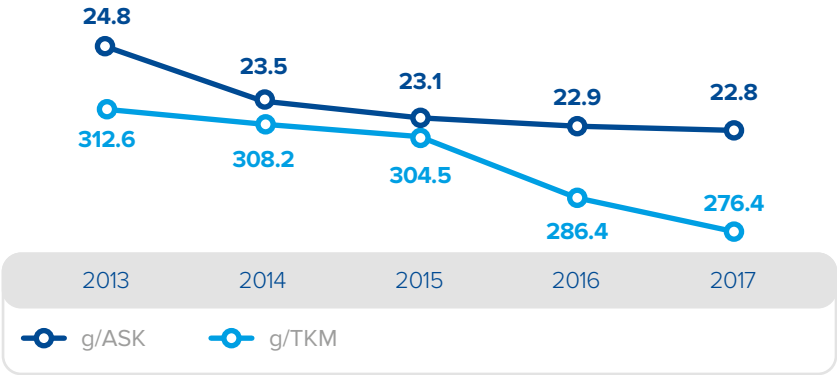
Note. The number of aircraft in operation in the reporting year is calculated as the average of the number of aircraft as at the start and the end of the period.

## Fuel efficiency

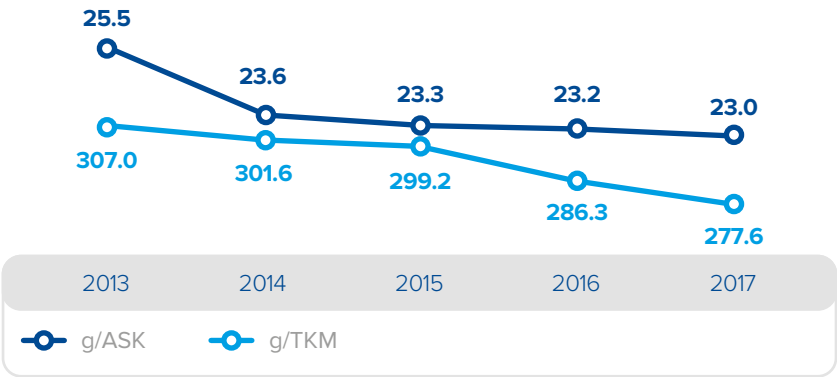
In 2017, specific fuel consumption across Aeroflot Group decreased by 10.0 grams (or 3.5%) year-on-year to 276.4 grams per tonne-kilometre (TKM). Specific fuel consumption at Aeroflot airline decreased by 8.7 grams (or 3.0%) to 277.6 g/TKM. The efficiency, including by passenger turnover, continued to grow.

High fuel efficiency is an important benefit of the young aircraft fleet also enabling a lower environmental impact and reduced CO<sub>2</sub> and NO<sub>x</sub> air emissions. For more details on the fleet fuel efficiency see the Environmental Protection Programme section.

Specific fuel consumption in Aeroflot Group



Specific fuel consumption in Aeroflot airline



# Flight Safety and Aviation Security

Flight safety and aviation security are a top priority for Aeroflot Group. Every year the Group improves its integrated management system for flight safety and aviation security developed in compliance with IOSA international standards and the Federal Aviation Rules of the Russian Federation and seeks to ensure the maximum safety and comfort for its passengers.

## Flight safety

Aeroflot maintains consistently high flight safety levels which in 2017 stood at 99.972%, exceeding the 99.957% target and staying comfortably within the 99.900%–100% top range.

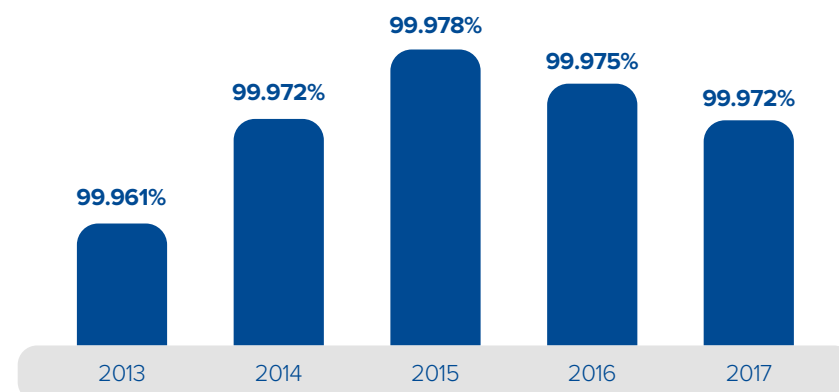
In 2017, PJSC Aeroflot had a series of inspections and audits that confirmed the high level of flight safety maintained by the Company. Specifically, during a scheduled audit of Aeroflot's operations for compliance with IOSA (the IATA Operational Safety Audit), IATA auditors found zero non-compliances.

The SAFA ratio calculated based on inspections run under the Safety Assessment of Foreign Aircraft (SAFA) Programme remained flat year-on-year at 0.45 across both Aeroflot airline and Aeroflot Group.

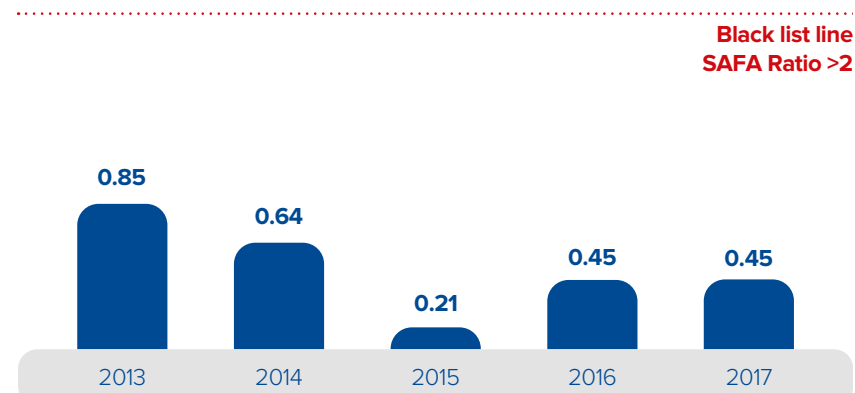
**99.972%**

Flight safety level of Aeroflot airline

Flight safety level of Aeroflot airline



SAFA ratio of Aeroflot airline



Inspections run by Federal Air Transport Agency and Federal Service for Supervision of Transport (Rostransnadzor) commissions reaffirmed PJSC Aeroflot's ability to operate safe commercial flights as required by the Federal Aviation Rules. In addition, during 2017, inspections were performed at:

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

In 2017, Aeroflot continued to develop its flight safety management system. The Company introduced a flight safety statistics database in 2017 to enable integrated processing and storage of Aeroflot's flight safety data.

The Safety Management Committee assessed risks across the Company's core business segments and executed follow-up risk mitigation initiatives. Aeroflot implemented an action plan to prevent bird-strike incidents, consistently conducts training sessions on safe flight operations in electrically active areas, and developed guidelines on manual control during high altitude flights. The Company also makes consistent efforts to mitigate the risk of aircraft ground damage.

The Company has in place a voluntary reporting system for employees with all crew feedback reviewed daily by the Safety Management Department to develop and implement improvements

## Aviation and transportation security

PJSC Aeroflot is committed to maintaining a robust aviation and transportation culture and has a strong focus on passenger and staff health and safety, including through liaising with airport security services, airlines, and law enforcement authorities.

In 2017, PJSC Aeroflot once again demonstrated its compliance with the industry standards on aviation and transportation security as ISO 9001:2015 and IOSA compliance audits revealed zero non-compliances.

The Company operates a dedicated Automated Aviation Security Management System (AA SEMS) core modules of which are helping the Company to efficiently assess security risks and prevent financial and reputational damage.

**0.45**

The SAFA ratio calculated based on inspections run under the Safety Assessment of Foreign Aircraft Programme

In 2017, the Company was actively involved in improving the Russian aviation and transportation security legislation. Aeroflot's representatives contributed to discussions at the Russian State Duma Committee for Transport and Construction on draft law No. 49153-6 On Amending the Aviation Code of the Russian Federation to prevent unruly passenger behaviour on board (passenger black lists) and at the Federation Council Temporary Committee on monitoring the implementation of Federal Law No. 15-FZ On Amending Certain Legislative Acts of the Russian Federation on Transport Security, to develop a draft law On Amendments to the Federal Law on Transport Security, and were involved in the Inter-Agency Working Group on Aligning Aviation and Transportation Security Regulations established upon request by Aeroflot.

Aeroflot's proactive stance on the matter resulted in amendments to the Criminal Code of the Russian Federation increasing penalties for unruly behaviour on transport. Starting from June 2018, Russian carriers will be able to put unruly passengers on black lists and refuse carriage.

Aeroflot is involved in an active dialogue with its SkyTeam partners and attends annual meetings of SkyTeam Aviation Security Functional Experts (ASFE).

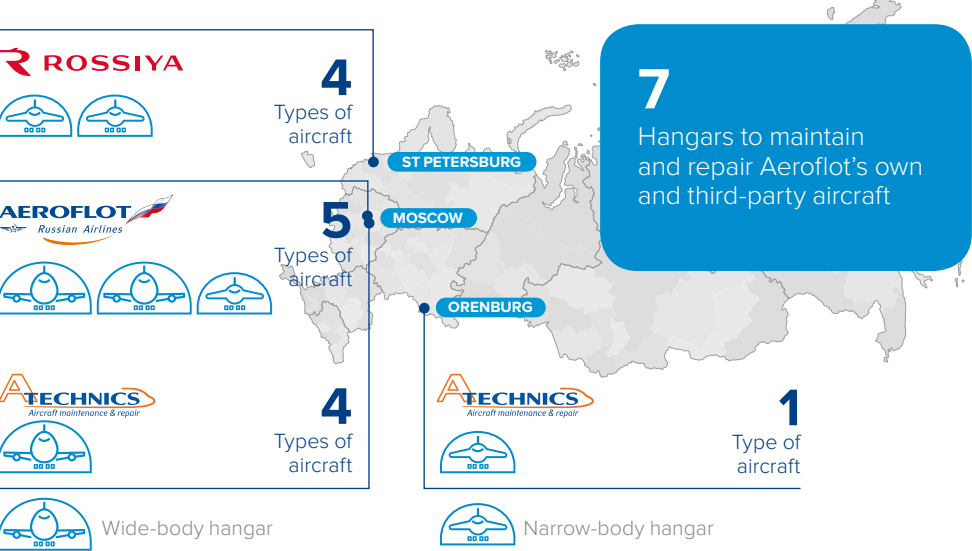
Aeroflot also continued to enhance its integrated canine service ensuring security through olfactory monitoring of Sheremetyevo airport facilities.

PJSC Aeroflot works in close partnership with its subsidiaries to ensure aviation security. All subsidiaries submit regular reports to the Aviation Security Management Department on the aviation security status of their facilities, while PJSC Aeroflot conducts centralised risk monitoring and analysis across the Group's route network. Aeroflot plans to create a shared information space to enhance aviation security management integration across the Group.

# Aircraft Maintenance and Repair Stations

In 2017, Aeroflot Group continued to further enhance its aircraft maintenance, repair, and overhaul (MRO) system keeping the fleet in good condition and ensuring high reliability, flight safety, and on-time performance. Aeroflot Group services both its own fleet and third-party aircraft.

Aeroflot Group's MRO facilities



Maintenance facilities at airports and types of maintenance

Airport and location	Company	Line maintenance	Base maintenance
<b>SHEREMETYEVO AIRPORT</b> Moscow	Aeroflot	Airbus A320 Family Airbus A330 Boeing 777 Boeing 737-800 NG Sukhoi Superjet RRJ-95	Airbus A320 Family Airbus A330 Boeing 737-800 NG Sukhoi Superjet RRJ-95
<b>VNUKOV AIRPORT</b> Moscow	A-Technics	Airbus A320 Family Boeing 737 Boeing 747 Boeing 777	Airbus A320 Family Boeing 737 Boeing 747 Boeing 777
<b>PULKOVO AIRPORT</b> Saint Petersburg	Rossiia	Airbus A320 Family Boeing 737 Boeing 747 Boeing 777	Airbus A320 Family
<b>ORENBURG AIRPORT</b> Orenburg	A-Technics	Boeing 737	Boeing 737
<b>VLADIVOSTOK AIRPORT</b> Vladivostok	Aurora	DHC-6-400 DHC-8-200/300/400 Airbus A319	DHC-6-400
<b>YUZHNO-SAKHALINSK AIRPORT</b> Yuzhno-Sakhalinsk	Aurora	DHC-6-400 Airbus A319 DHC-8-200/300/400	DHC-8-200/300/400 (excluding C-check)

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

MRO divisions at PJSC Aeroflot are the Aircraft Maintenance Department, Airworthiness Department, and Quality Assurance Department. Aeroflot subsidiaries also have relevant departments; however, the Group consistently centralises MRO to separate base and line maintenance.

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

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

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

Scheduled maintenance of all types of operated aircraft is performed under programmes developed in line with guidelines provided by aircraft and key components manufacturers. In 2017, PJSC Aeroflot serviced 121.2 thousand take-offs at Sheremetyevo airport, up 10.7% year-on-year. Labour intensity per flight hour of Aeroflot fleet aircraft was down from 2.36 hours in 2016 to 2.20 hours at the end of 2017.

Along with its own fleet, Aeroflot also serviced third-party customers, including approximately 20 carriers and 50 aircraft maintenance organisations, in 2017. Individual maintenance operations, such as maintenance of key aircraft components, are performed by third-party contractors. During 2017, around 80% of Aeroflot airline fleet maintenance operations were performed by in-house maintenance facilities and 20% were subcontracted.

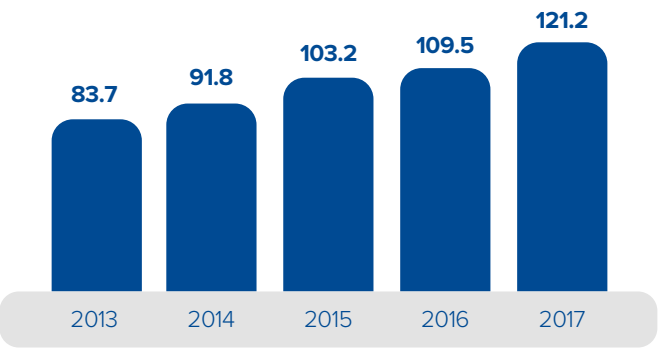
Aeroflot continued the construction of Hangar 4 at Sheremetyevo airport, launched in 2016, to perform maintenance and repairs for wide-body Boeing 777s and Airbus A350s, a maintenance annex building, and the foundation for a special-purpose vehicle MRO facility.

The Group continued to expand A-Technics, its specialist aircraft and component maintenance and repair subsidiary, which was cleared for Boeing 737 NGs heavy maintenance at Vnukovo airport and obtained a C6 approval for disassembly and certification of aircraft seating sub-assemblies. In the autumn of 2017, the maintenance centre at Vnukovo airport was certified to perform heavy maintenance (C-checks and overhaul checks) for Boeing 777s and Boeing 747s, with a special dock system installed in the hangar and an EASA audit passed. Aeroflot prepared to extend the C14 scope of authorisation to its Orenburg arm to perform maintenance and overhaul for Boeing 747 wheels and brakes.

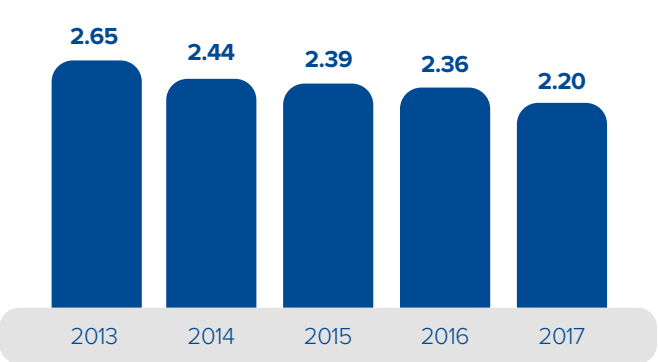
MRO divisions at PJSC Aeroflot

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

Take-offs serviced at Sheremetyevo airport  
THOUSAND



Labour intensity per flight hour of Aeroflot airline aircraft  
MAN-HOUR



# Information Technology and Innovation

Aeroflot’s mobile app named the best in Russia by TAdviser

Aeroflot received the SAP Expanding Horizons Award for pioneering SAP Audit Management system in Russia

Aeroflot won the Wings of Russia National Airline Award in the E-Commerce category

## Information technology

In 2017, Aeroflot continued to build its IT platform, leveraging solutions from top IT companies. As at the year-end, almost 100% of the Company’s business processes were automated. Digital technology is embedded across all operating processes of Aeroflot to ensure passenger satisfaction throughout the customer journey.

Aeroflot’s digital transformation has covered both internal processes such as management of the Company, aircraft maintenance, and information security, and customer journeys and experience, including ticket sales, website enhancement, and mobile app development.

The Group puts wider use of advanced IT technologies across all areas of its activities at the top of its agenda. In line with its framework document, Aeroflot Group’s IT Development Priorities for 2017–2020, approved by the Board of Directors of PJSC Aeroflot in 2017, the Company seeks to adopt new technologies and approaches to improve its operating performance and customer service while also driving the development of the entire global air transportation industry.

### Key IT projects in 2017

WEBSITE AND MOBILE APPLICATIONS	Mobile application for passengers	Aeroflot’s mobile app now provides an even better user experience. The app’s home screen was redesigned, with the app’s functionality significantly enhanced. Now passengers can look up the next available flight on the home screen, scan their national passport, do a check-in and purchase tickets with a single touch, as well as scan their bank card using Russian-made recognition technology. Moreover, the mobile app now shows weather and FX rates at the point of destination.
	Travel Guide – an online tool to plan a trip	The new Travel Guide section of the website helps passengers find key information on cities and countries they plan to visit. Information on flights is also available in the section.
IMPROVED SALES PROCESS	Building a shared airline retailing environment under the NDC programme	Aeroflot has implemented a milestone project to build an integrated airline retailing environment to the IATA’s NDC standard. Aeroflot received the highest, Level 3 status under the IATA’s NDC programme. Aeroflot’s NDC system already comprises travel metasearch engines SkyScanner, AviaSales, Momondo, Dohop, and Airinme.

### Key IT projects in 2017 continued

IMPROVED SALES PROCESS	Single payment platform	In 2017, Aeroflot started to actively develop its programme to sell value added services to customers purchasing tickets. The programme enables Aeroflot’s customers to purchase flight and health insurance, rent cars, buy Aeroexpress tickets, and book hotels, with over 1.4 million insurance policies and 40 thousand Aeroexpress tickets sold since the programme’s launch. The value added services were also made available to customers who have already purchased their air tickets.
IN-FLIGHT CONNECTIVITY	“On-Board Internet”	In 2017, Aeroflot launched a programme to roll out in-flight Wi-Fi entertainment and Internet services in 81 Airbus A320 aircraft operated on medium hauls. The necessary equipment is already installed under the programme in six aircraft operated on medium-haul flights. In addition, in-flight Wi-Fi was made available on one Boeing 777 operated on long hauls.
INFORMATION SECURITY	Enhancement of information security systems	During 2017, Aeroflot upgraded its core information systems to comply with the statutory requirements for personal data protection. A project to establish a comprehensive cyber-security centre was launched.
CUSTOMER INTERACTION MANAGEMENT	Multimedia Contact Centre	Aeroflot is implementing an automated system to route and handle customer calls, enabling even faster and more effective responses through automatic distribution of calls among the Contact Centre operators. The system is already in pilot operation, with some Contact Centre and voice platform upgrades planned for 2018.
	Customer interaction platform	A new, special IT solution was deployed in 2017 to handle calls in different channels, ensuring their proper categorisation and routing. A special solution was also implemented to track the Company’s public image across social media, enabling inter alia feedback from opinion leaders including popular bloggers and journalists.
AIRCRAFT MAINTENANCE SERVICES	Integrated resource management system for ground handling services	In 2017, Aeroflot implemented the RMS Inform suite, a resource management system for ground handling services and passenger transport operations. The RMS Inform solution has enabled the Company to streamline core business processes through effective allocation of tasks between employees and forward-looking resource planning.
	AMOS automated MRO software solution	AMOS will enable online collection of accurate, structured data on aviation and technical equipment inventories, orders, and invoices. Aeroflot has already deployed a significant number of AMOS modules, with plans to enhance the system’s functionality going forward. The AMOS solution has also been integrated with SAP ERP and legacy OPS systems. Cross-system synchronisation has enabled the Company to optimise its aircraft maintenance, repair & overhaul (MRO) monitoring processes.

# Information Technology and Innovation

continued

## Innovation-driven development

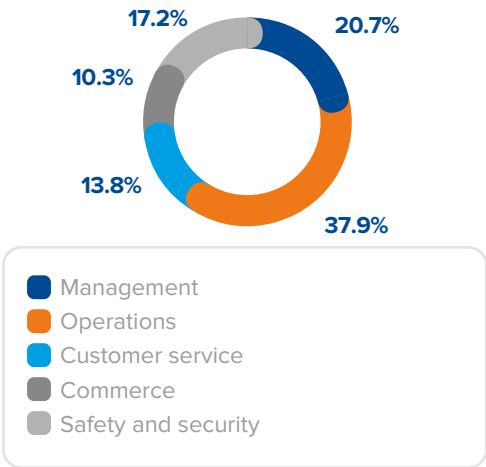
As a leading global airline, Aeroflot has a strong focus on implementing advanced and innovative technology and solutions across all areas of its activities. The Group has in place the Innovative Development Programme until 2025 which defines the key focus areas, activities, and KPIs for innovation.

The Programme is fully aligned with the requirements contained in relevant regulations and guidelines by federal executive bodies, and has been agreed with the relevant ministries and agencies, and approved by PJSC Aeroflot's Board of Directors (Minutes No. 1 dated 25 August 2016). To oversee the implementation of the Programme, the Group set up the Committee for Innovative Development in 2016. Due to changes in subsidiary airlines organisation and the establishment of integrated Rossiya airline, the Group launched a process in 2017 to update the Programme.

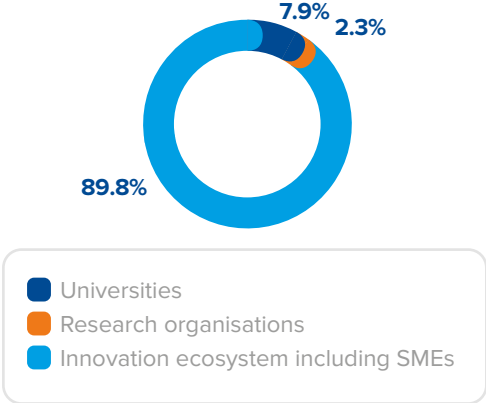
The Programme has been incorporated into the Group's overall strategy and aims at achieving technology leadership in the global aviation industry and sharpening the Group's competitive edge on key operating and innovation performance measures.

Its key focus areas include automation of the Company's operating processes, improved flight safety and building an integrated security and anti-terrorist system, along with improved environmental performance and energy efficiency. The Programme aims to improve labour productivity metrics and introduce advanced, powerful technologies including in information security. The Innovative Development Programme's KPIs include reduced product costs, higher quality of services, energy savings, lower environmental footprint, and increased labour productivity.

R&D costs by segment



R&D costs by researcher



### Key innovative projects in 2017

#### Construction of a new, completely unique for Russia, advanced hangar facility

Construction of Hangar 4 at Sheremetyevo airport to provide aircraft maintenance and repair services will drive efficiencies through streamlined maintenance operations and reduced aircraft maintenance downtime. Another benefit will be an opportunity to provide maintenance for Boeing 777-300ER aircraft that can't fit into Aeroflot's existing hangars. Hangar 4 is a unique facility which was granted a useful model patent for an Aircraft Maintenance Hangar. Its construction is scheduled for completion in 2018.

#### Development of an intelligent diagnostics and prognostics system for Aeroflot fleet aircraft components and assemblies using Big Data approaches and tools

Aeroflot is implementing a project to develop a proprietary intelligent diagnostics and predictive maintenance system for aircraft. During 2017, research was carried out to enable failure prediction in aircraft components and assemblies for a limited number of fault conditions, resulting in a pilot system which comprised a set of software elements representing a number of prototype modules including mathematical prediction models.

#### Development of a pilot hardware and software package for measurement and integral analysis of a sniffer dog's physiological responses to objectivise dog inspection results

The project aims to improve safety and security by objectivising inspection results with main breeds of sniffer dogs. The solution roll-out will maximise efficient interaction between the security system's biological and technical components in detecting various substances.

#### Development and adaptation of a prototype automated IT system for flight crew professional training, to be commercially deployed at Aeroflot

The project aims to develop an online flight crew training and testing system facilitating the automation of corporate training processes. The prototype IT system for flight crew professional training was adapted in 2017.

#### Development and deployment of a pilot version of an integrated information security system at Aeroflot

The project will help reduce the existing and mitigate potential risks of breach of data confidentiality, integrity, or accessibility. As part of the project, organisational and technical solutions were developed to ensure compliance with the requirements of state regulators related to information security including personal data protection.

#### One-stop-shop system enhancement

In 2017, Aeroflot implemented a one-stop-shop system to manage proposals for innovative solutions coming from SMEs and other potential partners in the Company's innovation ecosystem. The system automates submission, processing, routing, and decision-making processes for innovative proposals.

#### Managing intellectual property rights

In 2017, the Group completed over 40 intellectual property management procedures, including obtaining trademarks, patents or certificates for software products primarily related to safety and security, training, and IT deployments.

# Sales and Distribution

Aeroflot sells tickets both for own flights and flights of subsidiary Rossiya and Aurora airlines operated under Aeroflot's single airline code<sup>1</sup>. Subsidiary airlines sell tickets for own flights independently. Pobeda airline offers air tickets through own website and online booking systems.

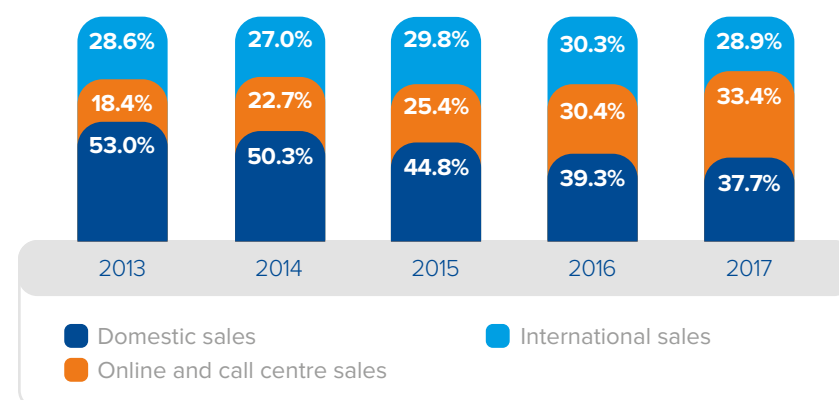
Commercial management of flight loads for services operated by subsidiary airlines under codeshare agreements enables Aeroflot to centralise management for sales, revenue, route network, and fleet planning across the Group.

Aeroflot sells tickets in Russia and abroad through a variety of channels, including Aeroflot's agents operating under direct agency agreements, agents-participants of various projects (BSP, ARC, Transport Clearing House (TCH)), own sales offices, and Aeroflot's website and call centre.

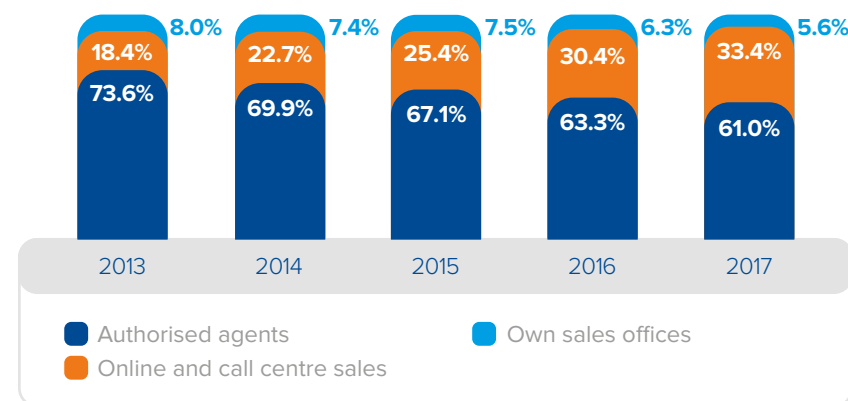
Online sales are actively growing, driven by more accessible and easy-to-use web apps, and the growing number of mobile digital devices. The share of PJSC Aeroflot online sales (including the call centre) grew from 18.3% to 33.4% over the past five years. Channel-wise, agents remain the biggest contributor to sales (61.0%) while own sales offices accounted for 5.6% of total sales.

Several new domestic and international services (from Moscow to Lisbon, Kostanay, Belgorod, Salekhard, and Khanty-Mansiysk) were launched in 2017, with significant capacity additions on some other routes (e.g., to Delhi, New York, London, and Antalya). To attract passengers to new routes and additional flights, a number of joint marketing activities were run with agents, meetings were held with major agents in the relevant markets, and newsletters were sent out across the agent network.

Breakdown of Aeroflot's sales revenue



Aeroflot's sales by channel



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

Special levers such as an additional distribution fee for agents in Russia, incentive fee agreements for international agents, and consolidator fares were used to incentivise agents to boost sales for new routes and additional flights.

## Sales in Russia

In Russia, Moscow (65.7%), Saint Petersburg, and the Russian Far East accounted for the largest share in Aeroflot's total sales in 2017.

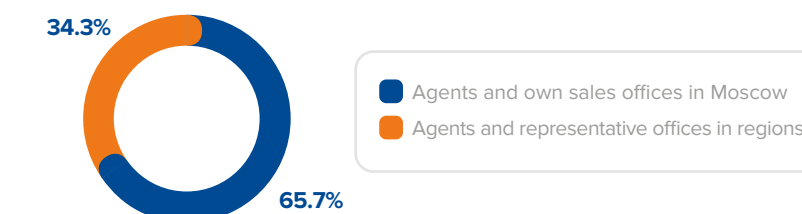
The share of sales through agents in Russia reduced overall due to a partial migration of sales online. The share of agents with BSP and TCH projects in Russia declined to 70.1% year-on-year while sales via authorised agents increased to 18.5%. Sales through own sales offices were flat year-on-year at 11.4%.

## International sales

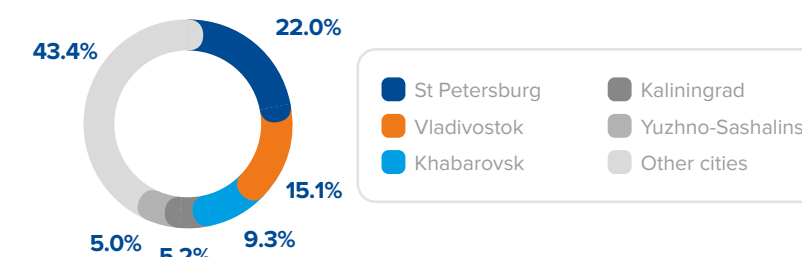
In 2017, Aeroflot's operations in international markets focused on:

- ramping up ticket sales on international transit routes between Europe and Asia (especially on routes from China, India, and Kazakhstan), as well as between the USA and Israel
- signing incentive fee agreements with major agents in the relevant markets to drive sales of tickets for Aeroflot's flights
- developing corporate sales (targeting primarily major foreign companies with operations in Russia or using Moscow as a transit point for business trips between Europe and Asia or Europe and the CIS)
- improving cost-per-sale performance.

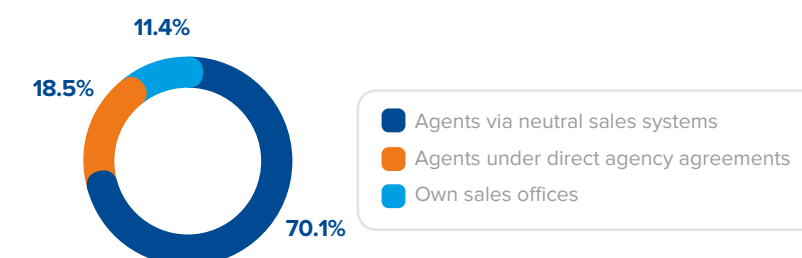
Geographical split of Aeroflot's domestic sales revenue in 2017



Top 5 cities (excluding Moscow) by contribution to Aeroflot's domestic sales revenue in 2017



Aeroflot's domestic sales by channel in 2017



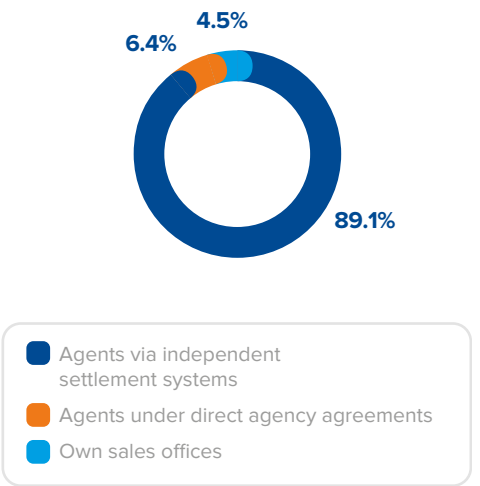
<sup>1</sup> Aeroflot's sales include revenue of Aeroflot airline and revenue from flights by Rossiya and Aurora subsidiary airlines under 100% commercial management.

# Sales and Distribution

continued

Sales via agents with BSP, ARC, and TCH projects accounted for 89.1% of total sales in 2017. Sales through authorised agents totalled 6.4%, and sales via own offices contributed 4.5% to total sales.

Aeroflot's international sales by channel in 2017

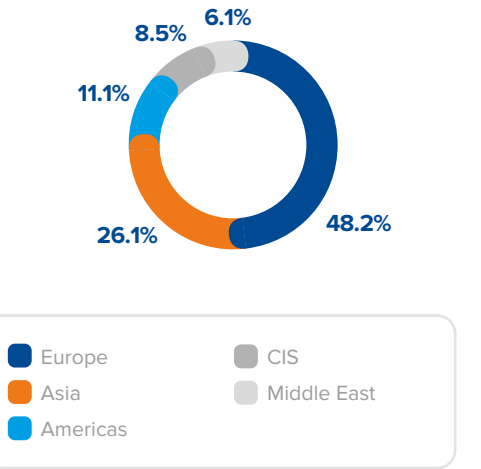


## Corporate sales

Aeroflot Group is actively developing its corporate sales. Revenue from sales to corporate customers continued to grow in 2017. Aeroflot's corporate customers include a variety of oil and gas, finance, pharmaceutical, retail, food, and construction companies.

Split by region, Europe was the biggest contributor to total international sales in 2017 (48.2%), followed by Asia (26.1%), the Americas (11.1%), the CIS (8.5%), and the Middle East (6.1%).

Geographical split of Aeroflot's international sales revenue in 2017



Our corporate sales target global companies with representative offices or business projects in Russia or the CIS, major international and regional Russian companies, and state-funded institutions.

## NDC project

In 2017, Aeroflot was granted the highest, Level 3 certification for its implementation of the New Distribution Capability (NDC) Standard developed by the IATA.

The NDC programme enables the industry to transform the way air products are distributed. Going forward, NDC functionality will enable air product customisation to each customer's specific budget and preferences, and help

promote the entire range of value added services and fare families offered by an airline. NDC will allow customers to purchase air products and services via metasearch engines and agents accessing Aeroflot's NDC gateway.

As at the end of 2017, NDC was implemented for metasearch engines only.

## Pricing policy

In 2017, Aeroflot continued to develop and enhance the new fare structure comprising four fare families (fare brands) to which the Company shifted in November 2016. This was achieved through optimising the price differences between the different fare families to enhance passengers' ability to choose fares that best match their needs, and by expanding the range of value-added services available for each fare family.

As a premium airline focused on a network business model, Aeroflot made a point of keeping free baggage allowance for checked and carry-on baggage across all fare families despite the regulatory changes allowing carriers to introduce baggage-free fares.

Aeroflot employs a set of analytical tools and automated software systems to maximise revenue. Each individual system plays its part in improving existing business processes and enhancing seat inventory management on Aeroflot's flights. The use of advanced

IT systems drives efficiencies and better flight loads while meeting the needs of different customer segments with varied spending capacity.

Fares for international flights remained mostly flat throughout 2017. One of the key targets in 2017 was maintaining the overall share of transit traffic and increasing it on certain routes without eroding the average yield. Pressure from predatory pricing by competitors on transit routes was offset by additional promotional fares and changes to the Company's supply strategies.

Improved affordability of air travel for retail customers, specifically lower available fares in the domestic market, and lower rouble prices for international flights due to rouble appreciation pushed the demand for air travel. Despite the rise in demand, Aeroflot continued to stick to a conservative pricing policy.

# Improved Customer Service and Brand Management

BF

Brand Finance

A strong brand is one of Aeroflot Group's key competitive advantages and a major driver of its investment attractiveness. In 2017, Aeroflot was named the Strongest Brand in Russia and the World's Strongest Airline Brand according to Brand Finance, the world's leading international brand valuation agency.

The Company is focused on continuously promoting its brand, raising brand awareness, and driving consumer loyalty through excellent customer service. The market positions of Aeroflot and the Group are further consolidated through operational excellence and providing the highest quality service throughout all stages of air travel. At the same time, the Company runs a wide range of communication and marketing campaigns to support its promotion and attract new customers. According to Brand Finance, the Aeroflot brand was valued at USD 1.43 billion in 2017, compared with USD 1.27 billion in 2016.

- 4 Star Airline by Skytrax**

The UK's independent rating agency and the world's leading authority on airline quality, Skytrax, affirmed Aeroflot's 4 Star Airline rating in 2017.
- Five Star Global Airline by APEX**

Aeroflot has also been recognised as a Five Star Global Airline by APEX, a US-based airline passenger experience association. The APEX rating is similar to that of European Skytrax, compiled based on worldwide verified passenger feedback.
- World's Leading Aviation Brand**

Aeroflot was awarded the prestigious title of the World's Leading Aviation Brand at the World Travel Awards. The World Travel Awards is unofficially known as the travel industry's Oscars, awarded on an annual basis to airlines in recognition of their excellent service.
- Best Airline in Europe & Best Business Class**

Aeroflot was rated the Best Airline in Europe by TripAdvisor users and won the Best Business Class category. Travellers' Choice Award recognises leading air carriers based on millions of passenger reviews.
- Favourite International Airline in China**

Aeroflot was recognised as the Favourite International Airline in China by the prestigious Flyer Award recognising outstanding participants in China's travel market.

## Marketing communications

In 2017, Aeroflot ran integrated advertising campaigns across popular TV channels and decorated several buildings in Moscow with promotional street art. Top priorities included spreading awareness of new routes, air products and services, as well as announcing its summer and winter flight schedules. In the autumn of 2017, Aeroflot took part in the Circle of Light Moscow International Festival, one of the Top 3 international lighting design festivals, held under the auspices of the Moscow Government.

The largest portion of Aeroflot's strategic advertising activities in 2017 was carried out through traditional media to help support sales.

Throughout 2017, advertising campaigns were held in fifteen countries across Europe, Asia, and North America to improve brand awareness and position, and boost demand for connecting flights between Asia and Europe.

Along with advertising channels, Aeroflot is also focused on developing direct marketing communications and expanding customer interaction in digital channels. The Company continues to enhance its CRM functionality to improve the quality of passenger marketing communications.

In 2017, Aeroflot completed the Personalised Offer and Sales Module project for tailored communication about promotions and special offers on selected routes. Additionally, pilot SMS mass messaging helped bring additional traffic to the Company's website.

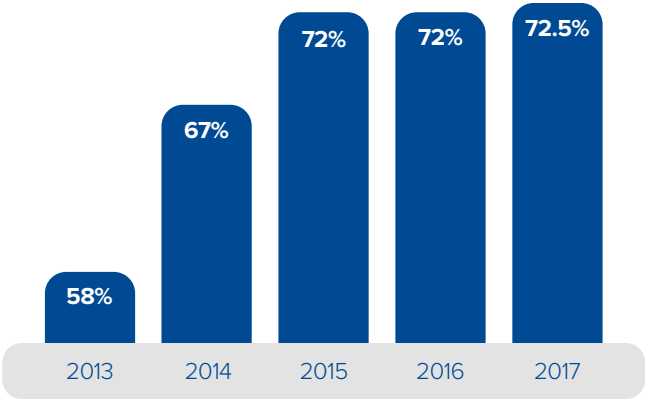
Aeroflot is actively implementing Big Data tools for marketing communications. During 2017, the Company partnered with third-party advertising platforms Yandex, Google, and MyTarget (Mail.ru) to launch a series of marketing campaigns using dynamic customer base segmentation. Aeroflot plans to further develop its Big Data system by adding new data sources and enhancing machine learning models.

The Company conducted a number of marketing surveys in 2017 to understand the brand perception and collect feedback from consumers. The studies included in particular a repeat tracking survey of target customer segments in Russia, China, South Korea, Germany, Italy, and the UK, with a total sample size of 16 thousand people. Improved brand awareness by focus audience groups and better brand perception across several key emotional metrics were recorded.

In 2017, Aeroflot carried out another assessment of the Net Promoter Score (NPS) together with Bain & Company. Aeroflot's NPS has demonstrated an upward trend throughout the entire period of project, and increased to 72.5% in 2017.

We also performed a customer satisfaction assessment in European, Middle Eastern, and Asian markets as part of IATA's Airs@t survey, as well as a joint SkyTeam Customer Experience Research project covering all member airlines.

Aeroflot airline's NPS index



# Improved Customer Service and Brand Management

continued

## Customer experience

Aeroflot Group consistently enhances its airport and in-flight customer service. We study best practice and conduct in-house research to identify customer experience areas to focus on. We perform regular internal, external, and international product quality audits.

Aeroflot strives to make each flight and travel planning process as comfortable as possible for all passengers. The Company consistently enhances its service offering, improves in-flight menus, expands its range of in-flight entertainment, and improves upon the functionality and usability of its mobile apps and website.

A key element within customer interaction is promptly responding to all customer requests. Customer request handling algorithms were improved in 2017, including registration and scanning of requests left on board an aircraft; analysis and request handling times were improved.

Aeroflot Group complies with SkyTeam’s customer service requirements. SkyPriority service package has been implemented across almost all Aeroflot and Rossiya airline routes, as well as a number of Aurora’s departure airports.

### AEROFLOT GROUP CONTINUED TO ENHANCE ITS SERVICE OFFERING ACROSS ALL KEY FOCUS AREAS IN 2017:



#### IN-FLIGHT SERVICES

- New tableware on certain flights
- New in-flight menu featuring Russian cuisine
- The entertainment system is now available in Chinese, with more content in foreign languages
- Functionalities such as subtitles and text-to-speech voice readers added for passengers with disabilities
- More cocktail options are now available for business class passengers on flights lasting six hours or more, and new meals from the winners of the national High Flyers cooking competition for young chefs were added
- A number of improvements in comfort class including three hot meal options, hot bread, and chocolate
- Toiletries are now offered in economy class on flights lasting six hours or more, and snacks are available during the entire flight
- Subsidiary airlines: branded in-flight products introduced on Rossiya airline flights, the passenger cabin interior redesign programme is underway, and new flight crew uniforms were designed. Sky Bistro, a menu of paid meals and snacks, was expanded on Aurora airline's flights, carry-on electronic devices are now permitted for use in flight mode, and branded items including amenity kits and children's kits were developed



#### AIRPORT SERVICES

- New navigation signs in Chinese and loudspeaker announcements in Chinese and Kazakh at boarding gates were introduced at the Sheremetyevo base airport
- The architectural and functional design of the business class lounge was updated and separate check-in desks for business class passengers were added to the SkyPriority lounge
- Rossiya airline implemented a Mobile Apron project at Pulkovo airport, which has helped streamline ground handling operations. New value-added services have been introduced and passenger service trainings were held. Aurora airline has installed self-service kiosks at Yuzhno-Sakhalinsk airport and opened special areas for quick handling of transfer passengers at Khabarovsk airport



#### ONLINE SERVICES<sup>1</sup>

- Enhanced website and mobile app functionality including services related to check-in, access to partner services, and improved complaint and proposal handling system
- Subsidiary airlines: Rossiya airline has introduced an online lost baggage tracking service, improved online check-in, and launched online sales of value-added services. Aurora airline has launched its website in several Asia Pacific languages



#### CONTACT CENTRE

- Customer survey functionality was integrated to collect feedback and track customer satisfaction on the primary line
- A special team was established to assist passengers with disabilities
- The customer identification system was improved
- Waiting time was reduced through improved predictive algorithms used in routing inbound calls
- The voice platform functionality was upgraded
- Subsidiary airlines are establishing their own contact centres – specifically, Aurora airline launched a 24/7 contact centre

<sup>1</sup> Website, mobile website, and mobile app.

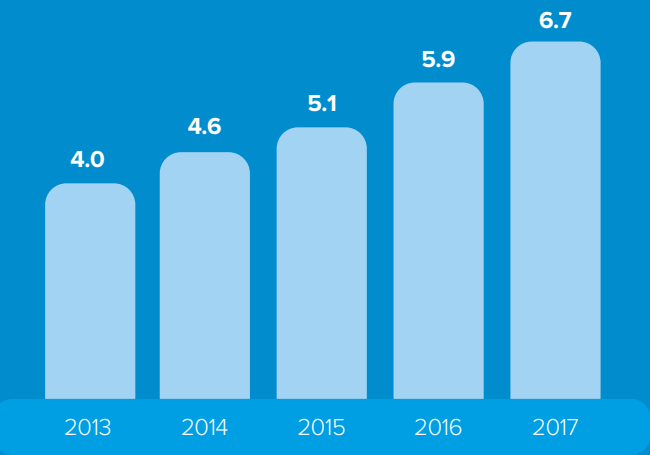
## Aeroflot Bonus

Aeroflot continued to develop its Aeroflot Bonus programme, which offers its members an opportunity to earn free miles when flying. In 2017, the number of programme members increased by 13.4% to 6.7 million people.

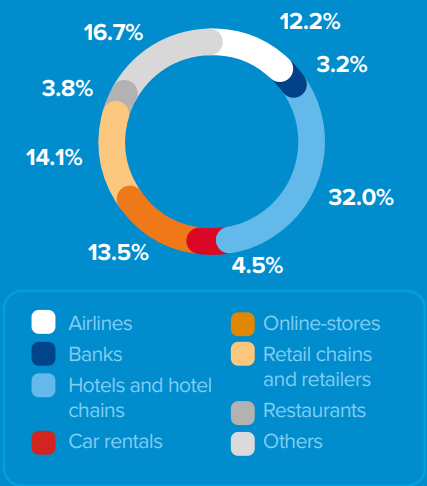
In 2017, Aeroflot Bonus won two Freddie Awards in two categories – the Best Customer Service, and the Best Redemption Ability.

In 2017, the amount of miles required to purchase a one-way award ticket was reduced, award upgrade options at check-in were enhanced, new services and goods were made available in our Rewards Catalogue on the website ([www.rewards.aeroflot.ru](http://www.rewards.aeroflot.ru)), and the online store (<https://shop.aeroflot.ru/>) for Aeroflot souvenirs was launched, with purchases available in bonus miles or cash. The Company continued to expand its range of goods and products from non-industry partners available for purchase using bonus miles.

Aeroflot Bonus members  
MILLION



Aeroflot Bonus partners



In 2017, 62 new partners joined the programme, with the total number of partners at year-end at 156, including 19 airlines. The partners include airlines, banks, hotels, car rental services, online stores, retailers, restaurants, and many more. The Company held more than 10 partner promotions in 2017, including joint projects with Sberbank, Otkritie Bank, Europcar, and AVIS. Aeroflot also continued to enhance its bonus miles programmes for premium bank products, including Alfa Bank and Otkritie Bank premium cards, attracting high-value bank customers.

A series of bonus miles promotions was also held, such as a monthly Light Awards promotion whereby passengers could purchase award tickets for certain flights using less bonus miles. On 20–27 December 2017, Aeroflot held the 95 Days of Pleasant Travel promotion to celebrate its 95th anniversary, whereby bonus programme members could purchase award tickets for Aeroflot and Rossiya airline flights with discounts of up to 30%. The programme attracted over 15 thousand new members through original play promotions launched with Disney.

# Financial Growth

 **RUB 532.9 billion**  
Aeroflot Group's revenue

 **RUB 23.1 billion**  
Aeroflot Group's net profit

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# Financial Highlights

## Financial Highlights

Financial highlights			
RUB million, unless otherwise stated	2016	2017	Change, %
Revenue	495,880	532,934	7.5
EBITDAR <sup>1</sup>	137,567	121,808	(11.5)
EBITDAR margin, %	27.7	22.9	(4.8) p.p.
EBITDA <sup>1</sup>	78,004	56,015	(28.2)
EBITDA margin, %	15.7	10.5	(5.2) p.p.
Operating profit	63,254	40,411	(36.1)
Operating profit margin, %	12.8	7.6	(5.2) p.p.
Profit for the period	38,826	23,060	(40.6)
Net profit margin, %	7.8	4.3	(3.5) p.p.

2017 was yet another landmark year for Aeroflot Group, as its airlines carried 50.1 million passengers, up 15.4% year-on-year. The Group took full advantage of the opportunities offered by the growing passenger transportation market in both the scheduled and charter segments. The Group continued its sustainable growth on domestic and international routes. Aeroflot Group ensured a high utilisation rate of its much increased capacity (+14.2% year-on-year), with the passenger load factor up 1.4 p.p. year-on-year to 82.8%. Therefore, operations development and growth were the key drivers of financial results.

Furthermore, the 2017 financial results reflect the normalisation of the margins to the Group's historical profitability driven by a number of market factors. A changing competitive landscape and international carriers adding capacity back into the Russian market and the re-opening of the Turkish market with subsequent structural changes in demand, as well as the rouble appreciation, put pressure on yields. On the other hand, higher oil prices and changes in the correlation pattern between oil and exchange rate contributed to an increase in fuel costs, a key expense item accounting for 24.9% of operating costs.

Given the impact of FX swings and higher fuel prices – as well as lower income on returns of prepayments for aircraft related to exchange rate differences accounted for in P&L that affected the 2016 results (FX effect on returns of prepayments in 2016 totalled about RUB 12.7 billion) – the financial result for 2017 was lower. In turn, the significant reduction of the debt burden thanks to early repayment of credit lines during the year, as well as savings on other non-operational costs, supported net profit, which came in at RUB 23,060 million.

## Traffic and Other Revenue

Revenue			
RUB million, unless otherwise stated	2016	2017	Change, %
Revenue from passenger flights	421,377	458,390	8.8
including scheduled flights	403,760	427,529	5.9
charter flights	17,617	30,861	75.2
Revenue from cargo	12,589	16,526	31.3
<b>Total traffic revenue</b>	<b>433,966</b>	<b>474,916</b>	<b>9.4</b>
Other revenue	61,914	58,018	(6.3)
including revenue from airline agreements	35,923	33,196	(7.6)
revenue from FFP partners	11,846	11,588	(2.2)
other revenue	14,145	13,234	(6.4)
<b>Total revenue</b>	<b>495,880</b>	<b>532,934</b>	<b>7.5</b>

Note. FFP – revenue from partners under the frequent flyer programme.

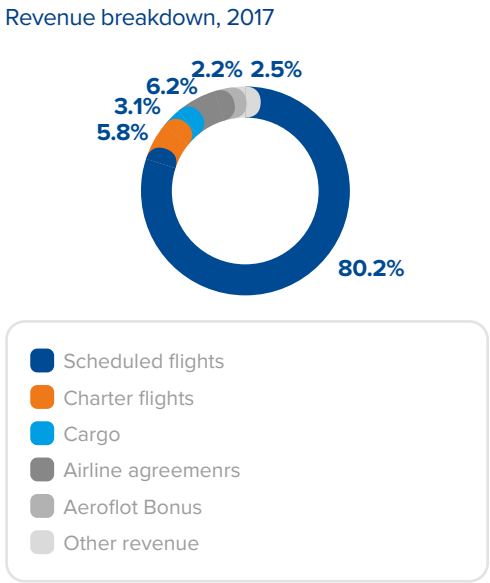
In 2017, Aeroflot Group's revenue increased by 7.5% year-on-year to RUB 532,934 million.

Revenue from scheduled passenger flights increased by 5.9% year-on-year to RUB 427,529 million, driven by an increase in passenger traffic. Revenue growth was affected by a decrease in yields, primarily on international routes, due to the rouble appreciation and a corresponding adjustment to FX-denominated revenue.

Revenue from charter flights increased by 75.2% to RUB 30,861 million, supported, among other things, by the expansion of Rossiya's charter programme. Rapid growth resulted in revenue from charter flights increasing from 3.6% of the Group's total revenue in 2016 to 5.8% in 2017.

Revenue from cargo increased by 31.3% year-on-year to RUB 16,526 million on the back of additions of wide-body aircraft to the Group's fleet and a 32.8% growth in the cargo and mail volumes. This increase enabled the share of cargo revenue to grow from 2.5% in 2016 to 3.1% in 2017.

Other revenue decreased by 6.3% year-on-year to RUB 58,018 million, mainly due to a decrease in the rouble equivalent of FX-denominated revenues from airline agreements as a consequence of exchange rate fluctuations.



<sup>1</sup> EBITDAR = EBITDA + operating lease expenses. EBITDA = operating profit + depreciation and amortisation + customs duties.

# Financial Highlights

continued

Revenue growth decomposition  
RUB MILLION



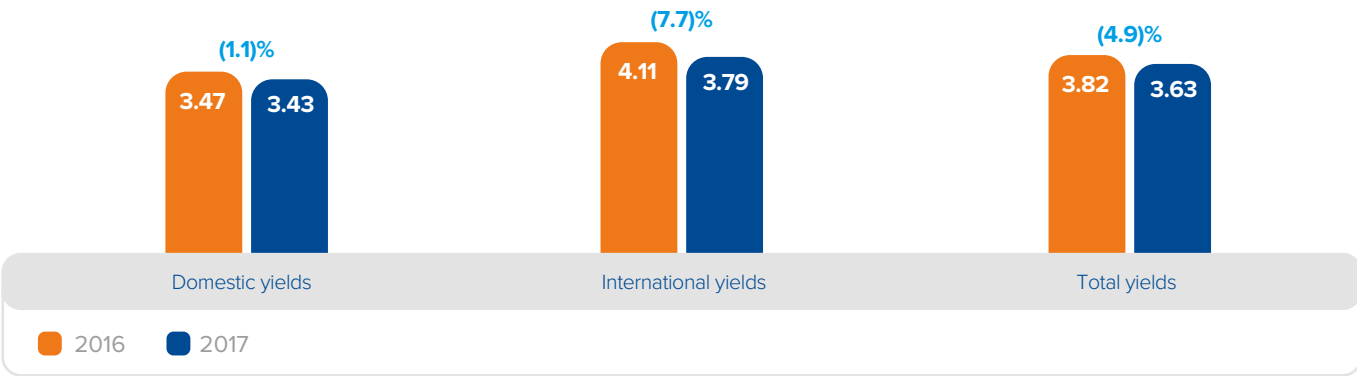
## Yields

In 2017, scheduled flight yields decreased by 4.9% including yields on international destinations (by 7.7%) and yields on domestic destinations (by 1.1%). Yields were mainly influenced by the competitive environment in the market and the development of Pobeda airline which, being a low-cost carrier, provides air transportation with lower yields. International yield decrease primarily resulted from the foreign exchange effect as all fare groups (for outbound and inbound flights and for international transfer) are denominated in foreign currencies. In particular, during the year, the rouble appreciated by 11.2% against the euro and by 13.0% against the US dollar (the average of RUB 74.2 per EUR and RUB 67.0 per USD in 2016; RUB 65.9 per EUR and RUB 58.4 per USD in 2017).

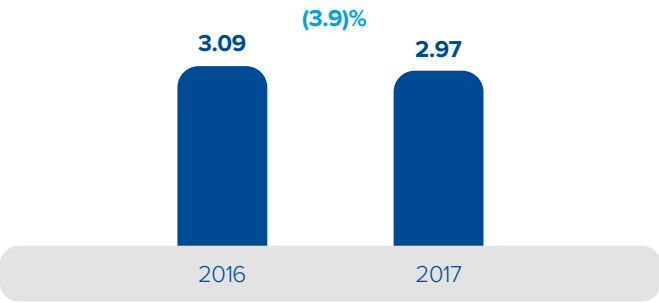
Domestic yields came under pressure from competition and the route network mix (long-haul operations development at Rossiya airline). As a result, Rossiya's average distance flown increased from 2,300 kilometres to 2,500 kilometres, or by 8.3%, while the share of flights to the cities of the Far East in the airline's total passenger-kilometres on domestic flights increased from 21.6% in 2016 to 27.6% in 2017.

In the international segment, FX rates complemented the effect of competition. Rouble appreciation boosted demand, while increased demand resulted in capacity growth both from foreign carriers and Russian charter operators. At the same time, the re-opening of the Turkish market in late 2016 had a major impact on the results in the reporting period and determined the geographical re-distribution of demand from Russian consumers.

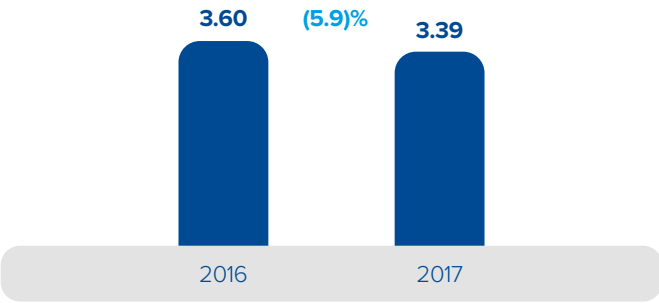
Scheduled flight yields  
RUB



Scheduled flight RASK  
RUB



Total RASK (including other revenue)  
RUB



## Operating Costs

Operating costs

RUB million, unless otherwise stated	2016	2017	Change, %
Aircraft, traffic, and passenger servicing	87,227	96,418	10.5
% of revenue	17.6	18.1	0.5 p.p.
Staff	64,682	82,801	28.0
% of revenue	13.0	15.5	2.5 p.p.
Operating lease	59,563	65,793	10.5
% of revenue	12.0	12.3	0.3 p.p.
Aircraft maintenance	38,236	36,433	(4.7)
% of revenue	7.7	6.8	(0.9) p.p.
Sales and marketing, administration and general expenses	30,294	36,139	19.3
% of revenue	6.1	6.8	0.7 p.p.
Depreciation, amortisation, and customs duties	14,750	15,604	5.8
% of revenue	3.0	2.9	(0.1) p.p.
Communication expenses	14,697	14,795	0.7
% of revenue	3.0	2.8	(0.2) p.p.
Other expenses	21,595	21,855	1.2
% of revenue	4.4	4.1	(0.3) p.p.
Operating costs, excluding aircraft fuel	331,044	369,838	11.7
% of revenue	66.8	69.4	2.6 p.p.
Aviation fuel	101,582	122,685	20.8
% of revenue	20.5	23.0	2.5 p.p.
Total operating costs	432,626	492,523	13.8
% of revenue	87.2	92.4	5.2 p.p.

## Financial Highlights

continued

In 2017, aviation fuel costs increased by 20.8% year-on-year to RUB 122,685 million. The increase was driven by higher rouble-denomination average price of aviation fuel amid changes in the price of oil and exchange rates, as well as an increase in traffic and flight hours.

The strengthening of the rouble mitigated the increase in expenses due to the Group's expansion. Excluding aviation fuel costs, operating costs increased by 11.7% year-on-year to RUB 369,838 million.

Aircraft and passenger servicing costs totalled RUB 96,418 million, up 10.5% year-on-year, due primarily to the growth of passenger traffic and increased airport taxes. This item was also impacted by new initiatives aimed at boosting service quality.

Staff costs grew 28.0% year-on-year and totalled RUB 82,801 million, as a result of wage indexation in accordance with the collective bargaining agreement, an increase in the number of staff to support operational growth, growth of the variable component of remuneration linked to the achievement of corporate KPIs (for FY 2016), and an increase in unused vacation fund (one-off adjustment), as well as payment of bonuses to pilots.

Operating lease expenses grew to RUB 65,793 million, up 10.5% year-on-year, due to fleet expansion (the net increase in the Group's leased fleet

was 42 aircraft, or 17.7%, compared with 31 December 2016) and an increase in the average LIBOR 6M rate by 0.42 p.p. year-on-year.

Aircraft maintenance costs decreased by 4.7% year-on-year to RUB 36,433 million. Aircraft maintenance costs were significantly impacted by the rouble appreciation, as well as by the ongoing development of A-Technics, Group's maintenance subsidiary, resulting in increasing volumes of in-house maintenance.

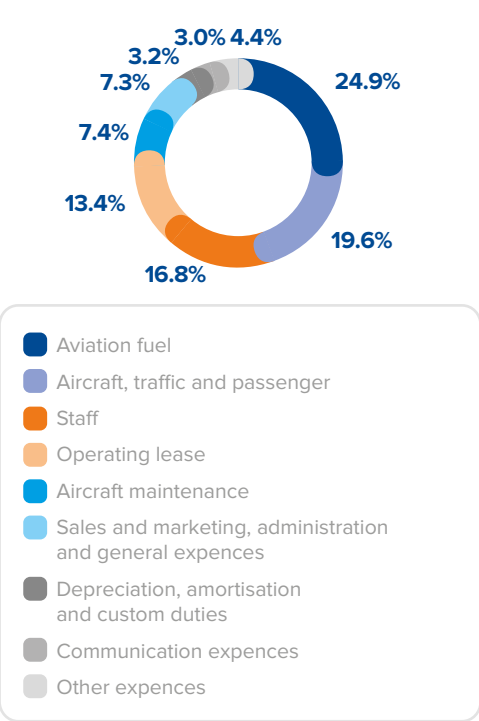
Sales and marketing, administration and general expenses grew by 19.3% year-on-year to RUB 36,139 million due to increased investments in marketing campaigns, in particular, promoting Aeroflot in key international markets. This programme is delivering notable results as Aeroflot carried 4.4 million international transfer passengers in 2017, a 18.6% increase year-on-year.

Depreciation, amortisation and customs duties increased by 5.8% year-on-year to RUB 15,604 million due to the commissioning of IT equipment during the year.

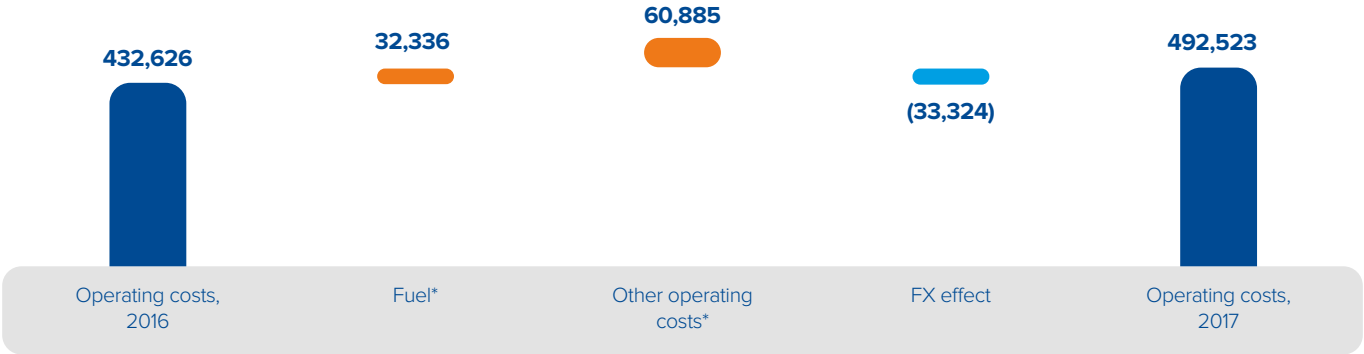
Communication expenses including the services of global distribution systems totalled RUB 14,795 million having increased insignificantly by 0.7% due to the operations growth and the rouble appreciation.

Other expenses increased by 1.2% year-on-year to RUB 21,855 million.

Operating costs breakdown, 2017



Decomposition of changes in operating costs  
RUB MILLION



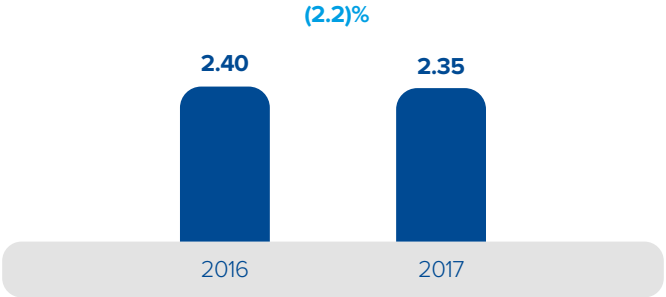
\* Without FX effect.

## Cost per Available Seat-Kilometre (CASK)

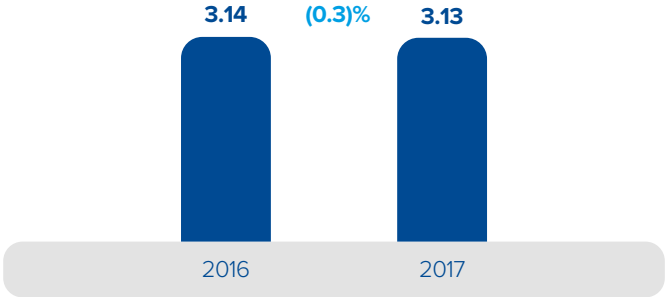
During the year, the Company exercised efficient cost control. Cost per available seat-kilometre (CASK) decreased by 0.3% to RUB 3.13, driven largely by a 5.8% growth of unit aviation fuel

costs. Excluding fuel costs, CASK decreased by 2.2% or by RUB 2.35 per seat-kilometre.

CASK excluding specific fuel costs  
RUB



Total CASK  
RUB



# Financial Highlights

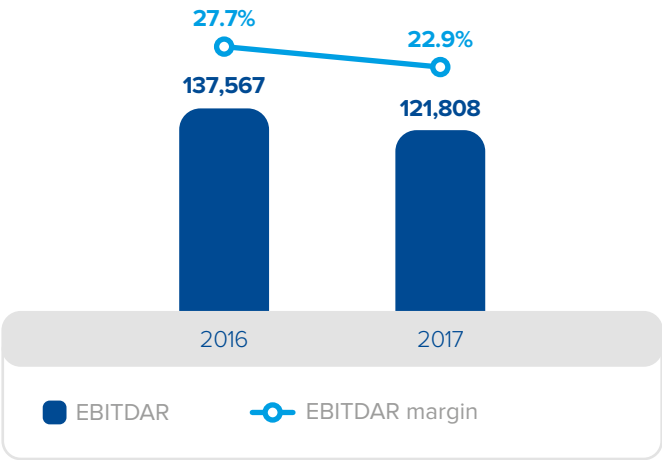
continued

## EBITDA and EBITDAR

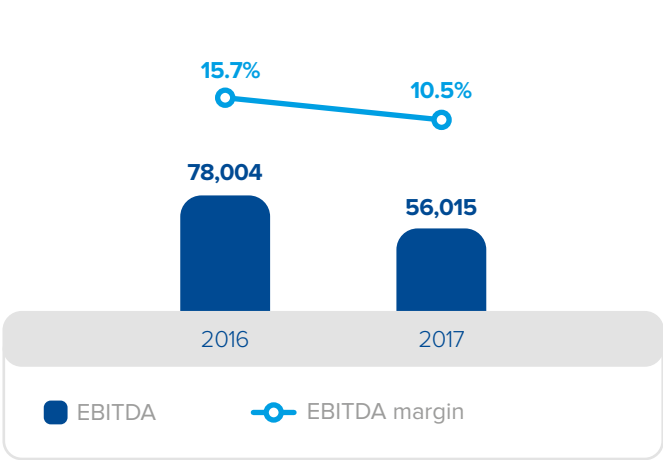
In 2017, Aeroflot Group's EBITDA totalled RUB 56,015 million. EBITDA margin decreased to 10.5% (15.7% in 2016). EBITDAR for 2017 was RUB 121,808 million. EBITDAR margin decreased

to 22.9% (27.7% in 2016). This trend reflects the normalisation of profitability and the impact of the aforementioned factors.

EBITDAR and EBITDAR margin  
RUB MILLION AND %



EBITDA and EBITDA margin  
RUB MILLION AND %



## Finance Income and Costs

### Non-operating profit and loss

RUB million, unless otherwise stated	2016	2017	Change, %
<b>Operating profit</b>	<b>63,254</b>	<b>40,411</b>	<b>(36.1)</b>
Loss from sale and impairment of investments, net	(2,935)	(144)	(95.1)
Finance income	19,802	7,127	(64.0)
Finance costs	(9,443)	(8,225)	(12.9)
Hedging result	(12,310)	(5,613)	(54.4)
Share of results of associates	12	170	–
Result from disposal of subsidiaries	(5,099)	–	–
<b>Profit before income tax</b>	<b>53,281</b>	<b>33,726</b>	<b>(36.7)</b>
Income tax expense	(14,455)	(10,666)	(26.2)
<b>Profit for the period</b>	<b>38,826</b>	<b>23,060</b>	<b>(40.6)</b>

Finance income decreased by 64.0% year-on-year to RUB 7,127 million, mainly due to lower foreign exchange gains.

Finance costs decreased by 12.9% year-on-year to RUB 8,225 million, primarily due to falling debt levels and a subsequent reduction in loan interest expense.

The hedging result of RUB 5,613 million was attributable to the effect of revenue hedging with liabilities in foreign currencies (finance lease). This cost item does not cover hedging transactions as no such contracts existed in the reporting period; instead, it reflects the FX effect of finance lease revaluation related to actual payments during the reporting period. The rouble appreciation had a positive impact on finance lease liabilities and respective effect of revaluation recognised in Company's equity.

## Cash Flows

### Condensed consolidated statement of cash flows

RUB million, unless otherwise stated	2016	2017	Change, %
Profit before income tax	53,281	33,726	(36.7)
<b>Cash flows from operating activities before working capital changes</b>	<b>81,994</b>	<b>65,330</b>	<b>(20.3)</b>
Increase in accounts receivable and prepayments	(6,191)	(27,816)	>100
Increase in expendable spare parts and inventories	(2,809)	(2,672)	(4.9)
Increase in accounts payable and accrued liabilities	13,387	24,964	86.5
<b>Cash flows from operating activities after working capital changes</b>	<b>86,381</b>	<b>59,806</b>	<b>(30.8)</b>
Income tax paid	(13,943)	(13,019)	(6.6)
<b>Net cash flows from operating activities</b>	<b>73,647</b>	<b>47,432</b>	<b>(35.6)</b>
<b>Cash flows from investing activities:</b>			
Purchases of PPE and intangible assets	(10,222)	(7,681)	(24.9)
Prepayments for aircraft	(18,806)	(7,931)	(57.8)
Return of prepayments for aircraft	29,362	26,274	(10.5)
<b>Net cash flows used from investing activities</b>	<b>10,331</b>	<b>14,369</b>	<b>39.1</b>
Free cash flow	83,978	61,801	(26.4)
<b>Cash flows from financing activities:</b>			
Repayment of loans and borrowings	(72,991)	(17,417)	(76.1)
Repayment of the principal of financial lease liabilities	(27,024)	(15,513)	(42.6)
<b>Net cash flows used in financing activities</b>	<b>80,495</b>	<b>46,821</b>	<b>(41.8)</b>
<b>Net increase in cash and cash equivalents</b>	<b>783</b>	<b>14,502</b>	<b>&gt;100</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>31,476</b>	<b>45,978</b>	<b>46.1</b>

## Financial Highlights

continued

### Cash flows from operating activities

In 2017, net cash flows from operating activities reached RUB 47,432 million in 2017, while profit before income tax amounted to RUB 33.736 million. Key non-cash adjustments of profit before income tax made to net cash flows from operating activities for 2017 were related to:

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

### Working capital

In the reporting period, working capital change was RUB 5,524 million, mainly impacted by an increase of RUB 27,816 million in accounts receivable and prepayments, in line with revenue growth.

Cash flows from operating activities were largely affected by an increase in accounts payable and accrued liabilities, in line with the growth in operating costs by 13.8% in 2017.

### Free cash flow

In 2017, free cash flow totalled RUB 61,801 million. A 26.4% decrease compared to 2016 resulted from a 35.6% decrease in net cash flows from operating activities, as well as from a 39.1% increase in net cash flows from investing activities.

Cash and cash equivalents grew by 46.1% to RUB 45,978 million, driven among other factors by the effect of exchange rate fluctuations.

### Capital Expenditure

In 2017, capital expenditure totalled RUB 5,737 million. Purchases of property, plant and equipment are primarily included equipment acquired by PJSC Aeroflot under finance lease for RUB 1,872 million, and spare parts for PJSC Aeroflot's aircraft used for overhaul acquired for RUB 1,583 million.

Purchases of intangible assets in 2017 mainly included SAP development software, as well as other software solutions and licences for office and other IT systems.

### Non-current assets

In 2017, non-current decreased by 8.3% and reached RUB 155,128 million, primarily driven by a 53.0% decrease in prepayments for aircraft due to the reclassification of non-current prepayments to current prepayments.

### Current assets

Current assets increased by 29.2% and reached RUB 168,202 million. The change was mainly due to a 46.1% increase in cash and cash equivalents, and an 18.9% increase in accounts receivable and prepayments.

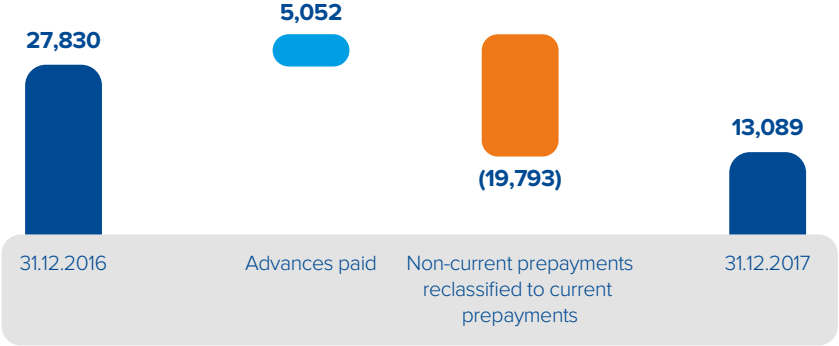
#### Net capital expenditure

RUB million, unless otherwise stated	31.12.2016	31.12.2017	Change, %
Purchases of PPE and intangible assets	(10,222)	(7,681)	(24.9)
Proceeds from sale of assets held for sale	6,471	1,856	(71.3)
Proceeds from sale of property, plant and equipment	84	88	4.8
<b>Net capital expenditure</b>	<b>(3,667)</b>	<b>(5,737)</b>	<b>56.4</b>

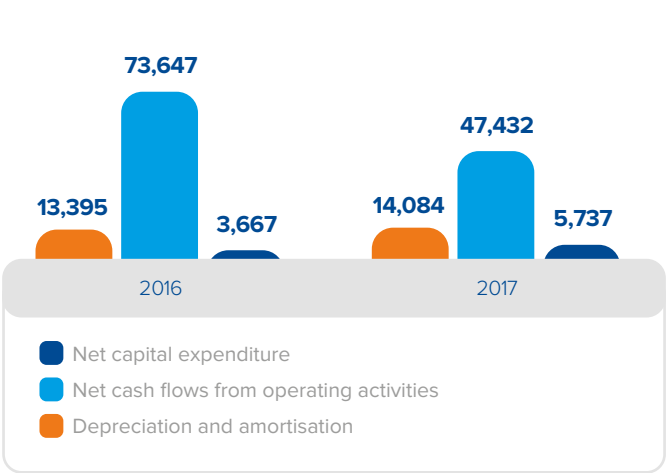
#### Purchases of property, plant and equipment, and intangible assets RUB MILLION



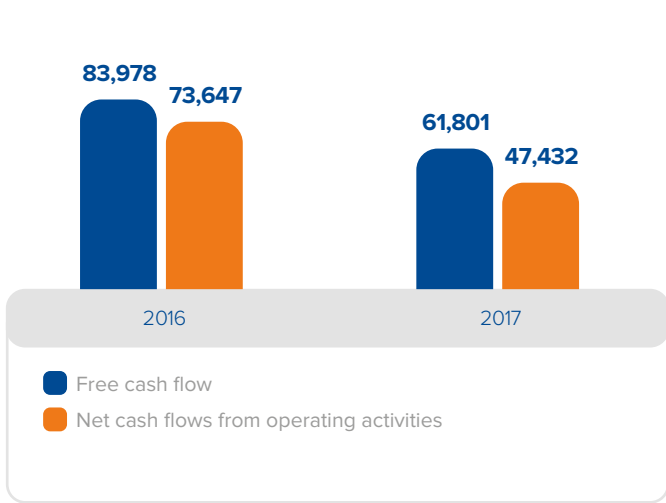
#### Change in prepayments for aircraft (non-current portion) RUB MILLION



#### Net capital expenditure, cash flows from operating activities, depreciation and amortisation RUB MILLION



#### Cash flows from operating activities and free cash flow RUB MILLION



Note. Net capital expenditure is capital expenditure less proceeds from sale of property, plant and equipment, and proceeds from sale of assets held for sale.

# Financial Highlights

continued

## Equity

In 2017, equity, including non-controlling interest, grew to RUB 67,299 million.

The key driver behind this change was the decrease in the hedging reserve, which comprised revaluation of derivatives under IAS 39 and revaluation of finance lease liabilities. Another contributor to the gain was an increase in profit from sale of treasury shares, mainly driven by the sale of its quasi-treasury stock by the subsidiary Aeroflot-Finance.

## Current liabilities

In 2017, total current liabilities increased by 16.8% due to an increase in accounts payable and accrued liabilities, unearned traffic revenue, and provisions for liabilities by 36.3%, 11.9%, and 77.8% respectively.

## Non-current liabilities

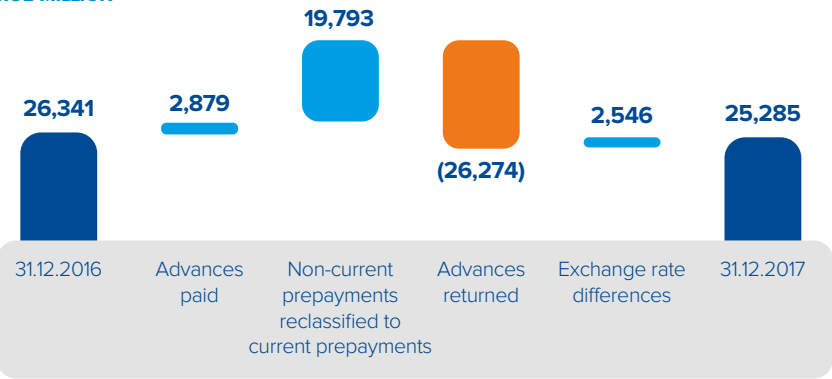
In 2017, non-current liabilities decreased by 16.5% to RUB 115,005 million. The key drivers behind this decrease were finance lease liabilities, which went down by 18.0% due to the rouble appreciation in the reporting period and the reclassification of non-current liabilities to current liabilities.

# Debt and Liquidity

As at 31 December 2017, total debt decreased by 27.2% year-on-year to RUB 104,792 million, primarily driven by scheduled and early repayments of loans and borrowings, as well as payment of finance lease liabilities, and revaluation of finance lease liabilities following the rouble appreciation against the US dollar as at 31 December 2017 compared to 31 December 2016. As a result, the Group now has two active loans totalling RUB 3,181 million. Despite significant repayments, cash and short-term financial investments increased by more than 45.3% versus 31 December 2016 and totalled RUB 54,909 million.

As at 31 December 2017, Aeroflot Group had RUB 103.2 billion undrawn credit lines from major Russian and international banks.

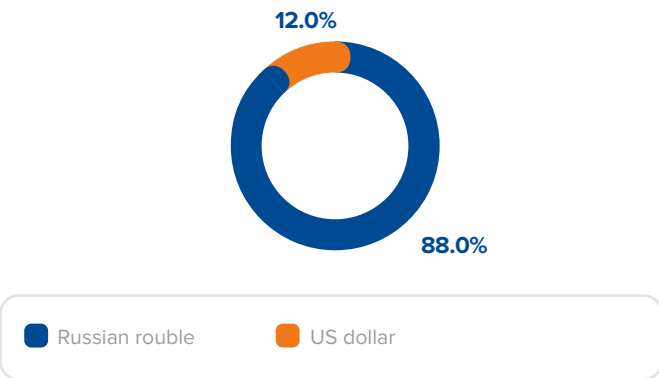
Change in prepayments for aircraft (current portion)  
RUB MILLION



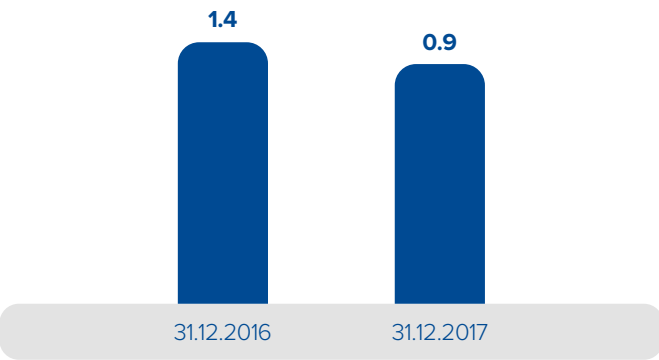
## Debt

RUB million, unless otherwise stated	31.12.2016	31.12.2017	Change, %
Loans and borrowings	20,367	3,181	(84.4)
Finance lease	122,736	100,689	(18.0)
Pension liabilities	805	922	14.5
<b>Total debt</b>	<b>143,908</b>	<b>104,792</b>	<b>(27.2)</b>
Cash, cash equivalents, and short-term investments	37,795	54,909	45.3
<b>Net debt</b>	<b>106,113</b>	<b>49,883</b>	<b>(53.0)</b>
<b>Net Debt / EBITDA ratio</b>	<b>1.4x</b>	<b>0.9x</b>	<b>-</b>

Breakdown of loans and borrowings by currency  
as at 31 December 2017

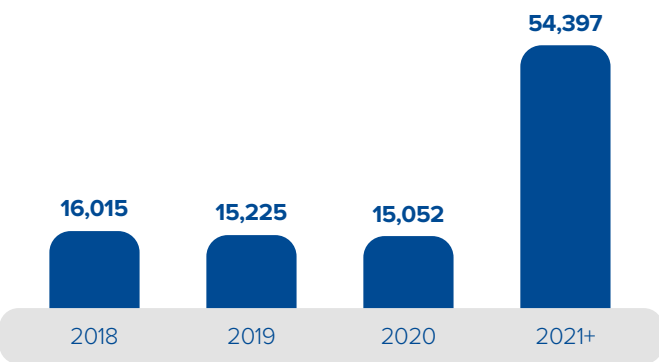


Net Debt / EBITDA ratio

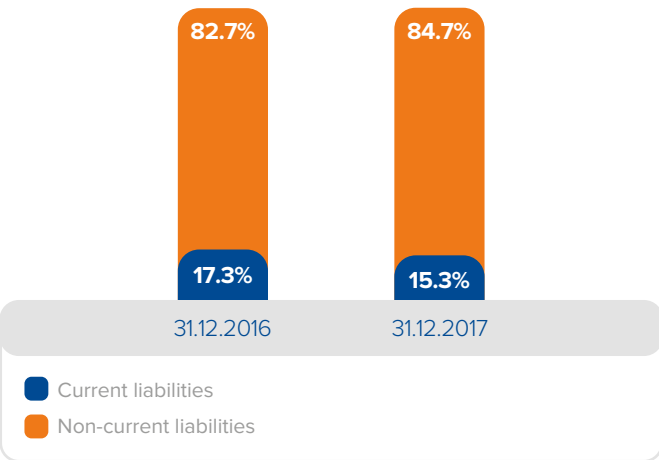


Note. Excluding operating lease capitalisation.

Finance lease repayment schedule  
RUB MILLION



Breakdown of total debt



# Social Growth

✦ 38.9 thousand  
Employees work  
in Aeroflot Group

✦ 1.5 million  
Passengers carried under  
the flat fare programme

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# Corporate Social Responsibility

## Approach to Sustainable Development

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

The Group is committed to the principles of sustainable business development and complies with all applicable HR, health, safety and environmental protection legislation. Aeroflot seeks to contribute to the country's social and economic development by participating in programmes aimed at improving transport accessibility, and in projects supporting Russian regions. The Company implements programmes to provide support for vulnerable groups and promote culture and sports. Improving the energy efficiency and environmental performance of the Company's operations is an integral element of our sustainable development policy.

PJSC Aeroflot's Public Council, a consultative and advisory body, continued to operate in 2017; it had been established to enable broad public discussion of the Company's operations. The Public Council comprises 25 prominent figures of Russian culture, education, healthcare, sports, mass media, business, industry associations, civil society organisations, and human rights groups. The Council members participate in its activities on a pro-bono basis.

The Council's purposes include helping PJSC Aeroflot formulate its position on key aspects of the Russian airline industry's development, and making recommendations to the Government on regulation and development of the industry. The Public Council helps Aeroflot promptly address the interests of society, make right strategic decisions following changes in the external environment, and consistently enhance service offering in response to the requests of passengers and general public.

The Council held two meetings in 2017, discussing a number of topics, including:

- Aeroflot's development as the leader of the Russian air transportation industry
- Aeroflot's interaction with society and the state
- Achievement of Aeroflot's strategic goals;
- The Company's operating and financial results
- Implementation of advanced information technologies, digitalisation, and the use of Big Data solutions
- Changes in laws and regulations on air transportation, including those initiated or supported by Aeroflot
- Improvement of air transport accessibility for the Russian population



### CUSTOMER TRUST

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

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

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



### TEAMWORK

We are a closely-knit team of professionals who cannot imagine living without the sky.

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

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

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



### RESULTS FOR SHAREHOLDERS

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

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

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



### SOCIAL RESPONSIBILITY

We care about the environment and continuously improve energy and environmental efficiency, using a modern and young fleet of aircraft and the most advanced technology.

We are fully aware of our responsibility to society and actively participate in socially important and charitable projects.

We participate actively in the development of the Russian air transport network and create new jobs in the regions.

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

## Corporate values

## Corporate Social Responsibility

### continued

### HR Policy

Aeroflot Group's HR policy is designed to expand the Group's local and global market footprint and win the trust of passengers, partners, and all stakeholders. Aeroflot's priorities include attracting and retaining talent and ensuring their professional development, improving economic efficiency in all areas of HR management, as well as fostering a unique corporate culture to ensure the Company's strong competitive edge.

Aeroflot consistently reviews and enhances its employees' compensation and benefit packages, and develops flexible incentive schemes helping each employee reach their full potential.

Priority areas of the HR policy:

- Identify and attract candidates, including for cockpit and cabin crew positions
- Retain highly skilled employees;
- Train employees, including training for working on new types of aircraft
- Build up the talent pool
- Conduct employee certifications;
- Develop incentive systems
- Maintain high levels of employee loyalty
- Provide employees with social support
- Strengthen the Group's positive image as the leading employer in the air transportation market

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

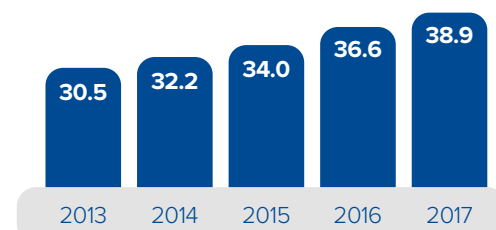
### Personnel structure<sup>1</sup>

As at 31 December 2017, the total headcount of Aeroflot Group was 38,870 employees<sup>2</sup>, having increased by 6.3% year-on-year (36,556 employees as at 31 December 2016). The increase was driven by the fleet and route network expansion.

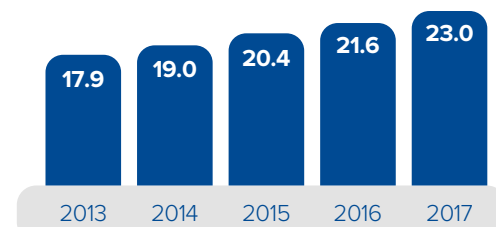
As at 31 December 2017, PJSC Aeroflot's headcount increased by 6.7% to 22,991 employees (21,554 as at 31 December 2016).

- <sup>1</sup> Headcount and personnel breakdown as at the year-end.
- <sup>2</sup> Aeroflot Group's total headcount excluding the staff of Aeroflot Aviation School (137 employees as at 31 December 2016 and 181 employees as at 31 December 2017).
- <sup>3</sup> Includes pilots-in-command, co-pilots, and other flight crew members (flight engineers, pilot instructors, and others).

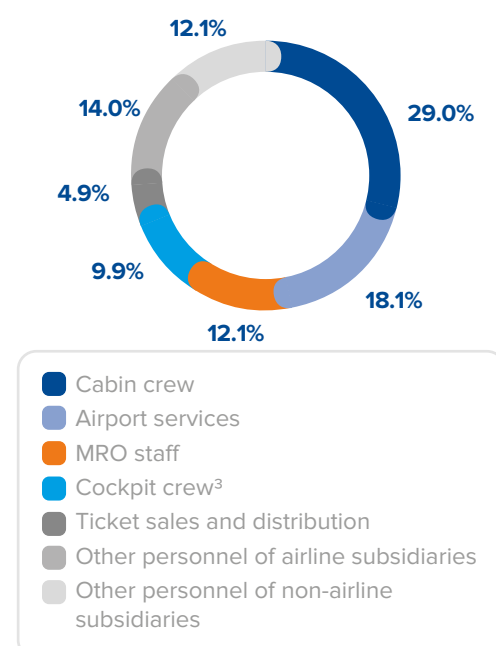
Aeroflot Group's headcount  
THOUSAND PEOPLE



PJSC Aeroflot's headcount  
THOUSAND PEOPLE



Aeroflot Group's headcount breakdown  
by category, 2017

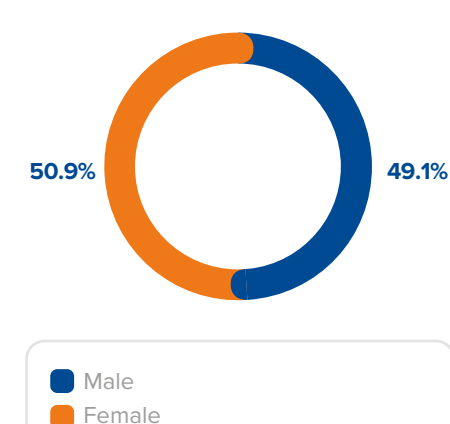


Women account for 50.9% of Aeroflot Group's total headcount. Specifically, the parent company PJSC Aeroflot employs 11,740 women, including flight attendants, office and maintenance service employees, as well as pilots. As at the end of 2017, 31 female pilots were employed by Aeroflot airline, five by Rossiya airline, and two by Aurora airline.

As at 31 December 2017, there were 38 non-resident pilots on PJSC Aeroflot's headcount.

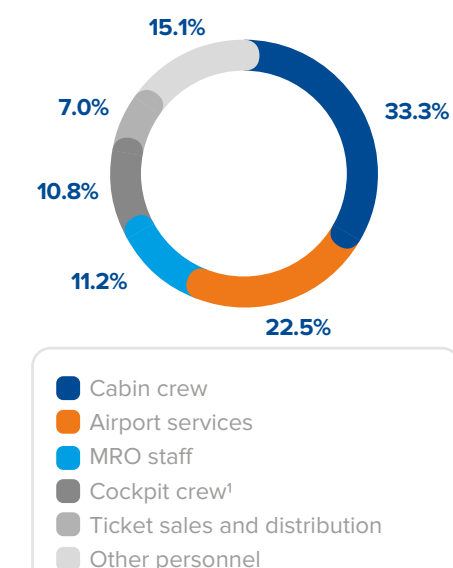
Personnel turnover at PJSC Aeroflot in 2017 was 6.8% (7.5% in 2016).

Aeroflot Group's headcount breakdown  
by gender, 2017

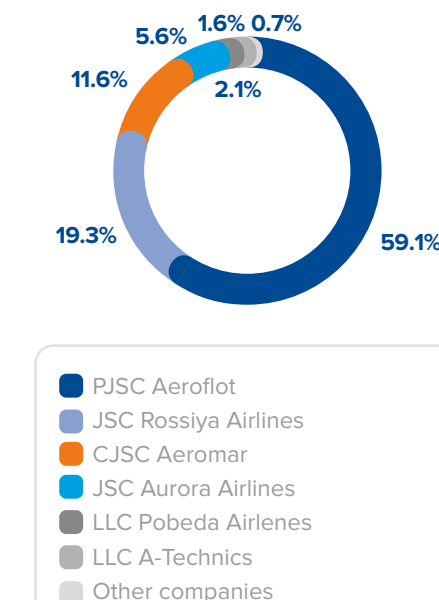


- <sup>1</sup> Includes pilots-in-command, co-pilots, and other flight crew members (flight engineers, pilot instructors, and others).

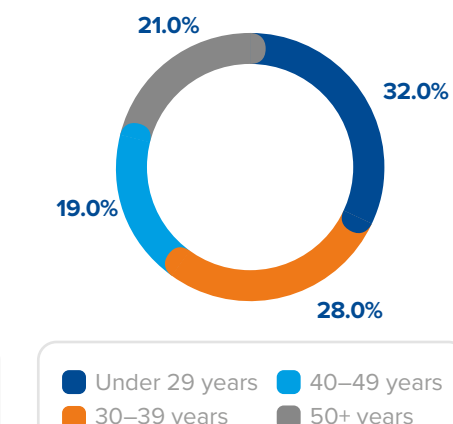
PJSC Aeroflot's headcount breakdown  
by category, 2017



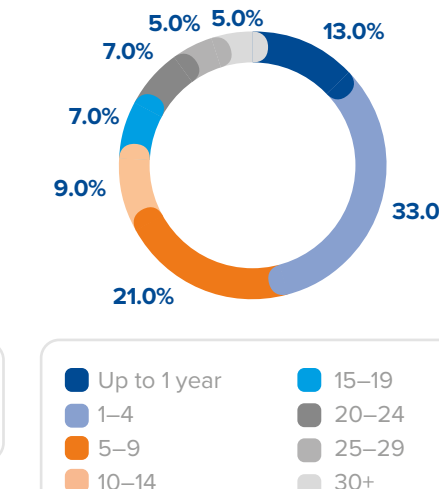
Aeroflot Group's headcount breakdown  
by company, 2017



PJSC Aeroflot's headcount breakdown  
by age, 2017



PJSC Aeroflot's headcount breakdown  
by years with the Company, 2017



# Corporate Social Responsibility

continued

## Recruitment

Recruitment to the Company is guided by the Regulations on the Procedure for Personnel Recruitment and Hiring dated 25 June 2010 and includes job posting on PJSC Aeroflot’s official website, corporate intranet portal, and dedicated websites, as well as in the media.

Furthermore, Aeroflot develops partnerships with educational institutions to attract promising young specialists and improve the quality of its future employees training. PJSC Aeroflot annually selects the best graduates of civil aviation educational institutions who will complete additional simulator training in compliance with corporate standards. Moreover, the Company’s business units engage graduates of industry schools and universities for on-the-job training and internships.

In the reporting period, the Company continued to participate in the targeted training programme financed from the federal budget. Contracts for targeted training were signed with three industry universities: the Saint Petersburg State University of Civil Aviation, Ulyanovsk Civil Aviation Institute, and the Moscow State Technical University of Civil Aviation. Over five years, 278 students signed educational contracts for targeted training committing them to work with the Company for a certain period of time. The first students enrolled in the programme graduated in 2017.

PJSC Aeroflot also continued to cooperate with seven civil aviation technical schools and universities under the Personal Scholarship project, including Ulyanovsk Civil Aviation Institute, the Saint Petersburg State University of Civil Aviation, Buguruslan, Sasovo, and Krasny Kut Civil Aviation Schools, as well as Egorievsk and Kirsanov Civil Aviation Technical Colleges. Each year, PJSC Aeroflot allocates up to 50 personal

scholarships of RUB 10,000 per month. So far, 182 students received corporate scholarships.

In 2017, jointly with the Federal Air Transport Agency and United Aircraft Corporation, PJSC Aeroflot held its Best in the Sky contest for students of Ulyanovsk Civil Aviation Institute, and Sasovo and Krasny Kut Civil Aviation Schools. The best future pilots of the Russian commercial aircraft Sukhoi Superjet 100 were named following the contest.

## Personnel training and development

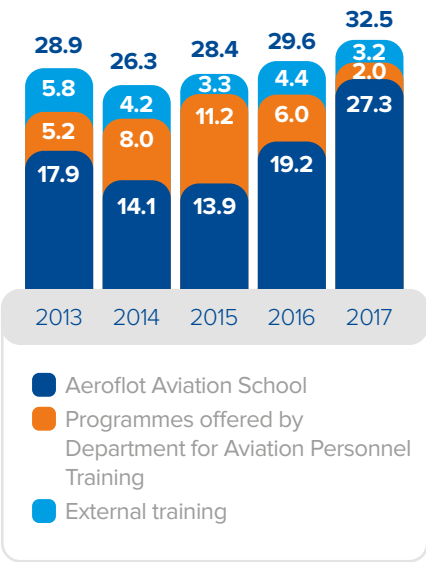
The robust training and professional development process ensures that Aeroflot Group’s employees maintain high specialist skills in line with current requirements of international standards and the Federal Aviation Rules.

In 2017, PJSC Aeroflot arranged for training for 32,500 employees (some employees completed more than one training programme) both in-house and externally, across a range of training, retraining, professional development, and certification programmes.

In 2017, Aeroflot’s subsidiary, Aeroflot Aviation School private vocational educational institution, arranged for training for more than 27 thousand employees of PJSC Aeroflot. Retraining and professional development courses mainly focused on:

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

Employees enrolled in training programmes



Training for more than 3,000 employees was arranged in external educational institutions and training centres under the following programmes:

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

In the reporting period, the Company’s Department for Aviation Personnel Training delivered training to more than 2,000 employees, including retraining courses in new aircraft types for pilots, pilot in-command training for candidate pilots, initial training for pilot instructors, and training for examiners, as well as CRM courses and training in the flight safety management system.

In 2017, the Department developed 17 specialist training programmes. It was also certified for compliance with the Federal Aviation Rules dated 29 September 2015 approved by the Ministry of Transport of the Russian Federation and was granted an unlimited certificate as an aviation training centre.

A number of innovative projects were implemented, including the upgrade of FFS A320 and MFTD A320 flight simulators. The Company also completed works under the agreement with JSC Sukhoi Civil Aircraft to manufacture a procedure trainer for SSJ100 flight crew training. Furthermore, PJSC Aeroflot continued efforts to establish a comprehensive training centre for aviation personnel working on MC-21 aircraft.

## Training platform

PJSC Aeroflot uses its own training platform providing training for cockpit and cabin crews of Aeroflot and its subsidiaries. The training platform is currently equipped with 23 modern simulators and mock-ups produced both in Russia and abroad. In the reporting period, a number of projects were implemented to enhance the quality of cockpit and cabin crew training using the Company’s own simulators, including the upgrade of simulators, and improvements to the flight control computer. More than 9,000 crews completed training on full flight and specialised simulators, while more than 4,000 employees completed training on Land–Water simulators and mock-ups for emergency response training.

## Best in Trade professional skills competition

Aeroflot holds the Best in Trade professional skills competition to reinforce corporate culture, identify and reward the best employees, and promote the airline’s general trade jobs.

Approximately 700 employees representing 20 trades took part in the competition in 2017. The competition comprised four special categories: the Best Representative Office of Aeroflot in the Russian Federation, the Best Representative Office of Aeroflot Abroad, the Best Example of Aeroflot’s Values, and the Best Mentor. The winners received significant cash bonuses and a good incentive for career advancement.

## Talent pool

PJSC Aeroflot continued building its talent pool. In 2017, key vacancies were filled with internal candidates listed in the talent pool for senior management positions, while the Company continued building the middle management talent pool and the talent pool for the Company’s representative offices abroad. As at the end of the reporting period, 149 and 131 employees respectively were included in those talent pools.

## Incentive system

PJSC Aeroflot continues to develop its employee incentive system to improve operational efficiency and sharpen its competitive edge. The Company uses flexible incentive schemes and consistently enhances its employees’ compensation and benefits packages.

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

The Company places special emphasis on attracting and motivating pilots through competitive pay levels and regular salary indexation. To attract qualified flight crews, the Company has in place a system of one-off incentive payments at hiring. The airline compensates pilots for training expenses through educational contracts incurred when quitting their previous job, or employees’ own expenses on their education.

The Company also widely uses non-financial incentives. In line with its Collective Agreement, Aeroflot rewards and recognises employees’ high performance. In 2017, two employees received government awards of the Russian Federation, 117 received industry awards of the Russian Ministry of Transport, and 20 received awards of other agencies. More than 1,200 employees were recognised with corporate awards.

# Corporate Social Responsibility continued

## Social programmes for Company employees

The Company runs a wide range of social programmes to create a comfortable environment encouraging employees' professional and personal development, and ensure their social protection. Social programmes strengthen the Company's competitive position, help attract qualified specialists, improve overall performance, foster a favourable social and psychological climate, and boost the Company's profile as a socially responsible employer.

PJSC Aeroflot has in place a Collective Agreement which was extended until 1 December 2020 by the joint resolution of the employer and the employees' representative on 10 August 2017. The social package described in the Collective Agreement considerably exceeds benefits, guarantees, and compensations established by applicable labour laws.

### Occupational pension scheme

Aeroflot runs a pension scheme based on joint participation of the employer and the employee. Occupational pension is funded from employees' monthly pension contributions, the Company's quarterly contributions, the annual investment income accrued on the employee's contributions by a non-governmental pension fund, and the employer's contribution.

The corporate occupational pension scheme covers 6,200 employees. In 2017, personal contributions of the scheme participants were matched by those of the airline at the rate of 20%.

Since 2016, the occupational pension scheme for the Company's employees was coordinated by two corporate non-governmental pension funds, Non-Governmental Pension Fund RGS and Non-Governmental Pension Fund of Sberbank.

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

Upon retirement, the Company complements the state-funded pension of an employee participating in the scheme with a corporate pension. As at the end of 2017, corporate pensions were paid to 4,300 former employees of the Company.

The Company also runs an incentive scheme to provide mandatory pension insurance through co-financed contributions to the cumulative part of the state-paid pensions. Personal pension contributions of the insurance scheme participants are matched by those of the employer at the rate of 20%–50%.

### Resort therapy

In 2017, 3,800 employees of PJSC Aeroflot and their family members benefited from rehabilitation treatment at health resorts, including 712 children accompanied by their parents under the Healthy Child programme. The programme was financed using voluntary health insurance coverage and funds from the budget of the Social Insurance Fund of the Russian Federation, which is formed from insurance contributions made by the Company to insure employees against work accidents and occupational diseases.

The Company partners with health resorts in Southern Russia and Slovakia. A special free health rehabilitation programme for 511 pilots and flight attendants was set up in the Czech Republic.

### Sports events

Programmes to promote corporate sports and organise holiday events are designed to strengthen the corporate culture. In 2017, sports facilities were rented for permanent sporting clubs where employees can play football, volleyball, hockey, basketball, and tennis. Aeroflot's sports teams successfully competed in futsal tournaments for the CSA Cup, Aviation and Space Cup, and Aviation Industry Cup, as well as in the corporate tennis tournament. To improve health and promote wellbeing among the Company's employees, fitness club memberships were offered throughout the year.

### Housing programme for Aeroflot airline's flight crews

In 2017, 19 Aeroflot's pilots continued to participate in a housing programme, with the Company subsidising interest payments on employees' mortgage loans.

### Corporate housing for key employees

During the year, the Company's key employees from the regions were provided with company-owned housing close to Sheremetyevo airport, with more than 1,500 employees on average benefiting from the free lease arrangements. Most of the housing options are provided at Aeroflot's Flight Camp based at Ozero Krugloe Hotel Complex.

## Company vehicles and corporate parking

Company vehicles are used to transport employees to work at the Company's offices located near Sheremetyevo airport. In 2017, around 3,600 employees benefited from Company vehicle transportation on a daily basis.

To provide the personnel of the Company's operating units with parking places, in 2017, six parking lots were rented near Moscow Sheremetyevo airport.

### Financial assistance

In 2017, the Company provided financial support to 234 current and former employees in difficult circumstances.

### Daycare spending compensation for employees' kids

During 2017, over 2,300 employees of the Company were provided with daycare spending compensation benefits for their children.

### Additional social benefits for flight crews

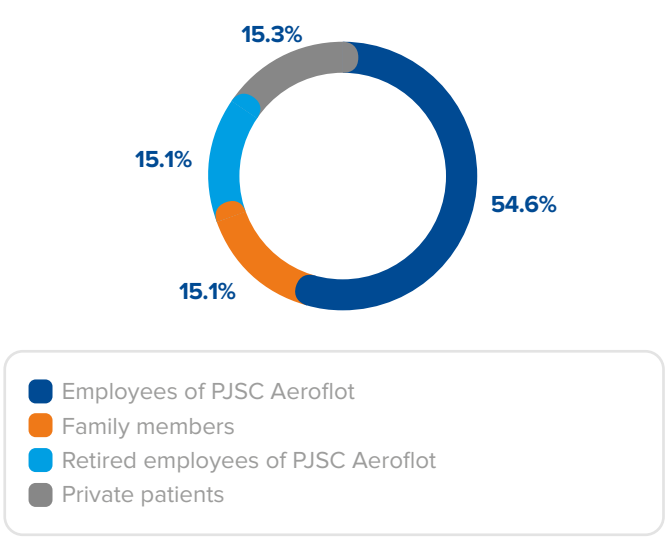
A number of additional social benefits are provided to flight crew members, including:

- 70-day paid annual leave
- special insurance programmes with payments increased significantly in December 2017
- free access to diverse sports facilities for training.

### Aeroflot's medical centre

PJSC Aeroflot has its own medical centre providing healthcare services to current employees and their families, as well as retired employees, including aeromedical assessment and rehabilitation of cockpit and cabin crews, and pre-flight medical examinations. The medical centre comprises a polyclinic, an inpatient hospital, and an outpatient surgery with a day hospital. The polyclinic offers for a wide range of laboratory tests. In 2017, it reported a total of 246,800 visits and conducted aeromedical assessment of 5,400 patients.

Number of people registered with the medical centre for healthcare services



# Corporate Social Responsibility

continued

## Social partnership

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

## Occupational health and safety

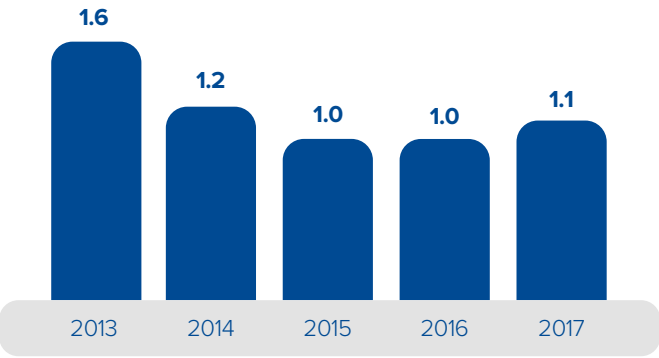
PJSC Aeroflot has in place an efficient occupational health and safety system compliant with the applicable regulations and international best practice. The Company has a certificate confirming its compliance with regulatory occupational safety requirements. The Company strives to eliminate occupational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

During 2017, there were 21 accidents of varying severity, including three serious accidents. Human factor played a significant part in all the accidents.

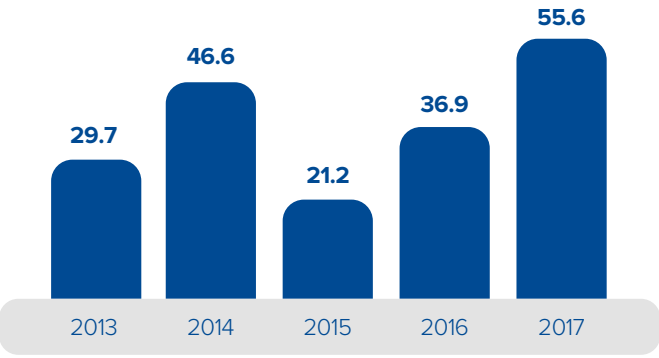
Throughout the year, health and safety trainings were arranged with a focus on occupational diseases and injuries prevention. To prevent occupational diseases, employees passed regular medical examinations.

As at the end of 2017, in accordance with Federal Law No. 426-FZ On Special Assessment of Working Conditions, PJSC Aeroflot carried out a special assessment of 5,832 workplaces, of which 4,385 were found to have acceptable working conditions. A premium of 4% to 24% to the salary is set for employees exposed to harmful working conditions.

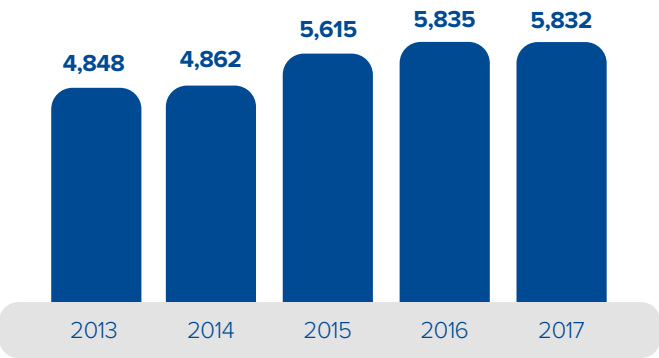
Number of injuries per 1,000 employees of PJSC Aeroflot  
PEOPLE



Lost time incident rate (per injured person) in PJSC Aeroflot



Number of workplaces subject to special assessment of working conditions



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

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

# Supporting Charities and Regional Development

As a socially responsible business, PJSC Aeroflot has a wide range of social and charitable programmes. The Group makes meaningful contributions to the social and economic development of Russian regions by providing government-sponsored passenger transportation, and its charitable activities are primarily focused on supporting vulnerable groups such as children and veterans.

The Group's subsidiaries strive to contribute to charity campaigns initiated by Aeroflot and provide targeted aid in the regions in which they operate, with a special focus on supporting veterans.

## Social and economic development of Russian regions

**Improving the accessibility of Russia's regions**  
Improving the accessibility of Russia's regions, including remote destinations, remains a major priority of Aeroflot. The Company has an extensive route network and supports the government-sponsored programme maintaining airline passenger services between the Far East and European Russia. Furthermore, Aeroflot airline runs a flat fare programme for economy class flights to remote regions. Flat fares apply to flights heading to Vladivostok, Yuzhno-Sakhalinsk, Khabarovsk, Petropavlosk-Kamchatsky, Magadan, Kaliningrad, and Simferopol.

To support accessibility of the Russian Far East, Aeroflot extended the flat fares through to 2018 to include its Rossiya subsidiary's flights connecting to cities in the Far East, which will help expand the passenger offering on key domestic routes. Flat fares are applicable to point-to-point transportation only.

Aeroflot carried more than 1.5 million passengers through flat rates in 2017 and over 4.3 million passengers since the initiative began in 2015.

**Supporting regions**  
One of the Group's main achievements is developed domestic route network. In the reporting period, Aeroflot airline launched new services to Belgorod, Khanty-Mansiysk, and Salekhard.

Aeroflot Group places a special focus on increasing the number of its inter-regional flights. In 2017, Pobeda airline did not use the Moscow transit hub for 50% of its flights. The company launched unique flights within Russia: Surgut – Makhachkala, Saint Petersburg – Nalchik, Saint Petersburg – Vladikavkaz, Krasnoyarsk – Yekaterinburg, Krasnoyarsk – Novosibirsk, Novosibirsk – Yekaterinburg, and Rostov – Yekaterinburg, among others. During the year, 350 thousand tickets for Pobeda airline flights were sold for as low as RUB 499, thereby increasing social mobility.

Aeroflot also contributed to promoting traditional Russian products by adding Tula honey-cake and Belyov pastila to the on-board menu, thereby raising awareness of the Tula Region as a unique Russian producer of world-famous merchandise historically associated with Russia.

Aeroflot signed a partnership agreement with the government of the Republic of Tatarstan to launch a joint IT development programme for civil aviation in Innopolis University. The partnership will be focused on developing technologies which improve access to air transportation, and the parties will also begin seeking out solutions to optimise the ground infrastructure.

# Corporate Social Responsibility

continued

## Helping children

### Miles of Mercy programme

Aeroflot adopted its Miles of Mercy programme as a way to provide assistance to severely ill children. The campaign encourages Aeroflot Bonus programme members to donate their bonus miles to partner charitable organisations, including the Give Life fund, Vladimir Spivakov International Charity Foundation, Russian Assistance Fund operated by the Kommersant Publishing House, and the Life Line fund. The contributed miles are used to carry children with serious health conditions to countries and cities where they can receive their required treatments. In 2017, a total of 6,173 tickets and 135.7 million bonus miles were donated to support the activities of charitable organisations.

### Train of Hope

Train of Hope is a charity programme organised to help children deprived of parental care to find new families. In 2017, the Company provided its continued support of the “Children’s Flight” of the Train of Hope initiative by providing free air transportation for the children and prospective adoptive parents.

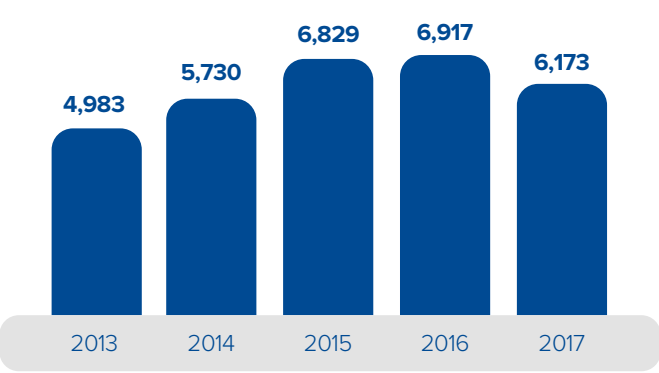
### Orphanage support

Aeroflot continued to support two orphanages during 2017: the Pokrov Orphanage in the Vladimir Region and St Sergius Boarding School in the Sergiev Posad District in the Moscow Region.

Aeroflot organised summer holidays for the Pokrov Orphanage at a Tuapse children’s recreational camp and financed renovation, medical equipment, and an outdoor football pitch.

The Company organised renovations for St Sergius Boarding School’s forge and residential building, and also purchased forge equipment. A total of RUB 6.5 million went towards charitable support for orphanages in 2017.

Tickets issued under the Miles of Mercy programme



### Targeted aid

In 2017, Aeroflot continued to support the Moscow comprehensive school with primary pilot training by financing the final round of the Student Aviation Olympiad, which took place in May on the airline’s premises.

During the year, the Company provided financial support for the Veteran Club of Top Managers of the Civil Aviation Industry “Opyt Club”, All-Russian Non-Government Organisation Russian Geographical Society, the Saint Petersburg sledge hockey sports club, the Wheelchair Dance Sport Federation, Russian Veterans’ Service Organisation, the Oleg Lundstrem Arts and Culture Foundation, and a children’s hospice. The charitable support was provided in the form of free tickets for the total of RUB 400,000.

The Company also provided information support to the Mercy Charity Organisation and the organisers of the Run for Help charity run for children with cancer.

Aeroflot also helped organise the Drawing Saint Petersburg international children’s drawing competition, which brought together over a thousand schoolchildren from across the CIS.

## Support for Great Patriotic War (WWII) Veterans

### Annual Great Victory Day campaign

For the celebrations of the 72nd anniversary of Victory Day in 2017, Aeroflot carried veterans of the Great Patriotic War (WWII). From 3 May to 12 June, Aeroflot airline carried more than 4,500 veterans and their accompanying persons free of charge and provided hotel accommodation for over 40 participants. During the campaign, more than 1,600 veterans were accompanied by airport employees who helped throughout the departure process at Sheremetyevo airport. The veterans were also provided priority treatment and special service.

### Charitable support to the Great Patriotic War (WWII) veterans from among retired Aeroflot employees

Aeroflot seeks to help veterans beyond anniversaries by providing monthly food packages to its retired employees who took part in the Great Patriotic War (WWII). A total of RUB 9.8 million went towards veteran food packages in 2017.

As part of their social support initiative for senior citizens, Aeroflot and the Veterans Administration organised a Grand Kremlin Palace tour for the eldest civil aviation workers.

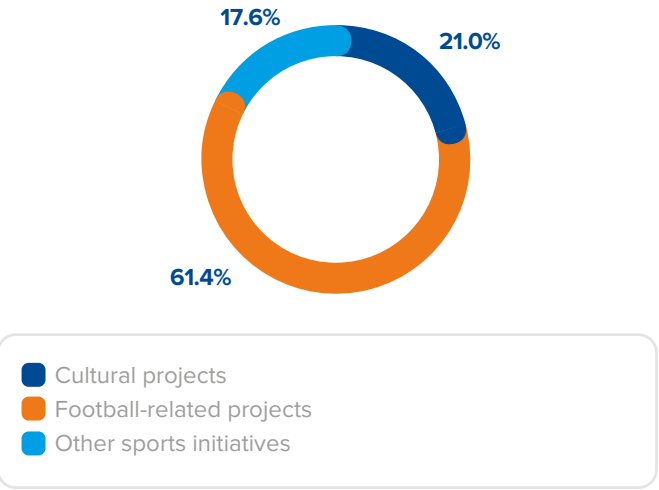
## Support of passengers in need

Aeroflot runs a programme supporting passengers in urgent need to reach their destinations due to extraordinary circumstances, covering high-demand domestic flights in which the least expensive economy booking classes have been sold out.

## Sponsorship

In 2017, PJSC Aeroflot continued its sponsorship support to sports, culture, business, and other social projects, initiatives, and organisations. In the reporting period, the Company allocated a total of RUB 2 billion for sponsorship support, maintaining a similar amount to contributions in previous years (RUB 2.1 billion in 2016).

Breakdown of PJSC Aeroflot’s spending on sponsorship programmes in 2017



## Sport

As a General Partner of the Olympic Committee of Russia, Aeroflot airline continued providing flight services to sports teams and the Olympic team in 2017. As a partner of the Russian Volleyball Federation and the Russian Football Union, Aeroflot supported the national Russian teams at international competitions.

The Company and the Russian Chess Federation held the annual Aeroflot OPEN international chess tournament in 2017. Aeroflot also provided support to Otradnoe showjumping club, which hosted a Showjumping World Cup stage. The Company continued to team up with the Russian Basketball Federation, Russian Cycling Federation, Russian Federation of Acrobatic Rock’n’Roll, and Russian Golf Association.

## Corporate Social Responsibility

### continued

Throughout 2017, Aeroflot welcomed new partnerships to its sponsorship portfolio, with the Table Tennis Federation of Russia, Rugby Federation of Russia, and Boxing Federation of Russia, while renewing its commitment to remain the Official Carrier of CSKA Professional Football Club and CSKA Professional Basketball Club.

The Company's support to sports clubs has provided significant benefits from the exposure to many millions of spectators through a wide range of marketing and advertising options as well as enhanced visibility of the Aeroflot brand at all games played by CSKA teams.

In the global market, Aeroflot is raising its recognition and boosting its profile as a premium carrier through the Company's partnership with Manchester United FC.

### Cultural projects

In 2017, the Company continued to support the Roskino film production company in holding events to promote Russian cinema at international film festivals held in Berlin, Cannes, Toronto, London, and Los Angeles. The airline also became a general partner of the Golden Gramophone National Music Award. In addition, Aeroflot was a partner of Tatyana Navka's "Ruslan and Lyudmila" skating show in 2017.

### Supporting business and industry events

Aeroflot supported the largest industry event – the International Aviation and Space Salon MAKS-2017.

Aeroflot also shared its vision of future civil aviation development by demonstrating an interactive route map and presented its "Travel of the Future" game at the Russia Focused on the Future exhibition in 2017.

The carrier once again proved itself worthy of its national airline title by acting as the official carrier for the most important business forums such as the Russian Investment Forum, International Arctic Forum, Saint Petersburg International Economic Forum, and Eastern Economic Forum.

## Environmental Protection Programme

Ensuring environmental sustainability across all segments of its business remains an unchanged priority of PJSC Aeroflot. Governed by the precautionary principle, the Company seeks to prevent any potential environmental impacts even where there is no definitive science to prove that any particular activity is harmful to the environment. The Company's environmental policy is aimed at improving the energy efficiency and environmental performance of its products – air transportation of passengers, baggage, cargo, and mail. Aeroflot places special emphasis on improving fuel efficiency of its aircraft fleet, which helps reduce its environmental footprint and cut fuel costs, a major operating expense item.

Aeroflot sets itself the following key environmental sustainability objectives:

- Maintain an environmental management
- Upgrade its aircraft fleet, replace outdated energy-intensive types of aircraft with new assets offering enhanced fuel efficiency
- Introduce resource-saving processes and technologies
- Optimise the route network and roll out new piloting techniques to reduce noise pollution and cut emissions from aircraft engines
- Manage waste with a focus on recycling to minimise the environmental impact
- Identify and benefit from new opportunities to improve environmental performance
- Include environmental performance indicators in the supplier and contractor selection process
- Raise environmental awareness and promote resource efficiency among PJSC Aeroflot's employees

In pursuance of Executive Order of the President of the Russian Federation No. 889 On Selected Measures to Improve Energy and Environmental Efficiency of the Russian Economy dated 4 June 2008, the Company continues to implement its Energy Saving and Environmental Performance Programme until 2020 providing for a 42% decrease in specific fuel consumption across the fleet by 2020 from the 2007 rate.

PJSC Aeroflot's total environmental protection expenses increased year-on-year to RUB 64.9 million in 2017 due to the paint shop renovation at the Aircraft Technical Service Department (procurement and instalment of new gas cleaners and a paint booth), and the replacement of filter caps at the Melkisarovo office building treatment facilities.

In accordance with the applicable environmental laws, PJSC Aeroflot pays environmental fees which totalled RUB 3.5 million in 2017.

The Company also paid fines of RUB 485,000 for violating environmental laws in 2017.

### Quality management system

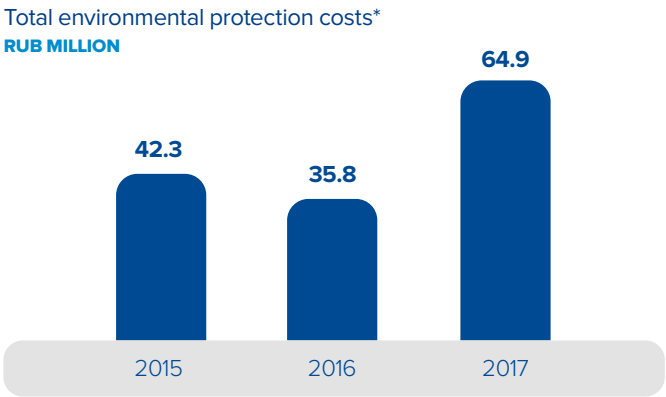
PJSC Aeroflot has in place an integrated management system with the quality management system (QMS) as its core element. For many years, PJSC Aeroflot's QMS has successfully passed certification audits under ISO 9001 (Quality Management System) and registrations under the IATA's industry programmes (IOSA – Operational Safety Audit, ISAGO – Safety Audit for Ground Operations).

Efforts to improve the QMS are aligned with activities to further improve the assessment framework for KPI-based evaluation of performance and progress on the implementation of internal and external QMS standards applied by the IATA, SkyTeam, and Aeroflot Group.

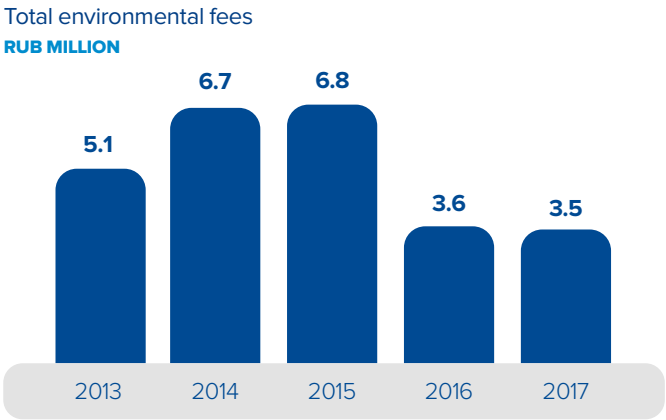
In February 2017, PJSC Aeroflot's integrated environmental management system successfully passed a re-certification audit. The audit was carried out by TÜV Rheinland Russia, a branch of the world's leading certification agency, and looked at compliance with ISO 9001:2015 (Quality Management Systems) and ISO 14001:2004 (Environmental Management Systems).

The compliance audit revealed no critical instances of non-compliance and confirmed that PJSC Aeroflot's integrated management system met the international standards ISO 9001 and ISO 14001.

In May 2017, Aeroflot airline successfully passed the IATA Operational Safety Audit for IOSA compliance for the seventh time. The IOSA certificate and operator status were extended until October 2019.



\*Including third-party services.



# Corporate Social Responsibility

## continued

### Fuel efficiency and air quality initiatives

PJSC Aeroflot is implementing environmental impact mitigation initiatives: almost all of its fleet is in compliance with ICAO standards for noise levels and atmospheric pollution. Fuel efficiency management is one of the Company’s operational priorities as higher fuel efficiency reduces greenhouse gas emissions.

PJSC Aeroflot develops and implements its annual fuel efficiency and cost-cutting programme which has helped PJSC Aeroflot reduce its specific fuel consumption by 9.6% over the past five years, totalling 277.6 grams per tonne-kilometre (TKM) in 2017, while specific CO<sub>2</sub> emissions decreased by 9.5% to 875.1 g/TKM.

Fuel efficiency and air quality initiatives

	2013	2014	2015	2016	2017
Fuel consumption, tonnes	1,946,846	2,028,842	2,183,335	2,365,190	2,588,100
Specific fuel consumption, g/TKM	307.0	301.6	299.2	286.3	277.6
CO <sub>2</sub> emissions, tonnes	6,132,564.9	6,390,852.3	6,877,505.3	7,450,348.5	8,152,515
Specific CO <sub>2</sub> emissions, g/TKM	967.4	950.7	943.5	902.8	875.1

CO<sub>2</sub> emissions are fully monitored and recorded throughout the route network in line with the applicable Russian and European laws and regulations. CO<sub>2</sub> emissions reporting is guided by national standards and the procedure adopted by the EU Emissions Trading System (EU ETS). In 2017, as part of compliance with the EU ETS requirements, PJSC Aeroflot passed the CO<sub>2</sub> emissions verification audit of its 2016 annual report, following which the operational CO<sub>2</sub> emissions will be compensated through purchasing missing quotas.

The Company carries out regular fine-tuning of instrumental controls and fuel system to ensure compliance with permitted toxicity and smoke levels. In 2017, the Company also conducted a study of pollutant emissions at the paint facilities of the Aircraft Technical Service Department and the Ground Handling Department, which revealed no excessive emissions above the authorised limit. Furthermore, to mitigate pollutant emissions, the Company conducts regular ventilation system inspections at its operational and office premises.

### Carbon Disclosure Project (CDP)

In 2017, PJSC Aeroflot received its first international Carbon Disclosure Project (CDP) rating for disclosures on climate change management and greenhouse gas emissions. Under the CDP, companies from across the globe make standardised reports on their greenhouse gas emissions and on climate change activities. According to the published CDP rating, PJSC Aeroflot was awarded a performance score of D (Disclosure), a good result for a first-time participant. PJSC Aeroflot also mapped out a number of initiatives to be implemented in 2018 to raise its rating.

Today, the rating includes over 800 institutional investors with more than USD 95 trillion under management and is consistently gaining popularity both among investors and companies disclosing their information and seeking to improve their scores.

### Sustainable use of water

PJSC Aeroflot is consistently reducing its negative impact on water bodies and ensuring the sustainable use of water. In 2017, PJSC Aeroflot and SPU-1 DZM, a service provider for the Melkisarovo office building, monitored the quantity and quality of wastewater discharged by the building’s treatment facilities, both of which comply with Sanitation Rules and Regulations 2.1.5.980-00 “Sanitation Requirements to Surface Waters Protection”.

During the year, the Company’s specialists monitored the morphometrics of the Klyazma River. In line with the applicable standards, PJSC Aeroflot submitted regular wastewater quality and quantity reports to supervisory authorities in 2017.

Water consumption by PJSC Aeroflot, THOUSAND CUBIC METRES

	2015	2016	2017
Total	22.0	24.1	22.0
from public water supply network	22.0	24.1	22.0

Water discharge by PJSC Aeroflot, THOUSAND CUBIC METRES

	2015	2016	2017
Total	19.4	19.3	17.7
including: treated water (surface drains from the site of the office building complex, facilities, and structures)	2.3	1.2	1.4
passed to other companies for treatment (sewage)	17.1	18.1	16.3

### Reduced generation and disposal of production and consumption waste

PJSC Aeroflot is working towards reducing its production and consumption waste disposed to landfills and growing the share of waste sent for recycling and disposal. Throughout 2017, PJSC Aeroflot regularly inspected waste storage sites of production and consumption waste, as well as maintained monthly records of generation and movement of production and consumption waste across its business units.

The following documents were prepared and submitted to the environmental authorities:

- 2-TP (waste) and 4-OC statistical reports, submitted to the Federal State Statistics Service and the Central Federal District Department of the Federal Service for Supervision of Use of Natural Resources
- The technical report on the consistency of the production process, materials, and waste management used at the Sheremetyevo site
- The technical report for the Company’s Melkisarovo office building
- The draft standard for waste generation and waste storage limits at the Sheremetyevo site, developed by the Company and approved with the Central Federal District Department of the Federal Service for Supervision of Use of Natural Resources

# Corporate Social Responsibility

## continued

The Company runs regular employee workshops on production and consumption waste management. To arrange paper waste sorting, PJSC Aeroflot allocated sites for paper and cardboard waste storage and its subsequent handover for recycling in 2017.

As at the end of the year, the total waste of PJSC Aeroflot increased by 15.2% year-on-year to 26,700 tonnes. No critical industrial spills were registered at PJSC Aeroflot in 2017.

Total waste of PJSC Aeroflot by hazard class, TONNES

	2015	2016	2017
Total:	21,385.9	23,136.9	26,660.9
including:			
hazard class 1	2.2	3.9	2.4
hazard class 2	1.4	6.0	6.4
hazard class 3	2,448.5	2,508.3	2,353.4
hazard class 4	18,528.3	19,926.7	23,647.4
hazard class 5	405.5	692.0	651.4

Total waste of PJSC Aeroflot by disposal method, TONNES

	2015	2016	2017
Handed over for recycling	0.0	8.1	3.9
Handed over for disposal	2,066.6	250.6	258.3
Handed over for neutralisation	12,180.9	16,714.2	20,542.9
Landfilled	7,138.4	6,164.0	5,255.8

Energy consumption by PJSC Aeroflot

Actual consumption		
	in physical terms	in RUB '000 (net of VAT)
Total aviation fuel, tonnes	2,588,155	84,816,468
Heat*, Gcal	39,732	61,765
Electricity*, kWh	29,836,234	111,688
Motor fuel, total, litres	5,445,147	185,948
Aviation lubricants, litres	247,205	180,471

\* Excluding representative offices and branches.

## Procurement

The procurement process in PJSC Aeroflot and its subsidiaries is organised in line with the best practices, including online bidding. The Group is consistently committed to procurement transparency and prioritises equality, fairness, non-discrimination, and ensuring that no unreasonable and restrictive business practices are applied towards bidders.

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

- The procurement is based on:
- information transparency
  - targeted and efficient spending on purchasing goods, works, services, and implementing cost-cutting initiatives
  - unlimited access to bidding through eliminating non-measurable bidder requirements
  - equality, fairness, non-discrimination, and ensuring that no unreasonable and restrictive business practices are applied towards bidders.

Key procurement objectives are to:

- increase the share of competitive procurement
- increase the share of online procurement
- create the environment which fully and timely responds to the needs of PJSC Aeroflot and its subsidiaries
- support SMEs
- prevent discrimination and unreasonable restrictions on the number of bidders.

In 2017, procurement totalled RUB 448.3 billion. The value of competitive online procurement accounted for 61.1% of the total in 2017, in line with the requirements of the Federal Agency for State Property Management (Instruction No. GN-13/1206 dated 21 January 2011). In 2017 the procurement saved RUB 5.3 billion, net of aviation fuel procurement cost savings through competitive bidding with formula-based pricing and contracts with vertically integrated oil producers.

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

# Corporate Social Responsibility

continued

Procurement highlights of PJSC Aeroflot

Item	2016	2017
Total procurement, RUB million	384,949.3	448,299.9
Competitive online procurement (by value), %	56.4	61.1
Single source procurement, %	63.9	62.3
Savings through competitive procurement (excluding aviation fuel) in 2017, RUB million	1,732.1	5,309.6
Average number of bidders	3.30	3.25
Procurement from SMEs, %	65.0	89.4

## Fuel procurement

The key objective of fuel procurement is to ensure timely and uninterrupted fuel supplies to PJSC Aeroflot and its subsidiaries, while maintaining high flight security and maximising the efficiency of fuel pricing.

In 2017, all fuel supply contracts were signed by PJSC Aeroflot based on the results of competitive bidding won by tenderers who had offered the best financial terms and guaranteed the required reliability, including security assurance.

At the Aeroflot Group level, fuel procurement terms are determined by agency agreements. PJSC Aeroflot makes a consolidated order covering the demand of all the Group's companies and initiates fuel procurement processes. PJSC Aeroflot settles accounts for supplied fuel and fuel storage and refuelling

directly with its counterparties. These arrangements cover virtually the entire fuel needs of subsidiary airlines, excluding a small number of Russian airports (less than 2%), which are not contracted or alternate airports, as well as airports where fuel procurement is part of integrated ground handling agreements. This fuel procurement system helps optimise aviation fuel expenses through large-volume purchases.

In 2017, to optimise its fuel procurement expenses, the Company mostly used formula-based pricing. Pobeda airline pursued a flexible fuel procurement policy by purchasing either from PJSC Aeroflot or under direct supply contracts, depending on the terms offered by individual airports.

Optimisation of fuel procurement at PJSC Aeroflot is supervised by the Fuel Commission.

## Procurement from small and medium-sized enterprises

Procurement from small and medium-sized enterprises (SMEs) accounted for 89.4% of the total in 2017, having increased notably since the previous year (65.0% in 2016). This share far exceeds the target set by Russian Government Resolution No. 1352 On Specifics of Participation of Small and Medium-Sized Enterprises in Procurement of Goods, Works, and Services by Certain Types of Legal Entities dated 11 December 2014, according to which the annual share of procurement from SMEs may not be less than 18% of the aggregate annual value of contracts awarded to winning bidders.

PJSC Aeroflot liaises with relevant organisations to expand access to the Company's procurement process for SMEs. To ensure accurate reporting on procurement from SMEs, the Company optimised the list of SME-specific procurement codes, updated

SAP data to verify counterparties' SME status, and arranged for working sessions with SMEs.

PJSC Aeroflot has been recognized by two letters of commendation from RSMB Corporation for its significant contribution to the development of small and medium-sized business.

The Company intends to continue its successful partnership with RSMB Corporation and SMEs and prioritise procurement of innovative and high-tech products from this market segment. Aeroflot scheduled a number of initiatives to facilitate access of SMEs to PJSC Aeroflot's procurement, including development and approval of subsidiary partnership programmes, organising regional workshops together with RSMB Corporation, and updating the pilot SME partnership initiative aimed at facilitating the submission of proposals for PJSC Aeroflot's procurement processes.

# Corporate Growth

7++

National Corporate Governance  
Rating scale

45.2%

Free float

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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

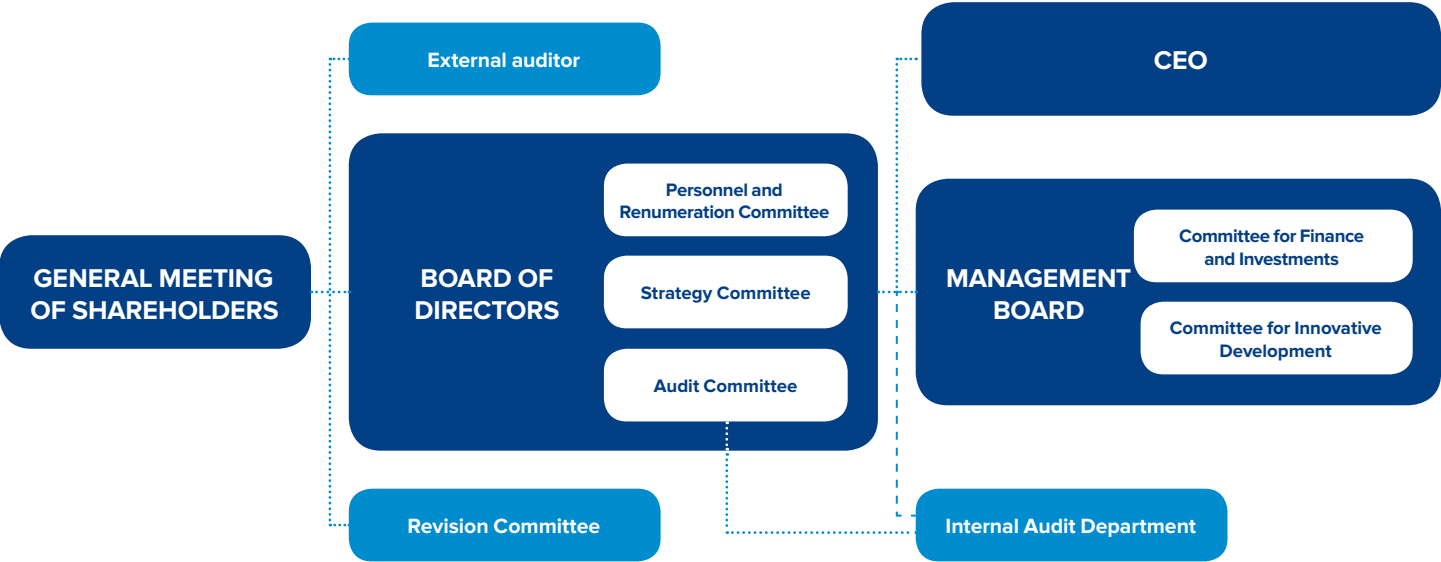
PJSC Aeroflot controls interests in (holds shares in the charter capital of) a number of subsidiaries, including airlines, where PJSC Aeroflot also ensures compliance with the top standards of corporate governance by development and implementation of Group-wide policies and principles. The Company developed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



**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.



**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.



**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 Androso**v 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.

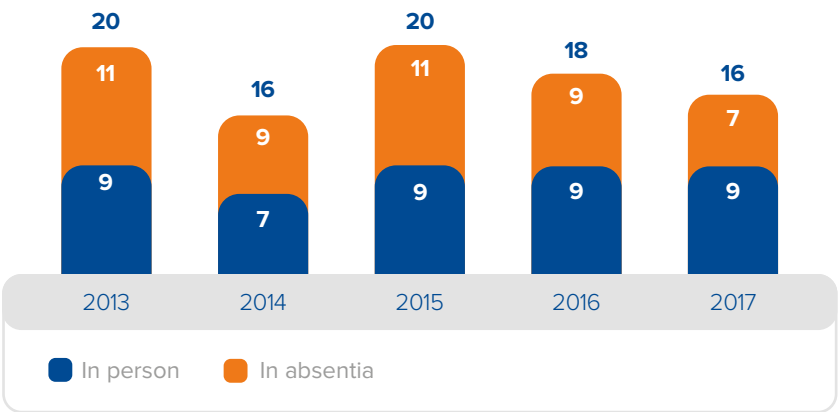
### Board of Directors Performance Report for 2017

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 Androso*	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

**Vasily Sidorov** – Independent Director, Head of the Committee

**Alexey Germanovich** – Independent Director

**Igor Kamenskoy** – Independent Director

**Roman Pakhomov** – Non-Executive Director

*Elected by resolution of the Board of Directors on 8 September 2016*

Committee membership from September to December 2017

**Vasily Sidorov** – Independent Director, Head of the Committee

**Lars Erik Bergstrom** – Independent Director

**Alexey Germanovich** – Independent Director

**Igor Kamenskoy** – Independent Director

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

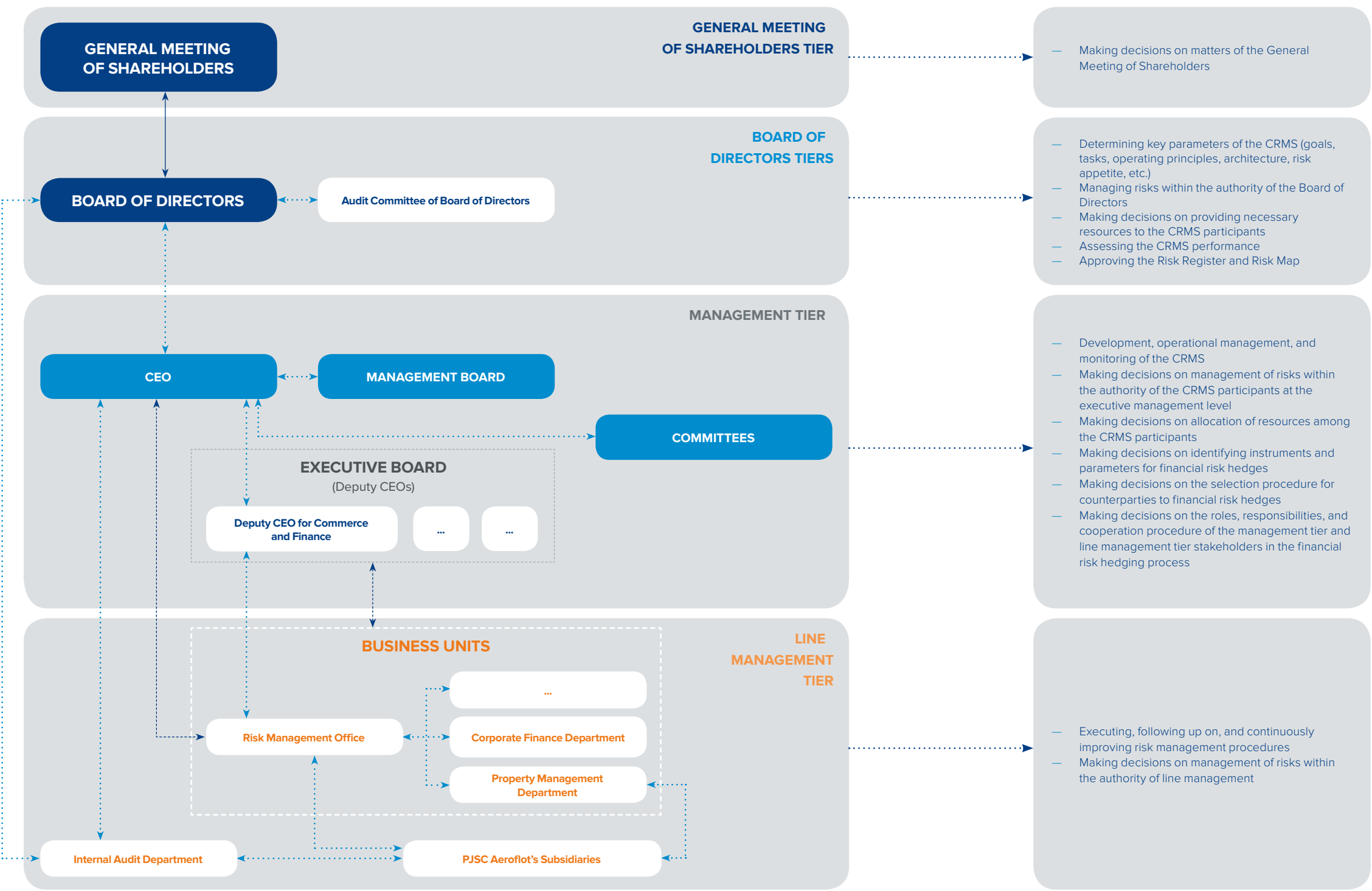
Control over PJSC Aeroflot's financial and business activities is exercised by the Audit Committee of the Board of Directors, Revision Committee, Internal Audit Department, and Risk Management Department. An independent auditor is engaged to audit PJSC Aeroflot's accounting statements prepared under 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.

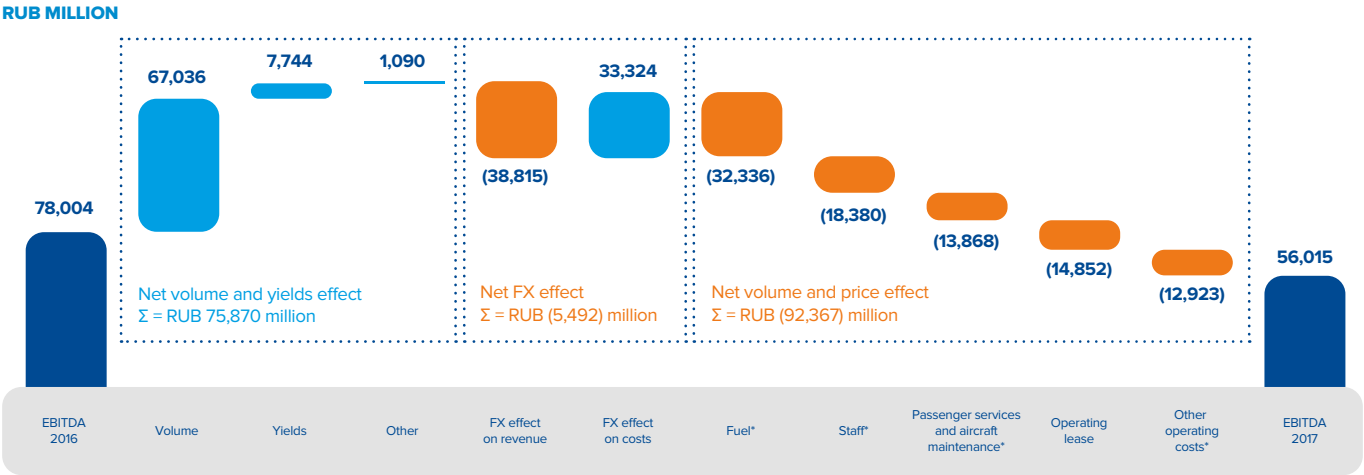
# Risk Management

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



\* 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.

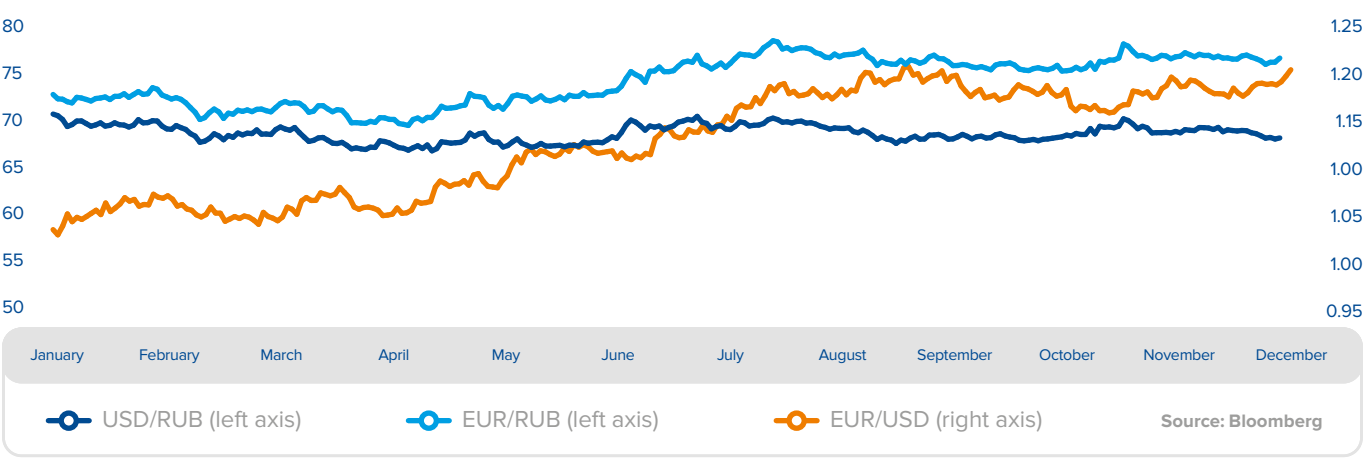
Global oil prices showed a strong growth in 2017, with the year-average price of Brent crude benchmark rising by 21.3% while the rouble appreciated against the US dollar only by 13.1%, as mentioned earlier. Thus, rouble oil prices grew by 5.6%, pushing jet fuel prices by 7.6%.

### Currency and price risks

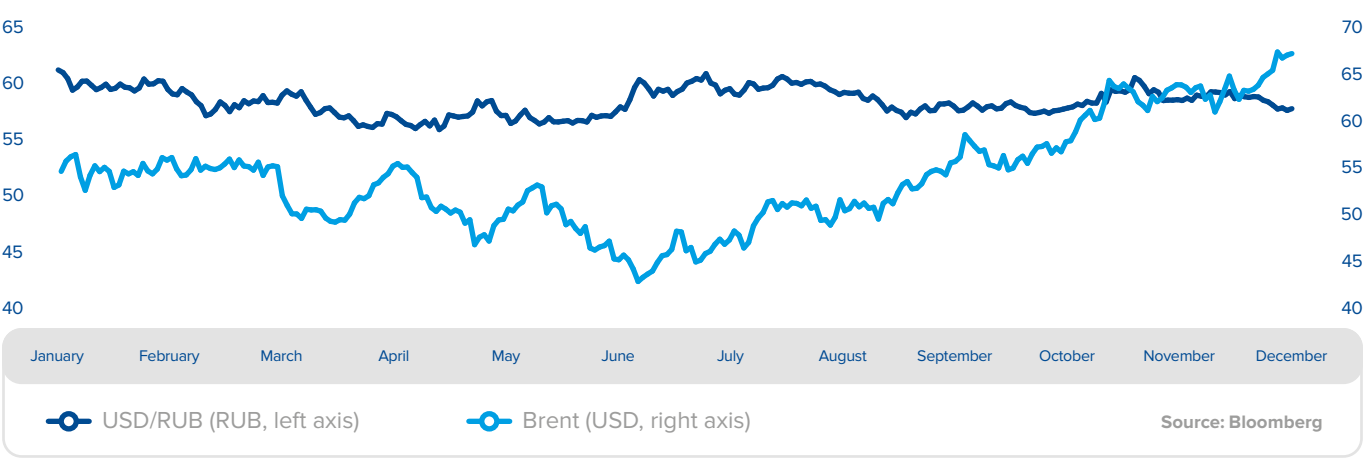
Aeroflot Group's exposure to currency risk results from the vast share of the Company's income and expenses being affected by changes in the EUR/RUB and USD/RUB exchange rates:

- 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.

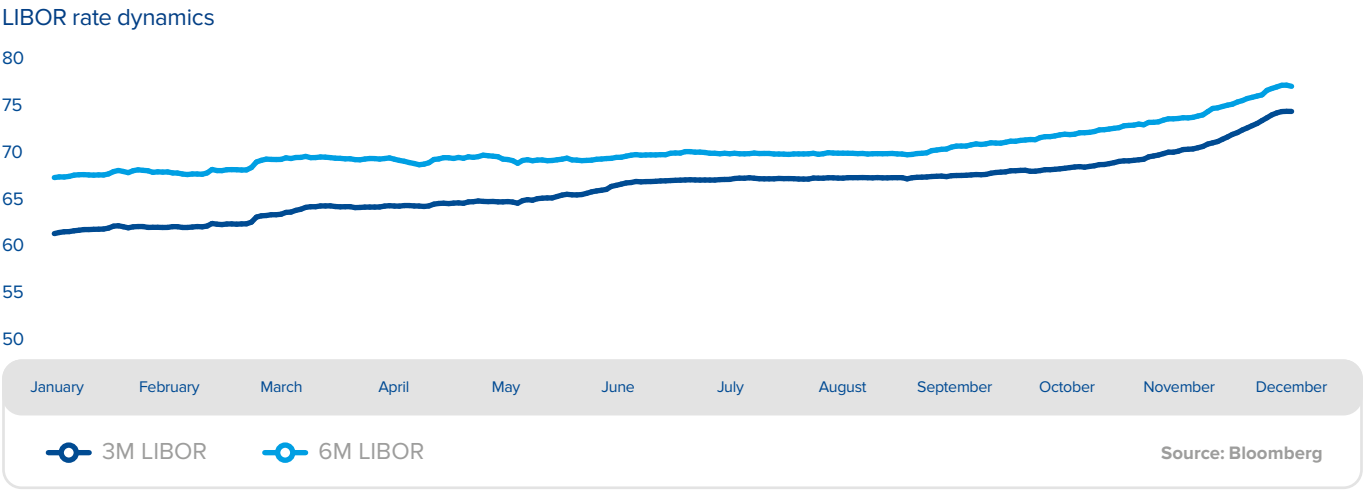
### Interest rate risk

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.

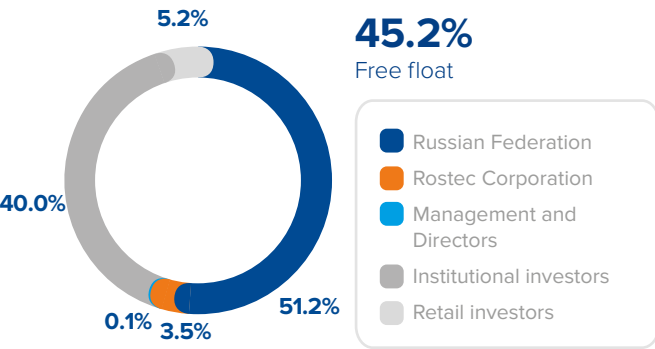
# Investor Relations, Equity and Debt

## 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

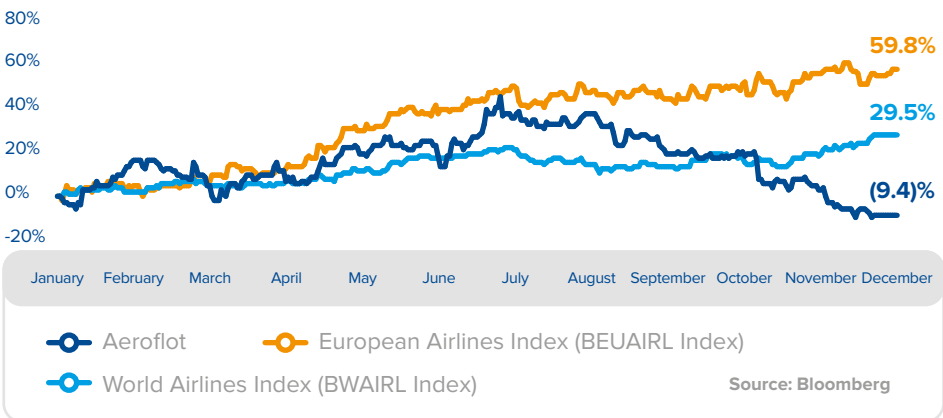
PJSC Aeroflot shares and depositary receipts are traded on the stock market. Ordinary shares are traded on the Russian market, and global depositary receipts (GDRs) are traded on foreign markets.

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.

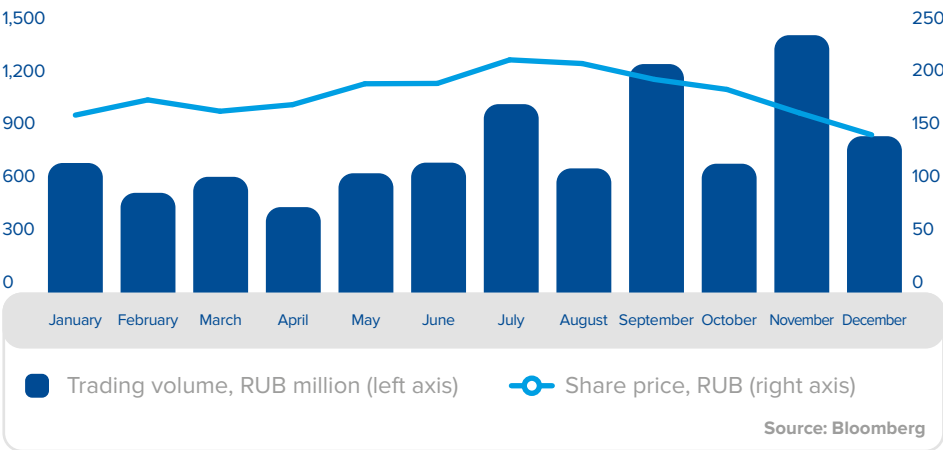
PJSC Aeroflot share price performance vs MOEX Russia Index, 2017



PJSC Aeroflot share price performance vs Bloomberg Airlines Index, 2017



PJSC Aeroflot share price and trading volumes, 2017

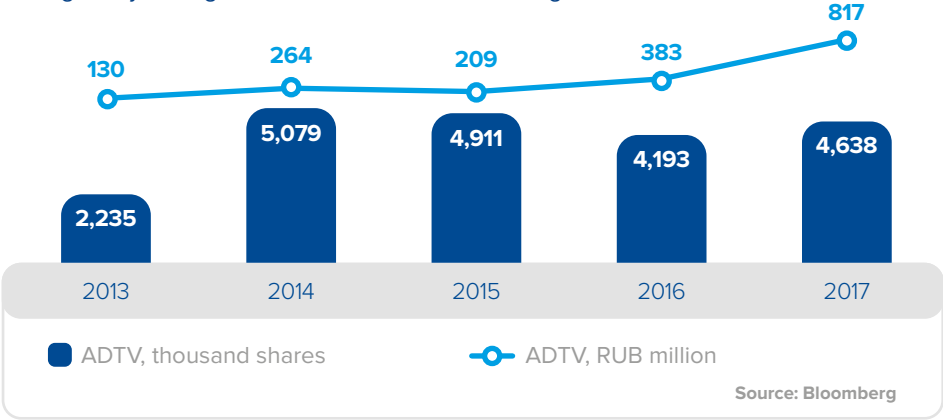


As at 31 December 2017, PJSC Aeroflot's market capitalisation was RUB 153.8 billion, down 9.4% year-on-year.

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.

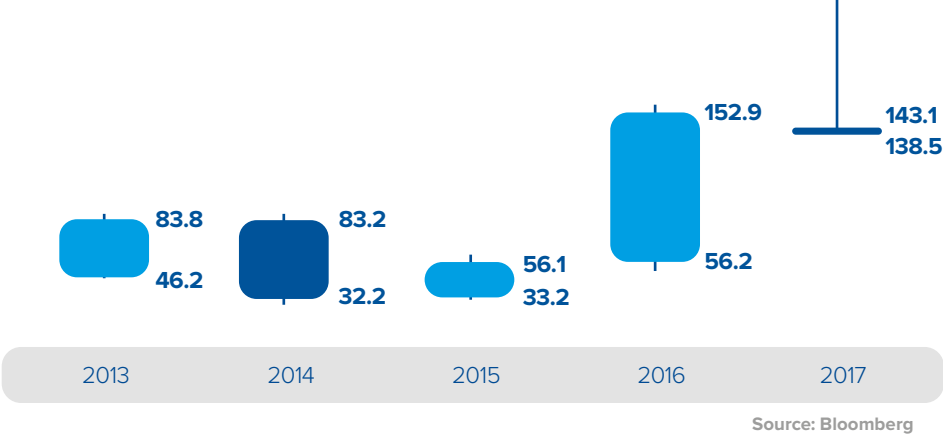
Airline stock indices grew in 2017, supported by the stronger financial performance of some companies and the overall better environment in some regional markets, which indicates that this growth was driven by the low base of the previous years. In addition, segment share prices were supported by the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

Buy Hold Review

# 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

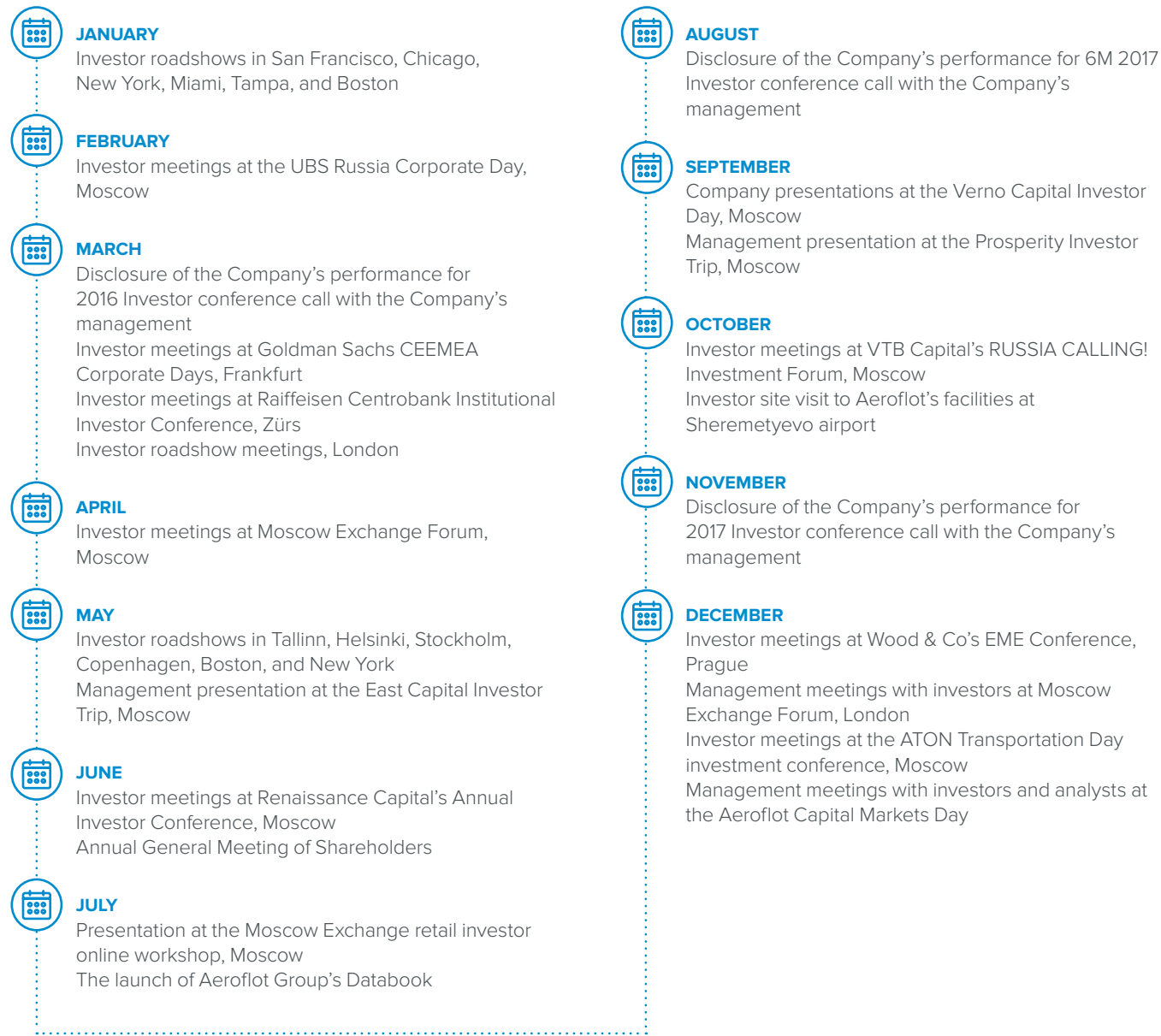


Dedicated events for investors and shareholders, with presentations by the Company's management (Capital Markets Days)

# 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:

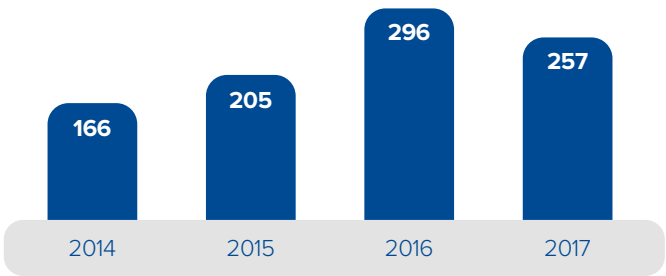
- **Platinum Medal** in the Transportation & Logistics category
- **Top 100 Reports Worldwide**
- **Top 20 Reports in the EMEA Region**
- **Top 20 Russian Reports.**

## Sale of quasi-treasury stock of PJSC Aeroflot

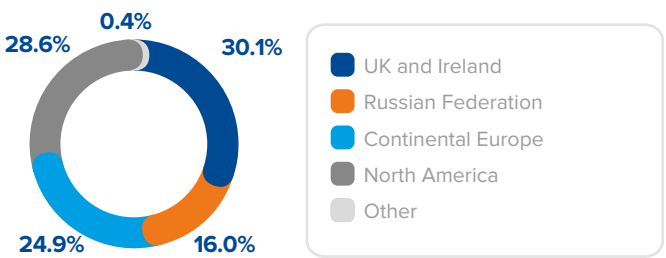
In September 2017, a quasi-treasury stock of PJSC Aeroflot totalling 4.84% of its charter capital was sold through accelerated bookbuilding. The buyers included a wide range of international investors from the UK and continental Europe, as well as Russian investment funds.

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



# Appendixes

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## Statement of management's responsibilities for the preparation and approval of the Consolidated Financial Statements as at and for the year ended 31 December 2017

The following statement, which should be read in conjunction with the independent auditor's responsibilities, as stated in the independent auditor's report set out below, is intended to distinguish between the respective responsibilities of management and the independent auditors in relation to the Consolidated Financial Statements of Public Joint Stock Company Aeroflot – Russian Airlines and its subsidiaries (the "Group").

Management is responsible for the preparation of Consolidated Financial Statements that present fairly the consolidated financial position of the Group as at 31 December 2017, and the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether International Financial Reporting Standards (IFRS) have been complied with, subject to any material departures that are properly disclosed and explained in the notes to Consolidated Financial Statements; and
- preparing the Consolidated Financial Statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and the financial results of its operations and cash flows and which enable them to ensure that the Consolidated Financial Statements of the Group are prepared in accordance with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the relevant jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the Group's assets; and
- preventing and detecting fraud and other irregularities.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2017 (set out on pages 192-250) were approved on 28 February 2018 and signed on behalf of management by:



V.G. Saveliev  
General Director



Sh.R. Kurmashov  
Deputy General Director for Commerce and Finance

# Independent Auditor's Report



To the Shareholders and  
Board of Directors of PJSC Aeroflot:

## Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Aeroflot and its subsidiaries (together – the “Group”) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## What we have audited

- The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2017;
  - the consolidated statement of profit or loss for the year then ended;
  - the consolidated statement of comprehensive income for the year then ended;
  - the consolidated statement of changes in equity for the year then ended;
  - the consolidated statement of cash flows for the year then ended; and
  - the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

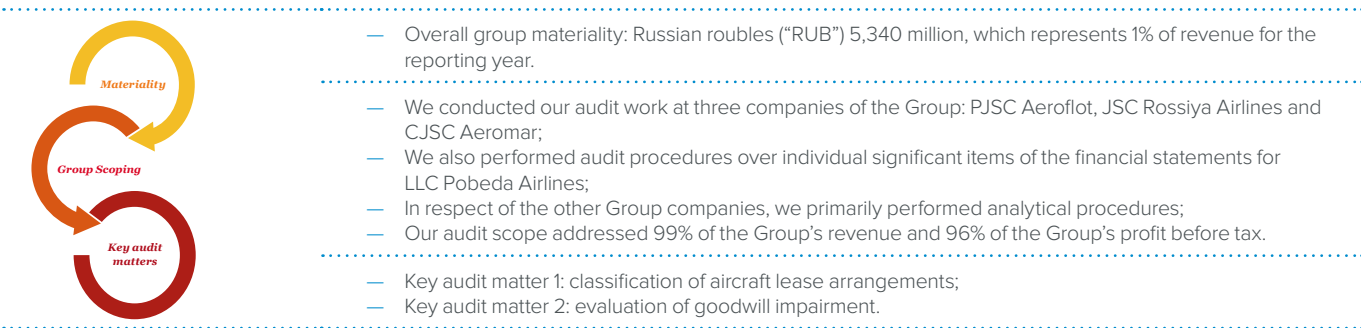
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## Our audit approach

### Overview



We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	RUB 5,340 million
How we determined it	1% of revenue for the reporting year
Rationale for the materiality benchmark applied	We chose revenue as the materiality benchmark. Given the volatility of the Group's financial results, revenue represents a more appropriate measure of the size of the business and risks of misstatement than profit before tax. We chose 1% of the benchmark, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor’s Report continued

Key audit matter

Classification of aircraft lease arrangements

See Notes 2, 28 and 40

The Group’s companies purchase and use aircraft under financial and operating leases.

As at 31 December 2017, the Group’s statement of financial position includes liabilities and assets related to aircraft finance lease arrangements in the amount of RUB 96,265 million and RUB 66,485 million, respectively.

The undiscounted future minimum lease payments under non-cancellable aircraft operating leases arrangements at the reporting date amounted to RUB 660,581 million.

To classify leases, the Group reviews the contract terms under the criteria set by IAS 17, Leases. The Group performs this analysis for each contract.

Factors taken into account by the Group when classifying lease arrangements include but are not limited to the following:

- Transfer of ownership of aircraft to the Group by the end of the lease term;
- The option to purchase the aircraft at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- Whether the lease term covers the major part of the economic life of the aircraft even if the title is not transferred;
- Whether the present value of the minimum lease payment amounts to at least substantially all of the fair value of the leased asset at the inception of the lease. For classifying lease agreements as operating leases this ration should not exceed determined threshold during classification test performed by the Group.

As a basic measure of the fair value of the aircraft, the Group uses the value of the aircraft agreed upon in the respective lease agreement if there are no indicators that it should not be used.

For new 2017 lease agreements in which there were indicators that the aircraft value defined in the contract differs from the fair value, the Group involved an independent expert to determine the fair value of the aircraft.

We focused on this matter because the classification of leases involves applying significant judgements and estimates regarding the classification criteria underlined above.

How our audit addressed the key audit matter

Management assessed new aircraft lease arrangements entered in 2017 as operating or finance leases and provided us with the results of the assessment. We reviewed management’s assessment and analysed the lease arrangements entered during the reporting period selected on a sample basis for:

- transfer of the ownership of aircraft to the Group at the end of the lease term;
- the Group’s option to purchase the aircraft at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the aircraft lease term represents a major part of the aircraft’s economic life.

We performed independent calculations to assess whether the interest rate implicit in the lease or the Group’s incremental borrowing rate of interest had been reasonably determined. We reviewed whether the present value of minimum lease payments amounted to 90% or more of the fair value of the leased asset.

To verify the fair value of Airbus A320s and A321s leased by the Group in 2017, management engaged an external independent appraiser. Based on information on the fair value of the aircraft provided by the independent appraiser and analysis of other information, the Group classified these arrangements as operating leases.

We assessed the competence and objectivity of the independent appraiser, as well as the adequacy of the scope of work done. In particular, we performed the following procedures:

- review of the methodology used to determine the aircraft value, taking external factors into account;
- analysis of the conformity of the technical characteristics of the evaluated aircraft and similar aircraft;
- verification of the mathematical correctness of the calculations;
- test of the input data (type and production date) on aircraft and the cost of installed additional equipment (provided by management to the external expert).

For these items, if the ratio of the minimal lease payment to the fair value of the aircraft was between 80% and 95%, we performed a detailed analysis of all the terms of the lease agreements based on the criteria specified in IAS 17, Leases.

We verified that the related disclosures in the consolidated financial statements were consistent with the requirements of IAS 17, Leases.

None of the above procedures revealed any inconsistencies in the classification of the lease agreements or any other errors in the presentation of related information in the consolidated financial statements.

Key audit matter

Evaluation of goodwill impairment

See Note 23

As at 31 December 2017, the Group recognised goodwill in the amount of RUB 6 660 million, including RUB 6,502 million allocated to JSC Rossiya Airlines.

In accordance with IAS 36, Impairment of Assets, management tests the goodwill for impairment at least once a year.

As at 31 December 2017, the Group performed a test for the impairment of goodwill. As a result of the test, there was no need to recognise any impairment loss.

We focused on this matter due to the value of the goodwill as well as because the test for impairment involves applying significant judgements and estimates regarding the future results of business operations for each cash generating unit (CGU).

How our audit addressed the key audit matter

Management performed an impairment test and presented us with the outcome. The testing applied the value-in-use model based on discounted cash flows for the relevant CGU. We performed the following procedures in respect of the impairment model:

- We tested the mathematical accuracy of the allocation of goodwill to the Group’s companies and the consistency of such allocation with the requirements of IAS 36, Impairment of Assets.
- We evaluated and challenged the composition of management’s forecasts of future cash flows and the process of their preparation. In particular, we specifically focused on whether all relevant CGUs were identified.
- We compared the estimated seat occupancy rates, yield and cost of available seat-kilometre (CASK) rates to the actual rates for 2017.
- We assessed the reasonableness of the methodology for cash flow estimation applied to testing and checked the calculations for mathematical accuracy and consistency with the methodology set by IAS 36, Impairment of Assets.
- We analysed the key assumptions applied by management to their estimations through their benchmarking against available market data:
  - o aviation fuel prices, exchange rates and assumed long-term growth rate, by comparing them with independent projections;
  - o discount rate, by assessing the weighted average cost of capital for the Group companies and for their peers, subject to required adjustments.
- We identified that the results of testing are most sensitive to assumptions in respect of yield, seat occupancy and discount rate. We checked the sensitivity analysis of the key assumptions performed by management to come to the general conclusion on the absence of impairment, by analysing the results with the application of assumptions that, in our opinion, are sufficiently conservative.
- We checked the disclosures included in Note 23 to the consolidated financial statements, in terms of their completeness and consistency with the requirements imposed by IAS 36, Impairment of Assets.

As a result of these procedures, we came to the conclusion that the key assumptions applied by management for testing goodwill impairment and their conclusion that there was no impairment of goodwill as at the reporting date do not require any adjustments for the presentation of information in the consolidated financial statements.

# Independent Auditor’s Report

## continued

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, as well as the accounting processes and controls and the industry in which the Group operates.

We identified the following significant components in respect of which we carried out the audit:

- PJSC Aeroflot;
- JSC Rossiya Airlines;
- CJSC Aeromar.

The work in respect of material components was performed by the engagement team of AO PricewaterhouseCoopers Audit. We additionally performed substantive testing in respect of revenue for the reporting year for LLC Pobeda Airlines.

We also performed analytical procedures for other Group companies that, in our opinion, had no material qualitative or quantitative effect on the Group’s consolidated financial statements.

### Other information

Management is responsible for the other information. The other information includes the Annual Report and Issuer’s Report for the first quarter of 2018, but does not include the consolidated financial statements and our auditor’s report thereon. The Annual Report and Issuer’s Report for the first quarter of 2018 will be available to us after the date of the auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

### Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

- As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor’s report is Andrey Nikolaevich Korablev.

28 February 2018  
Moscow, Russian Federation

  
cence No. 01-000389), AO PricewaterhouseCoopers Audit

  
AUDITED ENTITY:  
State registration certificate No. 032.175  
issued by Moscow Registration Chamber on 21 June 1994  
Certificate of inclusion in the Unified State Register of Legal Entities  
issued on 02 August 2002 under No. 1027700092661  
119002, Russia, Moscow, 10 Arbat

**INDEPENDENT AUDITOR:**  
State registration certificate N° 008.890, issued by the Moscow Registration Chamber on 28 February 1992  
Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration N° 1027700148431  
Member of Self-regulated organisation of auditors «Russian Union of auditors» (Association) ORNZ 11603050547 in the register of auditors and audit organisations

# Consolidated Statement of Profit or Loss for the year ended 31 December 2017

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2017	2016
Traffic revenue	5	474,916	433,966
Other revenue	6	58,018	61,914
<b>Revenue</b>		<b>532,934</b>	<b>495,880</b>
Operating costs, excluding staff costs and depreciation and amortisation	7	(394,528)	(354,022)
Staff costs	8	(82,801)	(64,682)
Depreciation and amortisation	19, 22	(14,084)	(13,395)
Other operating income /(expenses), net	9	(1,110)	(527)
<b>Operating costs</b>		<b>(492,523)</b>	<b>(432,626)</b>
<b>Operating profit</b>		<b>40,411</b>	<b>63,254</b>
Loss from sale and impairment of investments, net	17	(144)	(2,935)
Finance income	10	7,127	19,802
Finance costs	10	(8,225)	(9,443)
Hedging result	10	(5,613)	(12,310)
Share of results of associates		170	12
Result from disposal of subsidiaries	21	-	(5,099)
<b>Profit before income tax</b>		<b>33,726</b>	<b>53,281</b>
Income tax	11	(10,666)	(14,455)
<b>PROFIT FOR THE YEAR</b>		<b>23,060</b>	<b>38,826</b>
<i>Profit for the year attributable to:</i>			
Shareholders of the Company		22,872	37,443
Non-controlling interest		188	1,383
<b>PROFIT FOR THE YEAR</b>		<b>23,060</b>	<b>38,826</b>
Profit per share – basic and diluted (in Roubles per share)		21.3	35.4
Weighted average number of shares outstanding		1,071.9	1,056.9

Approved on 28 February 2018 and signed on behalf of management



V.G. Saveliev  
General Director



Sh.R. Kurmashov  
Deputy General Director  
for Commerce and Finance

The Consolidated Statement of Profit or Loss should be read in conjunction with the notes set out on pages 200 to 250 which are forming part of the Consolidated Financial Statements

# Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2017	2016
<b>Profit for the year</b>		<b>23,060</b>	<b>38,826</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Profit from the change in fair value of hedging derivative financial instruments	24	-	4,485
Effect from hedging revenue with foreign currency liabilities	28	11,285	33,773
Deferred tax related to the effect on cash flow hedging instruments recognized in other comprehensive income	11	(2,257)	(7,725)
<b>Other comprehensive income for the year</b>		<b>9,028</b>	<b>30,533</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>32,088</b>	<b>69,359</b>
<i>Total comprehensive income attributable to:</i>			
Shareholders of the Company		31,900	67,976
Non-controlling interest		188	1,383
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>32,088</b>	<b>69,359</b>

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes set out on pages 200 to 250 which are forming part of the Consolidated Financial Statements

# Consolidated Statement of Financial Position as at 31 December 2017

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	45,978	31,476
Short-term financial investments	17	8,931	6,319
Accounts receivable and prepayments	14	92,932	78,172
Current income tax prepayment		3,580	2,679
Aircraft lease security deposits	13	423	320
Expendable spare parts and inventories	16	12,811	10,040
Assets classified as held for sale	20	3,125	1,140
Other current assets	42	422	-
<b>Total current assets</b>		<b>168,202</b>	<b>130,146</b>
<b>Non-current assets</b>			
Property, plant and equipment	19	97,932	104,897
Prepayments for aircraft	15	13,089	27,830
Deferred tax assets	11	10,396	12,252
Goodwill	23	6,660	6,660
Long-term financial investments	17	3,338	3,306
Intangible assets	22	2,054	1,825
Aircraft lease security deposits	13	1,602	2,181
Investments in associates		329	98
Other non-current assets	18	19,728	10,112
<b>Total non-current assets</b>		<b>155,128</b>	<b>169,161</b>
<b>TOTAL ASSETS</b>		<b>323,330</b>	<b>299,307</b>

The Consolidated Statement of Financial Position should be read in conjunction with the notes set out on pages 200 to 250 which are forming part of the Consolidated Financial Statements

	Note	31 December 2017	31 December 2016
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	25	67,953	49,868
Unearned traffic revenue		43,695	39,044
Deferred revenue related to frequent flyer programme	26	1,720	1,607
Provisions for liabilities	27	9,433	5,304
Finance lease liabilities	28	16,015	15,593
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	-	9,309
Liabilities related to assets held for sale	20	2,210	-
<b>Total current liabilities</b>		<b>141,026</b>	<b>120,725</b>
<b>Non-current liabilities</b>			
Long-term loans and borrowings	29	3,181	11,058
Finance lease liabilities	28	84,674	107,143
Provisions for liabilities	27	16,949	10,791
Deferred tax liabilities	11	68	39
Deferred revenue related to frequent flyer programme	26	3,842	3,623
Other non-current liabilities	30	6,291	5,159
<b>Total non-current liabilities</b>		<b>115,005</b>	<b>137,813</b>
<b>TOTAL LIABILITIES</b>		<b>256,031</b>	<b>258,538</b>
<b>Equity</b>			
Share capital	32	1,359	1,359
Treasury shares reserve		-	(3,571)
Accumulated profit on disposal of treasury shares	32	7,864	1,659
Investment revaluation reserve		(5)	(5)
Hedging reserve	24, 28	(25,159)	(34,187)
Retained earnings		81,476	77,198
<b>Equity attributable to shareholders of the Company</b>		<b>65,535</b>	<b>42,453</b>
Non-controlling interest		1,764	(1,684)
<b>TOTAL EQUITY</b>		<b>67,299</b>	<b>40,769</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>323,330</b>	<b>299,307</b>

The Consolidated Statement of Financial Position should be read in conjunction with the notes set out on pages 200 to 250 which are forming part of the Consolidated Financial Statements

# Consolidated Statement of Cash Flows for the year ended 31 December 2017

(All amounts in millions of Russian Roubles, unless otherwise stated)

	Note	2017	2016
<b>Cash flows from operating activities:</b>			
Profit before income tax		33,726	53,281
Adjustments for:			
Depreciation and amortisation	19,22	14,084	13,395
Change in impairment provision for accounts receivable and prepayment	9	(338)	2,217
Change in impairment provision for obsolete expendable spare parts and inventory		(99)	216
Change in provision for impairment of property, plant and equipment	19	(24)	(36)
Loss on disposal of property, plant and equipment		852	885
Loss on disposal of subsidiaries	21	-	5,099
Loss on sale and impairment of investments, net		144	2,935
Loss on change in the fair value of derivative financial instruments	10	-	53
Realised hedging	10	5,613	12,310
Change in provisions for liabilities	9,27	11,190	6,628
Interest expense	10	8,179	8,907
Interest income	10	(4,718)	(4,169)
Foreign exchange gain	10	(2,409)	(15,597)
Other finance expense/(income), net	10	46	447
Dividend income		(88)	(29)
Gain on disposal of assets classified as held for sale		(182)	(2,784)
Other operating income, net		(646)	(1,764)
<b>Total operating cash flows before working capital changes</b>		<b>65,330</b>	<b>81,994</b>
Change in accounts receivable and prepayments		(27,816)	(6,191)
Change in expendable spare parts and inventories		(2,672)	(2,809)
Change in accounts payable and accrued liabilities		24,964	13,387
<b>Total operating cash flows after working capital changes</b>		<b>59,806</b>	<b>86,381</b>
Change in restricted cash	42	(435)	20
Income tax paid		(13,019)	(13,943)
Income tax refunded		1,080	1,189
<b>Net cash flows from operating activities</b>		<b>47,432</b>	<b>73,647</b>

	Note	2017	2016
<b>Cash flows from investing activities:</b>			
Deposits return		13,649	9,840
Deposits placement		(16,300)	(10,435)
Proceeds from sale of property, plant and equipment		88	84
Proceeds from sale of subsidiary		-	9
Proceeds from sale of assets held for sale		1,856	6,471
Purchases of property, plant and equipment and intangible assets	19,22	(7,681)	(10,222)
Interest received		4,241	3,065
Dividends received		59	62
Prepayments for aircraft	18	(7,931)	(18,806)
Return of prepayments for aircraft	18	26,274	29,362
Payment of operating lease security deposits	13	(211)	(2,504)
Return of operating lease security deposits	13	325	3,405
<b>Net cash flows from investing activities</b>		<b>14,369</b>	<b>10,331</b>
<b>Cash flows from financing activities:</b>			
Proceeds from loans and borrowings	29	-	30,885
Repayment of loans and borrowings	29	(17,417)	(72,991)
Proceeds from sale of own shares		9,730	-
Repayment of the principal element of finance lease liabilities	28	(15,513)	(27,024)
Interest paid		(4,762)	(6,954)
Dividends paid		(18,859)	(49)
Repayment on settlement of derivative financial instruments, net	24	-	(4,362)
<b>Net cash used in financing activities</b>		<b>(46,821)</b>	<b>(80,495)</b>
Effect of exchange rate fluctuations on cash and cash equivalents		(478)	(2,700)
<b>Net increase in cash and cash equivalents</b>		<b>14,502</b>	<b>783</b>
Cash and cash equivalents at the beginning of the year	12	31,476	30,693
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b>45,978</b>	<b>31,476</b>
<i>Non-cash transactions as part of the investing activities:</i>			
Property, plant and equipment acquired under finance leases		1,872	2,170

# Consolidated Statement of Changes in Equity for the year ended 31 December 2017

(All amounts in millions of Russian Roubles, unless otherwise stated)

Equity attributable to shareholders of the Company									
	Note	Share capital	Accumulated profit on disposal of treasury shares less treasury shares reserve	Investment revaluation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
<b>1 January 2016</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(64,720)</b>	<b>39,755</b>	<b>(25,523)</b>	<b>(10,597)</b>	<b>(36,120)</b>
<b>Profit for the year</b>		-	-	-	-	37,443	37,443	1,383	38,826
Profit from the change in fair value of derivative financial instruments and the effect of hedge net of related deferred tax	24, 28	-	-	-	30,533	-	30,533	-	30,533
<b>Total other comprehensive income</b>							<b>30,533</b>	<b>-</b>	<b>30,533</b>
<b>Total comprehensive income</b>							<b>67,976</b>	<b>1,383</b>	<b>69,359</b>
Subsidiary company disposal	21	-	-	-	-	-	-	7,579	7,579
Dividends declared		-	-	-	-	-	-	(49)	(49)
<b>31 December 2016</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(34,187)</b>	<b>77,198</b>	<b>42,453</b>	<b>(1,684)</b>	<b>40,769</b>
<b>1 January 2017</b>		<b>1,359</b>	<b>(1,912)</b>	<b>(5)</b>	<b>(34,187)</b>	<b>77,198</b>	<b>42,453</b>	<b>(1,684)</b>	<b>40,769</b>
<b>Profit for the year</b>		-	-	-	-	22,872	22,872	188	23,060
Profit from the change in fair value of derivative financial instruments and the effect of hedge net of related deferred tax	24, 28	-	-	-	9,028	-	9,028	-	9,028
<b>Total other comprehensive income</b>							<b>9,028</b>	<b>-</b>	<b>9,028</b>
<b>Total comprehensive income</b>							<b>31,900</b>	<b>188</b>	<b>32,088</b>
Disposal of treasury shares		-	9,776	-	-	-	9,776	-	9,776
Sale of shares to holders of non-controlling interest		-	-	-	-	-	-	3,589	3,589
Dividends declared		-	-	-	-	(18,594)	(18,594)	(329)	(18,923)
<b>31 December 2017</b>		<b>1,359</b>	<b>7,864</b>	<b>(5)</b>	<b>(25,159)</b>	<b>81,476</b>	<b>65,535</b>	<b>1,764</b>	<b>67,299</b>

# Notes to the Consolidated Financial Statements for the year ended 31 December 2017

(All amounts in millions of Russian Roubles, unless otherwise stated)

## 1. Nature of the Business

Aeroflot-Russian Airlines (the “Company” or “Aeroflot”) was formed as an open joint stock company in accordance with a Russian Federation Government decree issued in 1992 (hereinafter, the “1992 Decree”). The 1992 Decree conferred all the rights and obligations of Aeroflot-Soviet Airlines and its structural units upon the Company, including inter-governmental bilateral agreements and agreements signed with foreign airlines and civil aviation enterprises. Under Russian Federation Presidential Decree No. 1009 of 4 August 2004, the Company was included in the official List of Strategic Entities and Strategic Joint Stock Companies.

The Company’s principal activities are the provision of passenger and cargo air transportation services, both domestically and internationally, and other aviation services from Moscow Sheremetyevo Airport. The Company and its subsidiaries (the “Group”) are also involved in airline catering and hotel operations. Associated entities mainly comprise aviation security services and other ancillary services.

During 2016 the Group disposed of OJSC Vladivostok Avia and CJSC Aeroflot-Cargo as a result of their liquidation in May and September, respectively (Note 21).

As at 31 December 2017 and 2016, the Government of the Russian Federation (the “RF”) as represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Company’s headquarters are located in Moscow at 10 Arbat Street, 119002, RF.

The principal subsidiaries are:

Company name	Registered address	Principal activity	31 December 2017	31 December 2016
JSC Rossiya airlines (“AK Rossiya”)	St. Petersburg, RF	Airline	75% minus one share	75% minus one share
LLC Pobeda Airlines (“Pobeda”)	Moscow, RF	Airline	100.00%	100.00%
JSC Aurora Airlines (“AK Aurora”)	Yuzhno-Sakhalinsk, RF	Airline	51.00%	51.00%
LLC Aeroflot-Finance (“Aeroflot-Finance”)	Moscow, RF	Finance services	100.00%	100.00%
CJSC Aeromar	Moscow Region, RF	Catering	51.00%	51.00%
JSC Sherotel	Moscow Region, RF	Hotel	100.00%	100.00%
LLC A-Technics	Moscow, RF	Technical maintenance	100.00%	100.00%
JSC Orenburg airlines (“Orenburgavia”)	Orenburg, RF	Airline	100.00%	100.00%
JSC Donavia (“Donavia”)	Rostov-on-Don, RF	Airline	100.00%	100.00%

The Group’s major associate is:

Company name	Registered address	Principal activity	31 December 2017	31 December 2016
CJSC Sheremetyevo Bezopasnost	Moscow Region, RF	Aviation security	45.00%	45.00%

The table below provides information on the Group’s aircraft fleet as at 31 December 2017 (number of items):

Type of aircraft	Ownership	PJSC Aeroflot	AK Rossiya	AK Aurora	AK Pobeda	Group total
An-24	Owned	-	-	1	-	1
DHC 8-Q300	Owned	-	-	1	-	1
DHC 8-Q402	Owned	-	-	5	-	5
Total owned aircraft		-	-	7	-	7
Airbus A319	Finance lease	-	9	-	-	9
Airbus A321	Finance lease	13	-	-	-	13
Airbus A330	Finance lease	8	-	-	-	8
Boeing B777	Finance lease	10	-	-	-	10
An-148	Finance lease	-	6	-	-	6
Total aircraft under finance leases		31	15	-	-	46
SSJ 100	Operating lease	37	-	-	-	37
Airbus A319	Operating lease	-	17	10	-	27
Airbus A320	Operating lease	75	5	-	-	80
Airbus A321	Operating lease	25	-	-	-	25
Airbus A330	Operating lease	14	-	-	-	14
Boeing B737	Operating lease	36	16	-	16	68
Boeing B747	Operating lease	-	9	-	-	9
Boeing B777	Operating lease	6	5	-	-	11
DHC 8-Q200	Operating lease	-	-	2	-	2
DHC 8-Q300	Operating lease	-	-	3	-	3
DHC 6-400	Operating lease	-	-	3	-	3
Total aircraft under operating leases		193	52	18	16	279
TOTAL FLEET		224	67	25	16	332

As at 31 December 2017, 6 An-148 and 1 An-24 aircraft were leased out.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017  
(All amounts in millions of Russian Roubles, unless otherwise stated)  
continued

2. Basis of Preparation and Accounting Policies

Basis of presentation

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010. The Consolidated Financial Statements are presented in millions of Russian Roubles ("RUB million"), except where specifically noted otherwise.

These Consolidated Financial Statements have been prepared on the historical cost convention except for financial instruments which are initially recognised at fair value, financial assets available for sale and financial instruments measured at fair value through profit or loss, as well as derivative financial instruments to which specific hedge accounting rules are applicable. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented in these Consolidated Financial Statements, unless otherwise stated.

All significant subsidiaries directly or indirectly controlled by the Group are included in these Consolidated Financial Statements. A list of the Group's principal subsidiaries is set out in Note 1.

Going concern

Management prepared these Consolidated Financial Statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB" or "rouble"), the presentation currency of the Group's Consolidated Financial Statements is the Russian Rouble as well.

Consolidation

Subsidiaries represent investees, including structured entities, which the Group controls, as the Group:

- (i) has the powers to control significant operations which has a considerable impact on the investee's income,
- (ii) runs the risks related to variable income from its involvement with investee or is entitled to such income, and
- (iii) is able to use its powers with regard to the investee in order to influence the amount of its income.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the

Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Subsidiaries are included in the Consolidated Financial Statements at the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities received in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured through the deduction of net assets of the acquired entity from the total of the following amounts: consideration transferred for the acquired entity, non-controlling share in the acquiree and fair value of the existing equity interest in the acquiree held immediately by the Group before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

The Group measures non-controlling interest that represents the ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at:

- a) fair value, or
- b) in proportion to the non-controlling share in the net assets of the acquiree.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Company and its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the Consolidated Statement of Changes in Equity.

Investments in associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows:

- (i) the Group's share of profits or losses of associates is included in the Consolidated Statement of Profit or Loss for the year as a share of financial results of equity accounted investments,
- (ii) the Group's share in other comprehensive income is recorded as a separate line item in other comprehensive income,
- (iii) all other changes in the Group's share of the carrying value of net assets of the associates are recorded in the Consolidated Statement of Profit or Loss within the share of financial results of equity accounted investments.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the associate's assets.

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest in an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group performs goodwill impairment testing at least on an annual basis and whenever there are indications that goodwill may be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently recovered. Goodwill is allocated to the cash generating units (namely, the Group's subsidiaries or business units). These units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017  
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Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into each entity’s functional currency at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) at the respective end of the reporting period. Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currency and from the translation of monetary assets and liabilities denominated in foreign currency into each entity’s functional currency at year-end official exchange rates of the CBRF are recognised in the Consolidated Statement of Profit or Loss for the year within finance income or costs except for foreign exchange differences arising on translation of hedge financial instruments. Foreign exchange differences on hedge instruments are recognised in other comprehensive income.

Translation at year-end rates does not apply to non-monetary items in the Consolidated Statement of Financial Position that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The table below presents official US Dollar and Euro to rouble exchange rates used for the translation of monetary assets and liabilities into foreign currencies:

	Official exchange rates	
	Roubles for 1 US Dollar	Roubles for 1 Euro
Average rate for 2017	58.35	65.90
31 December 2017	57.60	68.87
Average rate for 2016	67.03	74.23
31 December 2016	60.66	63.81

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes.

*Passenger revenue:* Ticket sales are reported as traffic revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the reporting date is reported in the Group’s Consolidated Statement of Financial Position in a separate line item (unearned traffic revenue) within current liabilities. This item is reduced either when the Group completes the transportation service or when the passenger requests a refund. Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the reporting date based on an analysis of historical patterns of actual income from unused tickets. Commissions, which are payable to the sales agents are recognised as sales and marketing expenses within operating costs in the Consolidated Statement of Profit or Loss in the period of ticket sale by agents.

Passenger revenue includes revenue from code-share agreements with certain other airlines as per which the Group and other airlines sell seats for each other’s flights (“code-share agreements”). Revenue from the sale of code-share seats on other airlines is recorded at the moment of the transportation service provision and is accounted for net in Group’s passenger revenue in the Consolidated Statement of Profit or Loss. Revenue from the sale of code-share seats on Group’s flights by other airlines are recorded at the moment of the transportation service provision and is fully accounted for in the Group’s traffic revenue in the Consolidated Statement of Profit or Loss.

*Cargo revenue:* The Group’s cargo transport services are recognised as revenue when the air transportation is provided. The value of cargo transport services sold but not yet provided is reported in the Group’s Consolidated Statement of Financial Position in a separate line item (unearned traffic revenue) within current liabilities.

*Catering:* Revenue is recognised when meal packages are delivered to the aircraft, as this is the date when the risks and rewards of ownership are transferred to customers.

*Other revenue:* Revenue from bilateral airline agreements is recognised when earned with reference to the terms of each agreement. Hotel accommodation revenue is recognised when the services are provided. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped to the customer. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues from sale of services are recognised in the period in which the services were rendered.

Segment information

The Group determines and presents operating segments based on the information that internally is provided to the General Director of the Group, who is the Group’s chief operating decision maker. Segments whose revenue, financial result or assets are not less than ten percent or more of all the segments are reported separately.

Intangible assets

The Group’s intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software with the useful life of 5 years. Intangible assets are amortised using the straight-line method over their useful lives. Acquired licenses for computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Property, plant and equipment

Property, plant and equipment are reported at cost, less accumulated depreciation and impairment losses (where appropriate). Depreciation is calculated in order to allocate the cost (less estimated residual value where applicable) over the remaining useful lives of the assets.

(a) Fleet

- (i) *Owned aircraft and engines:* Owned fleet consists of foreign-made aircraft, engines are both Russian and foreign-made. The full list of aircraft is presented in Note 1.
- (ii) *Finance leased aircraft and engines:* Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright.
- (iii) *Capitalised costs on regular maintenance works and repairs of aircraft operated under finance lease:* Expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are capitalised. The carrying amount of those parts that are replaced is derecognised from the Group’s Consolidated Statement of Financial Position and included in operating costs in the Group’s Consolidated Statement of Profit or Loss. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and maintenance costs of aircraft are expensed as incurred and included in operating costs (aircraft maintenance) in the Group’s Consolidated Statement of Profit or Loss.
- (iv) *Depreciation of fleet:* The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life or lease term, if it is shorter. The airframe, engines and interior of aircraft are depreciated separately over their respective estimated useful lives.

The Group’s fleet and other fixed assets have the following useful lives:

Airframes of aircraft	20-32 years
Engines	8-10 years
Interiors	5 years
Buildings	15-50 years
Facilities and transport vehicles	3-5 years
Other non-current assets	1-5 years

- (v) *Capitalised leasehold improvements:* Capitalised costs that relate to the rented fleet are depreciated over the shorter of: their useful lives and the lease term.

(b) Land, buildings and other plant and equipment

Property, plant and equipment is stated at the historical US Dollar cost recalculated at the exchange rate on 1 January 2007, the date of the change of the functional currency of the Company and its major subsidiaries from the US Dollar to the Russian Rouble or at the historical cost if property, plant and equipment was acquired after specified date. Depreciation is accrued based on the straight-line method on all property, plant and equipment based upon their expected useful lives or, in the case of leasehold properties, over the duration of the leases or useful life if it is shorter. The useful lives of the Group’s property, plant and equipment range from 1 to 50 years. Land is not depreciated.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017  
(All amounts in millions of Russian Roubles, unless otherwise stated)  
continued

(c) Construction in progress

Construction in progress represents costs related to construction of property, plant and equipment, including corresponding variable out-of-pocket expenses directly attributable to the cost of construction, as well the acquisition cost of other assets that require assembly or any other preparation. The carrying value of construction in progress is regularly analysed for the potential accrual of the impairment provision.

Gain or loss on disposal of property, plant and equipment

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Group's Consolidated Statement of Profit or Loss within operating income or expenses.

Finance lease

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of: the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between the outstanding liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Corresponding lease liabilities net of future interest expenses are recorded as a separate line item (finance lease liabilities) within current and non-current liabilities in the Group's Consolidated Statement of Financial Position. Interest expenses within lease payments are charged to profit or loss over the lease terms using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Customs duties, legal fees and other initial direct costs increase the total amount recorded in assets in the Group's Consolidated Statement of Financial Position. The interest component of lease payments included in financial costs in the Group's Consolidated Statement of Profit or Loss.

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the Consolidated Statement of Financial Position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's Consolidated Statement of Financial Position are not reclassified or re-presented in the comparative Consolidated Statement of Financial Position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs on disposal. Held for sale property, plant and equipment are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the Consolidated Statement of Financial Position.

Capitalisation of borrowing costs

Borrowing costs including interest accrued, foreign exchange difference and other costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (the «qualifying assets») are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The Group considers prepayments for aircraft as the qualifying asset with regard to which borrowing costs are capitalised.

The capitalisation starts when the Group:

- (a) bears expenses related to the qualifying asset;
- (b) bears borrowing costs; and
- (c) takes measures to get the asset ready for intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs related to capital expenditure made on qualifying assets.

Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Impairment of property, plant and equipment

At each reporting date the management reviews its property, plant and equipment to determine whether there is any indication of impairment of those assets. If any such indication exists, the recoverable amount of the asset is estimated by management as the higher of: an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recorded within operating costs in the Group's Consolidated Statement of Profit or Loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Related direct expenses including customs duties for imported leased aircraft are recognised within non-current assets at the time of the aircraft transfer and amortised using a straight-line method over the term of lease agreement. Amortisation charges are recognised within operating costs. In compliance with the customs legislation of the Russian Federation, the Group pays customs duties in instalments, and therefore customs duties payment obligations are initially recognised at amortised cost.

The operating lease agreements include requirements to perform regular repairs and maintenance works during the lease term. Accordingly, the Group accrues a provision in the amount of discounted expenses needed to perform regular repairs and maintenance works. The estimated expenses are based on the most reliable data available at the time of such estimation. The provisions of the operating lease agreements, age and condition of the aircraft and engines, market value of fixtures, key parts and components subject to replacement and the cost of required work are taken into account. The provision is recorded at the discounted value.

The costs of regular capital repairs and maintenance works performed for aircraft held under finance lease are capitalized and amortized over the shorter of (i) the scheduled usage period to the next major inspection event or (ii) the remaining life of the asset or (iii) remaining lease term.

Aircraft lease security deposits

Aircraft lease security deposits represent amounts paid to the lessors of aircraft in accordance with the provisions of operating lease agreements. These security deposits are returned to the Group at the end of the lease period. Security deposits related to lease agreements are presented separately in the Consolidated Statement of Financial Position (aircraft lease security deposits) and recorded at amortised cost.

Classification of financial assets

Financial assets have the following categories: a) loans and receivables, b) financial assets available for sale, and c) financial assets measured at fair value through profit or loss, which are recognised in this category from the date of the initial recognition.

*Loans and receivables* are unquoted on active market non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

*Derivative financial instruments*, including currency and interest rate options, fuel options, and currency and interest rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year, except for instruments subject to special hedge accounting rules, whose fair value changes are recorded in other comprehensive income.

All other financial assets are included in the *available-for-sale category*, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities

Financial liabilities have the following measurement categories: a) held for trading, which also includes financial derivatives, and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

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Financial instruments – key measurement terms

Depending on their classification, financial instruments are carried at fair value, cost or amortised cost, as described below.

*Fair value* – is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if: (a) the Group manages the group of financial assets and financial liabilities on the basis of the Company's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy; (b) the Group provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the Group's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Financial instrument measured at fair value are analysed by levels of the fair value hierarchy as follows:

- (i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (iii) level 3 measurements, which are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, minus or plus accrued interest, and for financial assets - less any write-down (direct or through the valuation provision account) for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the Consolidated Statement of Financial Position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. *The effective interest rate* is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents and advisors, levies by regulatory agencies and securities exchanges, and transfer taxes and duties imposed on property transfer. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Initial recognition of financial instruments

Derivative financial instruments, including financial instruments subject to special hedge accounting rules, are initially recognised at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Company/Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and liabilities

The Group derecognises financial assets when:

- (a) the assets are redeemed or the rights to cash flows from the assets expired, or
- (b) the Group has transferred the rights to the cash flows from financial assets or entered into a transfer agreement, while:
  - (i) also transferring all substantial risks and rewards of ownership of the assets, or
  - (ii) neither transferring nor retaining all substantial risks and rewards of ownership but losing control over such assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group removes a financial liability (or a part of a financial liability) from its Consolidated Statement of Financial Position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is be recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges for a highly probable forecast transaction (cash flow hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 24. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Profit or Loss as a separate line below operating result of the Group.

Amounts accumulated in equity are reclassified to profit or loss (as profit or loss from financing activities) in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Profit or Loss within gains and losses from financing activities as a separate line.

The hedging result in the Consolidated Statement of Profit or Loss is the change in the fair value of the hedging derivative financial instruments (realized hedging) and the reverse effect of the hedging risk impact on the related hedge transactions recorded in operating activities.

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Available-for-sale investments

Available for sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and short-term highly liquid investments (including bank deposits) with contractual maturities of ninety days or less, earning interest income. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets in the Group's Consolidated Statement of Financial Position.

Cash flows arising from the receipt of interests are classified as cash flows from investing activities in the Statement of Cash Flows.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are individually recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Doubtful accounts receivable balances are assessed individually and any impairment losses are included in other operating costs in the Group's Consolidated Statement of Profit or Loss.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Prepayments

In these Consolidated Financial Statements, prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are included to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the Group's Consolidated Statement of Profit or Loss for the year.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Loans and borrowings

Loans and borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Short-term loans and borrowings comprise:

- interest bearing loans and borrowings with a term shorter than one year;
- current portion of long-term loans and borrowings.

Long-term loans and borrowings include liabilities with the maturity exceeding one year.

Expendable spare parts and inventories

Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower.

The costs are determined as the actual acquisition cost of spare parts for aircraft maintenance and as the cost of other inventories on the first-in, first-out ("FIFO") basis.

The Group writes off the full amount of obsolete inventories which the Group does not plan to continue using in its operations.

Value added taxes

Value added tax ("VAT") related to sales of goods or provision of services is recorded as a liability to the tax authorities on an accruals basis. Domestic flights in general are subject to VAT at 10% and international flights are subject to VAT at 0%. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported leased aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT. The recovery of input VAT is typically delayed by up to six months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the date of the Consolidated Statement of Financial Position is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the Consolidated Statement of Financial Position as VAT receivable. VAT receivable that is not expected to be recovered within the twelve months from the reporting date is classified as a non-current asset. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT.

Frequent flyer programme

Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot-Bonus. Subject to the programme's terms, to stimulate interest in using the Company's services, Aeroflot-Bonus miles are awarded for the use of the Group's services and its partners, as well as free promo miles to encourage participation in the programme. The miles earned entitle members to a number of benefits such as free flights, flight class upgrades and redeem miles for special awards from programme partners if the additional conditions of the programme are met.

In accordance with IFRIC 13 Customer Loyalty Programmes, the fair value of miles accumulated on the Group's own flights but not used by Aeroflot-Bonus participants is recognised under current and non-current deferred revenue related to frequent flyer programme (Note 26) within current and non-current liabilities, respectively, in the Group's Consolidated Statement of Financial Position.

The fair value of miles accumulated by Aeroflot-Bonus participants for using services provided by the partners of the programme is recognised as other current and non-current liabilities related to frequent flyer programme (Notes 25 and 30) in accounts payable and accrued liabilities in the Group's Consolidated Statement of Financial Position.

The fair value of the accumulated bonus miles is the same for the miles earned by the participants on the Group's own flights and the accumulated by the participants for using the services of the programme partners.

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Other accrued liabilities related to promo miles accumulated but not used, the cost of which reflects the best estimate of the cost required to settle an existing liability in accordance with IAS 37 «Provisions, Contingent Liabilities and Contingent Assets» are recognised within accounts payable and accrued liabilities, respectively, in the Group's Consolidated Statement of Financial Position.

With the use of bonus miles, revenue from the loyalty programme is recognized when services are provided to program participants by reducing current deferred revenue and other current liabilities.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

Provisions for liabilities

Provisions for liabilities are recognised if, and only if, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate (Note 27). Where the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax

Income taxes have been provided for in the Consolidated Financial Statements in accordance with legislation using tax rates and legislative regulations enacted or substantively enacted at the end of the reporting period. Income tax expense/benefit comprises current and deferred tax and is recognised in the Consolidated Statement of Profit or Loss for the year, unless it should be recorded within other comprehensive income or directly in equity since it relates to transactions which are also recognised within other comprehensive income or directly in equity in this or any other period.

Current tax is the amount expected to be paid to or recovered from budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the Consolidated Financial Statements are authorised prior to filing relevant tax returns. Other tax expenses, except from the income tax, are recorded within other operating costs in the Group's Consolidated Statement of Profit or Loss.

Deferred income tax is provided using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilised.

Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Uncertain income tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Pensions

The Group makes certain payments to employees on retirement. These obligations represent obligations under a defined benefit pension plan. For such plans the pension accounting costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the Consolidated Statement of Profit or Loss in order to spread the regular cost over the service lives of employees. Actuarial gains and losses are recognised in other comprehensive income immediately. The pension liability for non-retired employees is calculated based on a minimum annual pension payment and do not include increases, if any, to be made by management in the future. Where such post-employment employee benefits fall due more than twelve months after the reporting date they are discounted using a discount rate determined by reference to the government bond yields at the reporting date.

The Group also participates in a defined contribution plan, under which the Group has committed to making additional contributions as a percentage (20% in 2017) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Share-based compensation

he title to future equity compensations (shares or share options) to employees for the provided services is measured at fair value of these instruments at the date of the transfer and is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to these awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The effect of revisiting initial estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

Services, including employee services received in exchange for cash-settled share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed or capitalised as assets, which are depreciated or amortised. The liability is re-measured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

Treasury shares purchased

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. The Company's shares, which are held as treasury stock or belong to the Company's subsidiaries, are reflected as a reduction of the Group's equity.

The sale or re-issue of such shares does not impact net profit for the current year and is recognised as a change in the shareholders' equity of the Group. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

Dividend distributions and payments by the Company are recorded net of the dividends related to treasury shares.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved by the shareholders in the General Shareholders' Meeting.

Earnings/loss per share

Earnings per share are determined by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of participating shares outstanding during the reporting year. The calculation of diluted earnings per share includes shares planned to be used in the option programme when the average market price of ordinary shares for the period exceeds the exercise price of the options.

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3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives and residual value of property, plant and equipment

The assessment of the useful lives of property, plant and equipment and their residual value are matters of management judgement based on the use of similar assets in prior periods. To determine the useful lives and residual value of property, plant and equipment, management considers the following factors: nature of the expected use, estimated technical obsolescence and physical wear. A change in each of the above conditions or estimates may require the adjustment of future depreciation expenses.

Value of tickets which were sold, but will not be used

Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the reporting date based on an analysis of historical income from unused tickets. The assessment of the probability that the tickets will not be used is a matter of management judgement. A change in these estimates may require the adjustment to the revenue amount in the Consolidated Statement of Profit or Loss (Note 5) and to the unearned traffic revenue in the Consolidated Statement of Financial Position.

Frequent flyer programme

At the reporting date, the Group estimates and recognises the liability pertaining to air miles earned by Aeroflot Bonus programme members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value. The assessment of the fair value of a bonus mile, as well as the management's expectations regarding the amount of miles to be used by Aeroflot Bonus members, are a matter of management judgement. A change in these estimates may require the adjustment of deferred revenue, other current and non-current liabilities related to frequent flyer programme in the Consolidated Statement of Financial Position (Note 26) and adjustment to revenue in the Consolidated Statement of Profit or Loss (Note 5).

Compliance with tax legislation

Compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities (Note 42).

Classification of a lease agreement as operating and finance lease

Management applies professional judgement with regard to the classification of aircraft lease agreements as operating and finance lease agreements in order to determine whether all significant risks and rewards related to the ownership of an asset are transferred to the Group in accordance with the agreement and which risks and rewards are significant. A change in these estimates may require a different approach to aircraft accounting.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of each cash generating unit was determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 23.

Deferred tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from income tax expense and is recorded in the Consolidated Statement of Financial Position. Deferred income tax assets are recognised to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

4. Adoption of New or Revised Standards and Interpretations

New standards and interpretations effective from 1 January 2017

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group.

**Disclosure Initiative – Amendments to IAS 7** (issued on 29 Jan 2016 and effective for the periods beginning on or after 1 January 2017). The Group has disclosed the required information in Note 37 of these Consolidated Financial Statements;

**Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12** (issued on 19 January 2016 and effective for the periods beginning on or after 1 January 2017);

**Annual Improvements to IFRS 2014 – 2016 cycle** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12.

New Accounting standards and Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted:

**IFRS 9 “Financial Instruments: Classification and Measurement”** (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The main differences between the new standard, which may affect the Group's Consolidated Financial Statements at the date of application, are as follows: investments in equity instruments should always be measured at fair value. In this case, management can make a decision that can not be revised on the reflection of changes in fair value in other comprehensive income, if the instrument is not intended for trade. If an equity instrument is held for trade, changes in fair value are recognized in profit or loss. IFRS 9 introduces a new model for recognition of impairment losses: a model of expected credit losses. There is a «three-step» approach based on changing the credit quality of financial assets from the moment of initial recognition. In practice, the new rules mean that organizations, upon initial recognition of financial assets, will immediately recognize losses in the amount of expected credit losses for the 12 months that are not credit impairment losses (or in the amount of expected credit losses for the entire period of the financial instrument for trade receivables). If there has been a significant increase in credit risk, the impairment is estimated based on expected credit losses for the entire life of the financial instrument, rather than on the basis of expected credit losses for 12 months. The model provides for operational simplification of trade receivables and finance lease receivables.

The hedge accounting requirements have been adjusted to be more consistent with accounting of risk management. The standard provides organizations with the option to choose between accounting policies applying the hedge accounting requirements of IFRS 9 and continuing the application of IAS 39 to all hedging instruments, as the standard does not currently include accounting for macro hedging events.

According to IFRS 9, financial assets are to be classified in three valuation categories: subsequently measured at amortized cost, subsequently measured at fair value through profit or loss, which are recognized in Other Comprehensive Income, and measured at fair value through profit or loss. The classification of debt instruments depends on the business model of the organization for the management of financial assets and on whether the contractual cash flows are only payments to the principal and interest.

The Group is currently assessing the impact of this standard on its Consolidated Financial Statements. The assessment will be completed by the release of the Group's Condensed Consolidated Interim Financial Statements for the 1st quarter of 2018.

**IFRS 15 “Revenue from contracts with customers” with amendments made on 12 April 2016** (issued on 28 May 2014, effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. It is expected that this standard will not have a significant impact on the Group's Consolidated Financial Statements.

**IFRIC 22 “Foreign currency transactions and advance consideration”** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements;

**IFRS 16 “Leases”** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements;

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**IFRS 17 “Insurance Contracts”** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021); The Group is currently assessing the impact of the new standard on its financial statements;

**IFRIC 23 “Uncertainty over Income Tax Treatments”** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements;

It is expected that this standard will not have a significant impact on the Group’s Consolidated Financial Statements;

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after the date of approval by IASB);

**Amendments to IFRS 2 “Share-based payments”** (issued on 20 June 2016 and effective for annual periods on or after 1 January 2018);

**Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4** (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

**Transfers of Investment Property - Amendments to IAS 40** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

**Annual Improvements to IFRS 2014 – 2016 cycle - Amendments to IAS 1 and IAS 28** (issued on 8 December 2016 and effective for the periods beginning on or after 1 January 2018).

**Prepayment Features with Negative Compensation - Amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);

**Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28** (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019).

**Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

**Amendments to IAS 19 “Employee Benefits”** (issued on February 7, 2018 and effective for annual periods beginning on or after 1 January 2019).

5. Traffic Revenue

	2017	2016
Scheduled passenger flights	427,529	403,760
Charter passenger flights	30,861	17,617
Cargo flights	16,526	12,589
<b>Total traffic revenue</b>	<b>474,916</b>	<b>433,966</b>

6. Other Revenue

	2017	2016
Airline agreements revenue	33,196	35,923
Revenue from partners under frequent flyer programme	11,588	11,846
Refuelling services	199	2,515
In-flight catering services	1,670	1,429
Sales of duty free goods	1,530	1,349
Ground handling and maintenance	1,253	1,382
Hotel revenue	448	491
Other revenue	8,134	6,979
<b>Total other revenue</b>	<b>58,018</b>	<b>61,914</b>

7. Operating Costs Less Staff Costs and Depreciation and Amortisation

	2017	2016
Aircraft servicing and ground handling	76,332	70,908
Operating lease expenses	65,793	59,563
Aircraft maintenance	36,433	38,236
Sales and marketing expenses	17,749	13,887
Communication expenses	14,795	14,697
Administration and general expenses	18,390	16,407
Passenger services expenses	20,086	16,319
Food cost for in-flight catering	10,425	8,714
Insurance expenses	2,025	2,059
Customs duties	1,520	1,355
Cost of duty-free goods sold	836	732
Other expenses	7,459	9,563
<b>Operating costs less aircraft fuel, staff costs and depreciation and amortisation</b>	<b>271,843</b>	<b>252,440</b>
Aircraft fuel	122,685	101,582
<b>Total operating costs less staff costs and depreciation and amortisation</b>	<b>394,528</b>	<b>354,022</b>

8. Staff Costs

	2017	2016
Wages and salaries	63,842	50,885
Pension costs	12,669	10,577
Social security costs	6,290	3,220
<b>Total staff costs</b>	<b>82,801</b>	<b>64,682</b>

Pension costs include:

- compulsory payments to the Pension Fund of the RF;
- contributions to a non-governmental pension fund under a defined contribution pension plan under which the Group makes additional pension contributions as a fixed percentage (20% for 12 months of 2017; 20% for 12 months of 2016) of the transfers made personally by employees participating in the programme; and
- an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under defined benefit pension plans.

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	2017	2016
Payments to the RF Pension Fund	12,650	10,574
Change in liabilities for pension plans	19	3
<b>Total pension costs</b>	<b>12,669</b>	<b>10,577</b>

## 9. Other Operating Income and Expenses, Net

	2017	2016
Reimbursement of fuel excise tax	7,889	5,972
Profit on disposal of assets classified as held for sale	182	2,784
Fines and penalties received from suppliers	661	753
Insurance compensation received	49	297
Gain on accounts payable write-off	62	34
Recovery/(accrual) of provision for doubtful accounts receivable (Note 14)	338	(2,217)
Accrual of provision for regular repair and maintenance (Note 27)	(11,986)	(5,261)
Recovery/(accrual) of provision for Group other liabilities (Note 27)	796	(1,367)
Loss on fixed assets disposal and impairment on fixed assets	(828)	(849)
Loss on accounts receivable write-off	(24)	(4)
Other income/(expense), net	1,751	(669)
<b>Total other operating expenses, net</b>	<b>(1,110)</b>	<b>(527)</b>

## 10. Finance Income and Costs

	2017	2016
<b>Finance income:</b>		
Interest income on deposits and security deposits	4,718	4,169
Gain on foreign exchange, net	2,409	15,597
Other finance income	-	36
<b>Total finance income</b>	<b>7,127</b>	<b>19,802</b>

	2017	2016
<b>Finance costs:</b>		
Interest expense	(8,179)	(8,907)
Loss on change in fair value of derivative financial instruments not subject to hedge accounting (Note 24)	-	(53)
	(46)	(483)
<b>Other finance costs</b>	<b>(8,225)</b>	<b>(9,443)</b>
<b>Total finance costs</b>		

	2017	2016
<b>Realised hedging result:</b>		
Realised loss on hedging derivative instruments (Note 24)	-	(3,994)
Effect of revenue hedging with liabilities in foreign currency (Note 28)	(5,613)	(8,316)
<b>Total result on hedging</b>	<b>(5,613)</b>	<b>(12,310)</b>

## 11. Income Tax

	2017	2016
Current income tax charge	11,038	12,931
Deferred income tax	(372)	1,524
<b>Total income tax</b>	<b>10,666</b>	<b>14,455</b>

Reconciliation of the income tax estimated based on the applicable tax rate to the income tax is presented below:

	2017	2016
Profit before income tax	33,726	53,281
Tax rate applicable in accordance with Russian legislation	20%	20%
Theoretical income tax expense at tax rate in accordance with Russian legislation	(6,745)	(10,656)
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Non-taxable income	759	1,076
Non-deductible expenses	(5,052)	(5,042)
Unrecognised current year tax losses	(449)	(1,514)
Recognition of previously unrecognised tax losses	160	1,263
Prior years income tax adjustments	661	418
<b>Total income tax</b>	<b>(10,666)</b>	<b>(14,455)</b>

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	31 December 2017	Changes for the year	31 December 2016	Changes for the year	31 December 2015
<i>Tax effect of temporary differences:</i>					
Tax losses carried forward	20	(123)	143	70	73
Long-term financial investments	18	(241)	259	58	201
Accounts receivable	67	54	13	(570)	583
Property, plant and equipment	124	(96)	220	191	29
Finance lease liabilities	20,216	(4,345)	24,561	(8,348)	32,909
Accounts payable	8,215	3,321	4,894	882	4,012
Derivative financial instruments	-	-	-	(960)	960
<b>Deferred tax assets before tax set off</b>	<b>28,660</b>	<b>-</b>	<b>30,090</b>	<b>-</b>	<b>38,767</b>
Tax set off	(18,264)	-	(17,838)	-	(17,135)
<b>Deferred tax assets after tax set off</b>	<b>10,396</b>	<b>-</b>	<b>12,252</b>	<b>-</b>	<b>21,632</b>
	31 December 2017	Changes for the year	31 December 2016	Changes for the year	31 December 2015
Property, plant and equipment	(14,699)	1,677	(16,376)	541	(16,917)
Customs duties related to the imported aircraft under operating leases	(105)	106	(211)	124	(335)
Long-term financial investments	(43)	(18)	(25)	(15)	(10)
Accounts receivable	(3,485)	(2,245)	(1,240)	(1,239)	(1)
Accounts payable	-	25	(25)	17	(42)
<b>Deferred tax liabilities before tax set off</b>	<b>(18,332)</b>	<b>-</b>	<b>(17,877)</b>	<b>-</b>	<b>(17,305)</b>
Tax set off	18,264	-	17,838	-	17,135
<b>Deferred tax liabilities after tax set off</b>	<b>(68)</b>	<b>-</b>	<b>(39)</b>	<b>-</b>	<b>(170)</b>
Movements for the year, net	-	(1,885)	-	(9,249)	
Less deferred tax recognised directly in other comprehensive income	-	2,257	-	7,725	
<b>Deferred income tax income/ (expense) debt for the year</b>	<b>-</b>	<b>372</b>	<b>-</b>	<b>(1,524)</b>	

As at 31 December 2017 the Group recognised deferred tax assets from tax losses of subsidiaries in the amount of RUB 20 million (31 December 2016: RUB 143 million).

As at 31 December 2017, the Group did not recognize deferred tax liabilities for temporary differences in the amount of RUB 5,661 million (31 December 2016: RUB 3,970 million) related to investments in subsidiaries, as the Group can control reimbursement periods of these temporary differences and does not plan to reimburse them for the foreseeable future.

Since 1 January 2017, previously existing restriction of 10 years losses carried forward use was cancelled (which means that the losses incurred since 2007 can be carried forward until complete use). Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been introduced in Russian legislation. In accordance with the new rules, the amount of used tax loss carry forwards can't exceed 50% of the tax base of relevant year. These changes will not have material impact for the Group's Consolidated Financial Statements.

**12. Cash and Cash Equivalents**

	31 December 2017	31 December 2016
Bank deposits denominated in roubles with maturity of less than 90 days	30,093	23,444
Cash on hand and bank accounts denominated in Roubles	12,727	4,639
Cash on hand and bank accounts denominated in US Dollars	1,971	2,293
Cash on hand and bank accounts denominated in Euro	419	317
Cash on hand and bank accounts denominated in other currencies	375	418
Cash in transit	393	365
<b>Total cash and cash equivalents</b>	<b>45,978</b>	<b>31,476</b>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 36.

About 49% of the Group's funds are held in 2 highly reliable state-controlled Russian banks – PJSC VTB Bank with long-term credit rating BB+ (S&P rating agency) and PJSC Sberbank (hereinafter "Sberbank") with long-term credit rating BBB- (Fitch rating agency) as at 31 December 2017 (as at 31 December 2016 35% of Group's cash was held in PJSC VTB Bank with long-term credit rating BB+ (S&P rating agency) and "Sberbank" with long-term credit rating BBB- (Fitch rating agency).

The remaining part of the Group's cash is also located primarily in the largest Russian banks with a stable long-term credit rating according to international rating agencies.

As at 31 December 2017 the Group had restricted cash of RUB 583 million (31 December 2016: RUB 148 million) recorded as part of other non-current assets in the amount RUB 161 million and as part of other current assets in the amount RUB 422 million in the Group's Consolidated Statement of Financial Position.

**13. Aircraft Lease Security Deposits**

A security deposit is held with the lessor to secure the lessee's fulfilment of its obligations in full, on a timely basis and in good faith. The security deposit is transferred to the lessor by instalments or in a single instalment. The security deposit is usually equal to three monthly lease payments. The lessee has the right to replace the security deposit, in full or in part, with a letter of credit. The security deposit can be offset against the last lease payment or any payment if there is any non-fulfilment of obligations by the lessee. The security deposit is returned subsequent to the lease agreement's termination/ cancellation or return of the aircraft immediately after the date of lease termination and fulfilment by the lessee of its obligations. The security deposits under aircraft lease agreements are recorded at amortised cost using an average market yield from 0.1% to 12.6% p.a. in 2017 depending on the currency of the security deposit (2016: from 1.9% to 12.6% p.a.).

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Aircraft lease security deposits	
1 January 2016	4,790
Payment of security deposits	2,504
Amortisation charge for the year	380
Return of security deposits during the year	(3,405)
Set off against accounts payable	(983)
Foreign exchange difference	(886)
Reclassification to assets held for sale	20
Other	81
31 December 2016	2,501
Payment of security deposits	211
Amortisation charge for the year	137
Return of security deposits during the year	(325)
Set off against accounts payable	(380)
Foreign exchange difference	(119)
31 December 2017	2,025

	31 December 2017	31 December 2016
Current portion of security deposits	423	320
Non-current portion of security deposits	1,602	2,181
Total aircraft lease security deposits	2,025	2,501

Analysis of aircraft lease security deposits by their credit quality is presented below:

	31 December 2017	31 December 2016
Major international lease companies	1,994	2,477
Russian lease companies	31	24
Total aircraft lease security deposits	2,025	2,501

14. Accounts Receivable and Prepayments

	31 December 2017	31 December 2016
Trade accounts receivable	36,853	31,329
Other financial receivables	9,486	8,517
Less: impairment provision	(11,348)	(11,807)
Total financial receivables	34,991	28,039
Prepayments for delivery of aircraft	25,285	26,341
VAT and other taxes recoverable	15,842	10,905
Prepayments to suppliers	13,803	10,504
Deferred customs duties related to the imported aircraft under operating leases, current portion	397	579
Other receivables	3,152	2,339
Less: impairment provision	(538)	(535)
Accounts receivable and prepayments	92,932	78,172

As at 31 December 2017 the Group recognised impairment provision for accounts receivable from OJSC Transaero Airlines for passengers transportation, refuelling services, aircraft servicing and ground handling of RUB 7,014 million (31 December 2016: 7,286 million).

Accounts receivable and prepayments include prepayments for acquisition of aircraft to be delivered within 12 months after the reporting date. Movements on the Prepayments for aircraft line item are due to the approaching aircraft delivery dates as well as the refund of prepayments related to the delivery of aircraft in the current period.

Deferred customs duties of RUB 397 million as of 31 December 2017 (31 December 2016: RUB 579 million) relate to the current portion of paid customs duties on imported aircraft under operating leases. These customs duties are recognised within operating costs in the Group's Consolidated Statement of Profit or Loss over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 18.

Financial receivables are analysed by currencies in Note 36.

As at 31 December 2017 and 31 December 2016, sufficient impairment provision was made against accounts receivable and prepayments.

As at 31 December 2017 and 31 December 2016, the current part of prepayments for aircraft include advance payments for the acquisition of the following aircraft:

Type of aircraft	31 December 2017		31 December 2016	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Boeing B787	22	-	22	2017
Boeing B777	1	2018	1	2017
Airbus A320	10	2018	11	2017
Airbus A321	5	2018	8	2017

As at 31 December 2017, the expected type of lease for these aircraft is not defined.

As at 31 December 2017 possible options for settling on agreement for delivery of 22 Boeing B787 aircraft were under consideration by the Group's management.

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The movements in impairment provision for accounts receivable and prepayments are as follows:

	Impairment provision
<b>1 January 2016</b>	<b>10,609</b>
Increase in impairment provision	4,040
Provision use	(484)
Release of provision	(1,823)
<b>31 December 2016</b>	<b>12,342</b>
Increase in impairment provision	709
Provision use	(118)
Release of provision	(1,047)
<b>31 December 2017</b>	<b>11,886</b>

Financial receivables are analysed by credit quality in Note 36.

15. Non-Current Portion of Prepayments for Aircraft

As at 31 December 2017 and 31 December 2016 non-current portion of prepayments for aircraft were RUB 13,089 million and RUB 27,830 million, respectively. Change of non-current portion of prepayments is due to approaching the contractual period of delivery and payment of new non-current prepayments to suppliers.

Prepayments for aircraft with a delivery date less than 12 months after reporting date is disclosed inside of accounts receivable (Note 14).

As at 31 December 2017 and 31 December 2016 non-current prepayments include advance payments for the acquisition of the following aircraft:

Type of aircraft	31 December 2017		31 December 2016	
	Number of aircraft, units	Expected delivery date	Number of aircraft, units	Expected delivery date
Airbus A350	22	2019-2023	22	2018-2023
Boeing B777	5	2019-2021	-	-
Airbus A320	-	-	10	2018
Airbus A321	-	-	4	2018

As at 31 December 2017, the expected type of lease for these aircraft is not defined.

16. Expendable Spare Parts and Inventories

	31 December 2017	31 December 2016
Expendable spare parts	9,805	7,633
Fuel	738	855
Other inventories	3,337	2,720
<b>Total expendable spare parts and inventories, gross</b>	<b>13,880</b>	<b>11,208</b>
Less: written-off obsolete expendable spare parts and inventories	(1,069)	(1,168)
<b>Total expendable spare parts and inventories</b>	<b>12,811</b>	<b>10,040</b>

17. Financial Investments

	31 December 2017	31 December 2016
<i>Available-for-sale investments:</i>		
Available-for-sale securities	3,252	3,252
SITA Investment Certificates	54	52
<b>Total available-for-sale investments</b>	<b>3,306</b>	<b>3,304</b>
Other long-term investments		
Other	32	2
<b>Total long-term financial investments</b>	<b>3,338</b>	<b>3,306</b>

As at 31 December 2017 and 31 December 2016, available-for-sale securities are mainly represented by the value of the Group's investment in JSC MASH in the share of 2.428%, a state-related company engaged in servicing of aircraft, passengers and handling cargo of Russian and foreign airlines, and providing non-aviation services to entities operating in Sheremetyevo airport and adjacent area.

Due to the market quotes absence the Group's investment in JSC MASH is measured at historical cost less accumulated impairment losses and recognised in the Consolidated Statement of Financial position in amount 3,203 million as at 31 December 2017 (31 December 2016: RUB 3,203 million).

The following factors taken into account by the Group in assessing the possible impairment of investment in JSC MASH has the most significant impact on the assessment of recoverable value of this investment:

- (a) the weighted average cost of capital equal to 13.7% in 2017 (in 2016:16.7%) based on public capital markets data, data about peer companies and the actual cost of capital of JSC MASH determined based on the effective rate in financial statements;
- (b) forecasts for macro assumptions based on an Economist Intelligence Unit forecast; ;
- (c) passenger traffic growth rates based on data from public sources distributed over the forecast period in accordance with the average annual growth rate of passenger traffic, taking into account the growth of up to 80 million passengers till 2026..

The Group performed a sensitivity analysis of key assumptions used in the financial model of JSC MASH.

As at 31 December 2017, a reasonably possible change in the weighted average cost of capital and passenger traffic growth for JSC MASH does not result in an additional impairment of this investment.

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	31 December 2017	31 December 2016
<i>Other short-term financial investments:</i>		
Loans issued and promissory notes of third parties	9,435	9,458
Deposits placed in banks for more than 90 days	8,931	6,319
Other short-term investments	5	5
<b>Total other short-term financial investments (before impairment provision)</b>	<b>18,371</b>	<b>15,782</b>
Less: provision for impairment of short-term financial investments	(9,440)	(9,463)
<b>Total short-term financial investments</b>	<b>8,931</b>	<b>6,319</b>

The provision for impairment is primarily related to the accrual in of a provision for impairment of loans issued by the Group companies in favor of OJSC Transaero Airlines during 2015.

As at 31 December 2017, deposits with maturity for more than 90 days are placed in the largest Russian commercial banks with long-term credit rating not lower than B1 according to Moody's credit rating agency.

## 18. Other Non-current Assets

	31 December 2017	31 December 2016
Deferred customs duties related to the imported aircraft under operating leases, non-current portion	162	559
Prepaid expenses for operating lease transactions	15,427	5,697
Other non-current assets	4,139	3,856
<b>Total other non-current assets</b>	<b>19,728</b>	<b>10,112</b>

The Group paid advances in amount of RUB 11,688 million for operating lease of 18 aircraft delivered during 12 months of 2017 (during 12 months of 2016: RUB 6,468 million, 14 aircraft). The above mentioned advances were recognised as part of non-current assets. These assets should be written off to operating lease expenses over the term of the operating lease agreements.

## 19. Property, Plant and Equipment

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Transport, equipment and other	Construction in progress	Total
<b>Cost</b>						
<b>1 January 2016</b>	<b>4,494</b>	<b>106,777</b>	<b>10,445</b>	<b>20,416</b>	<b>4,871</b>	<b>147,003</b>
Additions (i)	2,134	32	26	3,603	4,138	9,933
Capitalised expenditures	-	1,810	-	-	632	2,442
Disposals	(988)	-	(392)	(1,141)	(3)	(2,524)
Transfers from assets classified as held for sale (note 20)	-	3,613	-	-	-	3,613
Transfers to assets held for sale (note 20)	-	(366)	-	-	(223)	(589)
Transfers	2,507	1,076	52	1,059	(4,694)	-
<b>31 December 2016</b>	<b>8,147</b>	<b>112,942</b>	<b>10,131</b>	<b>23,937</b>	<b>4,721</b>	<b>159,878</b>
Additions (ii)	2,178	-	28	3,937	2,180	8,323
Capitalised expenditures	-	699	-	-	1,216	1,915
Disposals	(272)	(1,314)	(91)	(691)	(7)	(2,375)
Transfers to assets classified as held for sale (note 20)	(122)	(6,476)	-	-	-	(6,598)
Transfers (iii)	2,652	1,325	83	423	(4,483)	-
<b>31 December 2017</b>	<b>12,583</b>	<b>107,176</b>	<b>10,151</b>	<b>27,606</b>	<b>3,627</b>	<b>161,143</b>
<b>Accumulated depreciation</b>						
<b>1 January 2016</b>	<b>(909)</b>	<b>(26,934)</b>	<b>(4,758)</b>	<b>(9,835)</b>	<b>(73)</b>	<b>(42,509)</b>
Charge for the year	(762)	(8,761)	(355)	(2,569)	-	(12,447)
Recovery of impairment provision	25	-	-	11	-	36
Disposals	135	-	143	722	-	1,000
Transfers from assets classified as held (note 20)	-	(1,338)	-	-	-	(1,338)
Transfers to assets classified as held for sale (note 20)	-	277	-	-	-	277
<b>31 December 2016</b>	<b>(1,511)</b>	<b>(36,756)</b>	<b>(4,970)</b>	<b>(11,671)</b>	<b>(73)</b>	<b>(54,981)</b>
Charge for the year	(1,561)	(8,283)	(264)	(3,242)	-	(13,350)
Recovery/(accrual) of impairment provision	21	-	-	5	(2)	24
Disposals	141	705	65	524	-	1,435
Transfers to assets classified as held for sale (note 20)	18	3,643	-	-	-	3,661
<b>31 December 2017</b>	<b>(2,892)</b>	<b>(40,691)</b>	<b>(5,169)</b>	<b>(14,384)</b>	<b>(75)</b>	<b>(63,211)</b>
<b>Carrying amount</b>						
<b>31 December 2016</b>	<b>6,636</b>	<b>76,186</b>	<b>5,161</b>	<b>12,266</b>	<b>4,648</b>	<b>104,897</b>
<b>31 December 2017</b>	<b>9,691</b>	<b>66,485</b>	<b>4,982</b>	<b>13,222</b>	<b>3,552</b>	<b>97,932</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017 (All amounts in millions of Russian Roubles, unless otherwise stated) continued

- (i) During 2016 additions mainly relate to the purchase of 2 aircraft DHC-8 for JCS Aurora and purchase of equipment in finance leases.
- (ii) During 2017 additions mainly relate to the purchase of equipment in finance leases as well as the spare parts for aircraft, used for capital repairs.
- (iii) During 2017 transfers primarily relate to 2 aircraft DHC 8 for JCS Aurora.

Capitalised borrowing costs for 12 months 2017 amounted to RUB 1,216 million (2016: RUB 632 million). Capitalisation rate of interest expenses and forex for the period was 4.2% p.a. (2016: 3.2%).

As at 31 December 2017 the cost of fully depreciated property, plant and equipment was RUB 10,033 million (31 December 2016: RUB 6,990 million).

## 20. Assets Classified as Held for Sale

As at 31 December 2017, 4 Airbus A321 aircraft (31 December 2016: 2 aircraft) operated under finance lease agreements were targeted for disposal; therefore, at the end of the reporting period these assets and related liabilities were classified as held for sale.

As at 31 December 2017, the amount of net assets held for sale amounted to RUB 915 million (31 December 2016: RUB 1,140 million).

	Initial cost of fixed assets	Accumulated depreciation and impairment	Aircraft lease security deposits	Total assets	Total liabilities
<b>1 January 2016</b>	<b>18,539</b>	<b>(10,850)</b>	<b>43</b>	<b>7,732</b>	<b>(7,371)</b>
Additions	589	(277)	-	312	-
Disposals	(12,466)	7,880	(2)	(4,588)	4,702
Transfers to property, plant, equipment	(3,613)	1,338	(41)	(2,316)	2,669
<b>31 December 2016</b>	<b>3,049</b>	<b>(1,909)</b>	<b>-</b>	<b>1,140</b>	<b>-</b>

	Initial cost of fixed assets	Accumulated depreciation and impairment	Total assets	Total liabilities
<b>1 January 2017</b>	<b>3,049</b>	<b>(1,909)</b>	<b>1,140</b>	<b>-</b>
Additions (Note 19)	6,598	(3,661)	2,937	(2,736)
Disposals	(2,888)	1,916	(972)	465
Increase/release of impairment	-	20	20	-
Revaluation	-	-	-	61
<b>31 December 2017</b>	<b>6,759</b>	<b>(3,634)</b>	<b>3,125</b>	<b>(2,210)</b>

During 12 months 2017 the Group disposed of 2 Airbus A321 aircraft (during 12 months 2016: 2 Airbus A319 aircraft, 1 Airbus A320 aircraft and 6 Airbus A321 aircraft), profit from disposal of mentioned aircraft amounted to RUB 201 million (during 12 months 2016: to RUB 2,784 million).

## 21. Disposal of Subsidiaries

On 17 May 2016, the Group disposed of OJSC Vladivostok Avia as a result of liquidation. A loss from the disposal in the amount of RUB 5,726 million was recognised in profit or loss for 12 months of 2016. OJSC Vladivostok Avia did not conduct any significant operating activities in 2016.

On 14 July 2016, the Group sold ALT Rejsebureau A/S. A loss from the sale in the amount of RUB 12 million was recognised in profit or loss for 12 months of 2016.

On 6 September 2016, the Group disposed of CJSC Aeroflot-Cargo as a result of liquidation. A profit from the disposal in the amount of RUB 639 million was recognised in profit or loss for 12 months of 2016. CJSC Aeroflot-Cargo did not conduct any significant operating activities in 2016.

Profit/(loss) on disposal of subsidiaries CJSC Aeroflot-Cargo and OJSC Vladivostok Avia includes the following components:

	CJSC Aeroflot-Cargo	OJSC Vladivostok Avia
Negative net assets of disposed company	5,219	10,326
Non-controlling interest share in negative net assets	-	7,579
Group's share in negative net assets of disposed company	5,219	2,747
Intragroup liabilities, including:		
<i>Accounts payable from disposed subsidiary to the Group</i>	(4,483)	(7,028)
<i>Loan issued by the Group to disposed subsidiary</i>	(97)	(1,445)
<b>Profit/(loss) from disposal</b>	<b>639</b>	<b>(5,726)</b>

## 22. Intangible Assets

	Software	Licences	Investments in software and R&D	Trademark and client base	Other	Total
<b>Cost</b>						
<b>1 January 2016</b>	<b>3,026</b>	<b>134</b>	<b>1,201</b>	<b>1,686</b>	<b>39</b>	<b>6,086</b>
Additions	131	-	133	-	3	267
Disposals	(317)	-	(142)	(56)	(6)	(521)
<b>31 December 2016</b>	<b>2,840</b>	<b>134</b>	<b>1,192</b>	<b>1,630</b>	<b>36</b>	<b>5,832</b>
Additions	552	-	145	-	37	734
Disposals	(14)	-	(3)	-	(3)	(20)
Transfer	415	-	(442)	-	27	-
<b>31 December 2017</b>	<b>3,793</b>	<b>134</b>	<b>892</b>	<b>1,630</b>	<b>97</b>	<b>6,546</b>
<b>Accumulated amortisation</b>						
<b>1 January 2016</b>	<b>(2,325)</b>	<b>(89)</b>	<b>-</b>	<b>(981)</b>	<b>(1)</b>	<b>(3,396)</b>
Charge for the year	(714)	-	-	(229)	(5)	(948)
Disposals	260	-	-	71	6	337
<b>31 December 2016</b>	<b>(2,779)</b>	<b>(89)</b>	<b>-</b>	<b>(1,139)</b>	<b>-</b>	<b>(4,007)</b>
Charge for the year	(476)	-	(103)	(135)	(20)	(734)
Disposals	13	-	-	234	2	249
<b>31 December 2017</b>	<b>(3,242)</b>	<b>(89)</b>	<b>(103)</b>	<b>(1,040)</b>	<b>(18)</b>	<b>(4,492)</b>
<b>Carrying amount</b>						
<b>31 December 2016</b>	<b>61</b>	<b>45</b>	<b>1,192</b>	<b>491</b>	<b>36</b>	<b>1,825</b>
<b>31 December 2017</b>	<b>551</b>	<b>45</b>	<b>789</b>	<b>590</b>	<b>79</b>	<b>2,054</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017 (All amounts in millions of Russian Roubles, unless otherwise stated) continued

### 23. Goodwill

For the purposes of impairment testing, goodwill is allocated between the cash generating units (the “CGUs”), i.e. the Group subsidiaries that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and are not larger than an operating segment of the Group.

The aggregate carrying amount of goodwill, allocated to the Groups’ business-units as at 31 December 2017 and as at 31 December 2016 is presented in the table below:

CGU name	31 December 2017	31 December 2016
AK Rossiya	6,502	6,502
AK Aurora	158	158
<b>Total</b>	<b>6,660</b>	<b>6,660</b>

The recoverable amount of CGU was calculated on the basis of value in use, which was determined by discounting the future cash flows to be generated as a result of the CGU’s operations.

Key assumptions against which the recoverable amounts are estimated concerned the discount rate, the rate of return and the l growth rate for the calculation of the terminal value.

#### AK Rossiya

The discount rate calculation is based on weighted average cost of capital (WACC) and amounts to 12.8% p.a. for the entire forecast period (31 December 2016: 15.8% p.a.).

The growth rate for the terminal value calculation was set at the level of Russia’s GDP long-term growth rate of 2.7% p.a. (2016: 1.5% p.a.).

The budget for 2018 of “AK Rossiya” was adopted as a basis to forecasting the cash flows.

The Group’s management has conducted a sensitivity analysis of the goodwill impairment test results to changes in rates of return as the most sensitive indicator. In case of decrease of this rate by 13% even though all other variables held constant, it would result in an impairment of CGU’s goodwill in the full amount. The results of the impairment test for goodwill are also sensitive to assumptions regarding seat occupancy and discount rates.

### 24. Derivative Financial Instruments

As at 31 December 2017, there were no derivative financial instruments in the Group’s portfolio.

In early 2016, the Group closed cross-currency interest rate swap agreement upon their maturity. For these instruments, the Group applied a cash flow hedge accounting model according to IAS 39, “Financial Instruments: Recognition and Measurement”. Up until the date of their expiration during 12 months 2016, the Group recognised profit of RUB 491 million from revaluation of these derivative financial instruments within other comprehensive income together with a corresponding deferred tax liability of RUB 98 million. As a result of the termination of this transaction, accumulated loss of RUB 3,994 million was recognised within financial expenses (Note 10).

At the end of 2016 the currency option contract was closed. Hedge accounting was not applied to this financial instrument. During 12 months 2016 loss on change in fair value of this derivative financial instrument amounted to RUB 53 million and was recognized in Consolidated Statement of Profit or Loss (Note 10).

### 25. Accounts Payable and Accrued Liabilities

	31 December 2017	31 December 2016
Accounts payable	34,095	23,659
Other financial payables	6,880	6,971
Dividends payable	65	1
<b>Total financial payables</b>	<b>41,040</b>	<b>30,631</b>
Staff related liabilities	19,434	11,929
Advances received (other than unearned traffic revenue)	1,451	1,147
Other taxes payable	2,626	2,865
Other current liabilities related to frequent flyer programme	2,566	2,518
(Note 26)	836	778
<b>Other payables</b>	<b>67,953</b>	<b>49,868</b>
<b>Total accounts payable and accrued liabilities</b>		

As at 31 December 2017, staff related liabilities primarily include salary payable, as well as social contribution liabilities of RUB 13,270 million (31 December 2016: RUB 9,106 million) and the unused vacation accrual of RUB 6,071 million.

Financial payables by currency are analysed in Note 36.

### 26. Deferred Revenue and Other Liabilities Related to Frequent Flyer Programme

Deferred revenue and other accrued liabilities related to the frequent flyer programme (Aeroflot Bonus programme) as at 31 December 2017 and 31 December 2016 represent the number of bonus miles earned when flying on Group flights, but unused by Aeroflot Bonus programme members, and the number of bonus miles earned by programme members for using programme partners’ services, respectively; they are estimated at fair value in accordance with IFRIC 13 “Customer loyalty programmes”. Other accrued liabilities related to the frequent flyer programme also include the number of accumulated but not used bonus miles, which value reflects the best estimate of the expenditure, necessary to settle the existing obligation in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”.

	31 December 2017	31 December 2016
Deferred revenue related to frequent flyer programme, current	1,720	1,607
Deferred revenue related to frequent flyer programme, non-current	3,842	3,623
Other current liabilities related to frequent flyer programme (Note 25)	2,566	2,518
Other non-current liabilities related to frequent flyer programme (Note 30)	2,563	2,580
<b>Total deferred revenue and other liabilities related to frequent flyer programme</b>	<b>10,691</b>	<b>10,328</b>

**Notes to the Consolidated Financial Statements for the year ended 31 December 2017**  
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continued

**27. Provisions for Liabilities**

	Regular repairs and maintenance works	Other provisions	Total provisions
<b>1 January 2016</b>	<b>10,721</b>	<b>3,715</b>	<b>14,436</b>
Additional provision for the year	6,150	2,348	8,498
Release of provision for the year	(1,757)	(1,668)	(3,425)
Recovery of provision for the year	(889)	(981)	(1,870)
Unwinding of the discount	1,562	-	1,562
Foreign exchange gain, net	(2,277)	(286)	(2,563)
Other changes	-	(543)	(543)
<b>31 December 2016</b>	<b>13,510</b>	<b>2,585</b>	<b>16,095</b>
Additional provision for the year	13,197	1,725	14,922
Release of provision for the year	(2,814)	(36)	(2,850)
Recovery of provision for the year	(1,211)	(2,521)	(3,732)
Unwinding of the discount	2,807	-	2,807
Foreign exchange gain, net	(835)	(25)	(860)
<b>31 December 2017</b>	<b>24,654</b>	<b>1,728</b>	<b>26,382</b>

	31 December 2017	31 December 2016
Current liabilities	9,433	5,304
Non-current liabilities	16,949	10,791
<b>Total provisions</b>	<b>26,382</b>	<b>16,095</b>

**Litigations**

The Group is a defendant in legal claims of a different nature. Provisions for liabilities represent management's best estimate of probable losses on existing and potential lawsuits (Note 42).

The Group also made a provision of RUB 1,666 million for obligations to pay capitalized social payments stipulated by the legislation of the Russian Federation in connection with the start of a bankruptcy proceedings against JSC Donavia.

**Tax risks**

The Group makes a provision for contingent liabilities, including accrued fines and penalties based on the best management's estimate of the amount of additional taxes that may be required to be paid (Note 42).

**Regular repairs and maintenance works**

As at 31 December 2017, the Group made a provision of RUB 24,654 million (31 December 2016: RUB 13,510 million) for regular repairs and maintenance works of aircraft used under operating lease terms.

**28. Finance Lease Liabilities**

The Group leases aircraft from third and related parties under finance lease agreements (Note 38). The aircraft that the Group have operated under finance lease agreements as at 31 December 2017 are listed in Note 1.

	31 December 2017	31 December 2016
Total outstanding payments on finance lease contracts	111,270	137,395
Future finance lease interest expense	(10,581)	(14,659)
<b>Total finance lease liabilities</b>	<b>100,689</b>	<b>122,736</b>
<i>Representing:</i>		
Current finance lease liabilities	16,015	15,593
Non-current finance lease liabilities	84,674	107,143
<b>Total finance lease liabilities</b>	<b>100,689</b>	<b>122,736</b>

	31 December 2017			31 December 2016		
Due for repayment:	Principal	Future interest expense	Total payments	Principal	Future interest expense	Total payments
On demand or within 1 year	16,015	2,841	18,856	15,593	3,662	19,255
Later than 1 year and not later than 5 years	60,435	6,723	67,158	65,792,	8,912	74,704
Later than 5 years	24,239	1,017	25,256	41,351	2,085	43,436,
<b>Total</b>	<b>100,689</b>	<b>10,581</b>	<b>111,270</b>	<b>122,736</b>	<b>14,659</b>	<b>137,395</b>

As at 31 December 2017, the total amount of the finance lease liability relating to leased aircraft and aircraft engines amounted to RUB 96,265 million (31 December 2016 – RUB 118,686 million).

As at 31 December 2017, interest payable amounted to RUB 391 million (31 December 2016: RUB 80 million) is included in accounts payable and accrued liabilities.

The effective interest rate for finance lease during 2017 was 3.0% p.a. (in 2016: 2.9% p.a.). Fair value of finance lease liabilities approximate their carrying value.

The Group hedges foreign currency risk arising on a portion of the future revenue stream denominated in US dollars with the finance lease liabilities denominated in the same currency. The Group applies cash flow hedge accounting model to these hedging relationships, in accordance with IAS 39. At 31 December 2017, finance lease liabilities including those related to assets held for sale in the amount of RUB 96,271 million denominated in US dollars (31 December 2016: RUB 116,219 million) are designated as a hedging instrument for highly probable revenue forecasted for the period of 2017 – 2026 denominated in US dollars. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the finance lease liabilities match the future cash inflows on the revenue being hedged. At 31 December 2017, accumulated foreign currency loss of RUB 31,449 million (before deferred income tax) on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the equity (31 December 2016: RUB 42,734 million). The amount of loss reclassified from the hedging reserve to profit or loss in 2017 was RUB 5,613 million, in 2016 was RUB 8,316 million (Note 10).

In 2017 interest expense on finance leases was RUB 4,073 million (2016: RUB 4,070 million).

Leased aircraft and engines with the carrying amount disclosed in Note 19 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

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**29. Loans and Borrowings**

	31 December 2017	31 December 2016
<b>Short-term loans and other borrowings:</b>		4,478
Short-term loans in Euro	-	113
Short-term loans in Russian Roubles	-	4,718
Current portion of long-term loans and borrowings in Russian Roubles	-	9,309
<b>Total short-term loans and borrowings</b>		
<b>Long-term loans and other borrowings:</b>		
Long-term loans in Russian Roubles	2,800	15,381
Long-term loans and borrowings in US dollars	381	395
Less:		
Current portion of long-term loans and borrowings in Russian Roubles	-	(4,718)
<b>Total long-term loans and borrowings</b>	<b>3,181</b>	<b>11,058</b>

**The main changes in loans and borrowings during reporting period**

ΓThe Group has opened a non-revolving credit line with PJSC Sberbank (floating interest rate) in the amount of RUB 12,581 million. As at 31 December 2017 payables for mentioned credit line were paid in full (as at 31 December 2016, the outstanding amount was RUB 12,694 million).

The Group has opened a credit line with PJSC Sovcombank (floating interest rate) in the amount of RUB 6,000 million, which can be obtained in Russian Roubles, euro or US dollars. As at 31 December

2017 the outstanding amount was RUB 2,800 million (as at 31 December 2016 the outstanding amount was RUB 2,800 million). The credit line was unsecured and issued for the period up to November 2021.

The Group has opened a credit line with PJSC Bank VTB (floating interest rate) in the amount of US Dollars 250 million, which can be obtained in Russian Roubles, euro or US Dollars. As at 31 December 2017 the loan was paid in full (as at 31 December 2016 the outstanding amount was RUB 4,478 million). The credit line is unsecured and issued for the period up to October 2018.

As at 31 December 2017 and 31 December 2016 the Group had no secured loans or borrowings.

As at 31 December 2017 and 31 December 2016, the fair values of loans and borrowings were not materially different from their carrying amounts.

**Exchange bonds program**

In December 2017, the Board of Directors of PJSC Aeroflot approved the Program of Exchange-Traded Bonds of the P01-BO series. At the end of January 2018 the Program was registered by PJSC Moskovskaya Birzha MMVB-RTS. The maximum amount of nominal values of exchange bonds that can be placed under the program is RUB 24,650 million with a maximum maturity of 3,640 days inclusive from the start date of placement. The expected dates and volume of bonds placement as of the date of this Consolidated Financial Statements are not determined.

**Undrawn commitments**

As at 31 December 2017, the Group was able to raise RUB 103,175 million in cash (31 December 2016: RUB 89,247 million) available under existing credit lines granted to the Group by various lending institutions.

**30. Other Non-current Liabilities**

	31 December 2017	31 December 2016
Other non-current liabilities related to frequent flyer programme (Note 26)	2,563	2,580
Defined benefit pension obligation, non-current portion	922	805
Other non-current liabilities	2,806	1,774
<b>Total other non-current liabilities</b>	<b>6,291</b>	<b>5,159</b>

**31. Non-controlling Interest**

The following table provides information about the subsidiary (AK Rossiya) with non-controlling interest that is material to the Group:

	2017	2016
Portion of non-controlling interest's voting rights held	25% plus 1 share	25% plus 1 share
(Loss)/Profit attributable to non-controlling interest for the year	(532)	948
Accumulated losses attributable to non-controlling interests in subsidiary	(4,221)	(3,689)

The summarised financial information of AK Rossiya is presented below:

	31 December 2017	31 December 2016
Current assets	18,539	12,589
Non-current assets	13,371	13,149
Current liabilities	24,854	17,442
Non-current liabilities	23,938	23,051

	2017	2016
Revenue	94,816	73,193
(Loss)/Income for the year	(2,127)	3,790
Comprehensive income for the year	(2,127)	3,790

As at 31 December 2017 and 2016 there are no significant restrictions in getting access to the subsidiary's assets or using them for settling the subsidiary's obligations.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017  
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continued

32. Share Capital

As at 31 December 2017 and 31 December 2016, share capital was equal to RUB 1,359 million.

	Number of ordinary shares authorised and issued (shares)	Number of treasury shares (shares)	Number of ordinary shares outstanding (shares)
31 December 2016	1,110,616,299	(53,716,189)	1,056,900,110
31 December 2017	1,110,616,299	-	1,110,616,299

All issued shares are fully paid. In addition to shares that have been placed, the Company is entitled to place another 250,000,000 ordinary registered shares (31 December 2016: 250,000,000 shares) with a par value of RUB 1 per share (31 December 2016: RUB 1 per share). Each ordinary share entitles the bearer to one vote.

In September 2017, the Company sold 53,716,189 its own shares, previously bought out by the subsidiary LLC Aeroflot Finance. These ordinary shares carry voting rights in the same proportion as other ordinary shares.

The Company's shares are listed on Moscow Exchange. As at 31 December 2017 and 31 December 2016, the weighted average price was RUB 139.10 per share and RUB 152.96 per share, respectively.

The Company launched a Global Depositary Receipts (GDR) programme in December 2000. Since January 2014, one GDR equals five ordinary shares. As at 31 December 2017 and 31 December 2016, the Group's GDRs were traded on the Frankfurt Stock Exchange at EUR 9.91 per GDR and EUR 11.6 per GDR, respectively.

33. Dividends

At the annual shareholders' meeting held on 26 June 2017 the shareholders approved dividends in respect of 2016 in the amount of RUB 17.4795 per share. All dividends are declared and paid in Russian Roubles.

At the annual shareholders' meeting held on 27 June 2016 it was resolved not to declare and pay dividends for 2015.

34. Operating Segments

The Group has a number of operating segments, but none of them, except for "Passenger Traffic", meet the quantitative threshold for determining reportable segment. Flight routes information was aggregated in "Passenger Traffic" segment as passenger flight services on different routes have similar economic characteristics and meet aggregation criteria.

The passenger traffic operational performance is measured based on internal management reports which are reviewed by the Group's General Director. Passenger traffic revenue by flight routes is allocated based on the geographic destinations of flights. Passenger traffic revenue by flight routes is used to measure performance as the Group believes that such information is the most material in evaluating the results.

Segment information is presented based on financial information prepared in accordance with IFRS.

Group assets are located mainly in Russian Federation

The realisation between the segments is carried out on market terms and is eliminated upon consolidation.

	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2017				
External sales	528,782	4,152	-	532,934
Inter-segment sales	618	19,675	(20,293)	-
Total revenue	529,400	23,827	(20,293)	532,934
Operating profit	38,041	2,370	-	40,411
Loss from sale and impairment of investments, net	-	-	-	(144)
Finance income	-	-	-	7,127
Finance costs	-	-	-	(8,225)
Hedging result	-	-	-	(5,613)
Share in financial results of associated companies	-	-	-	170
Subsidiaries disposal	-	-	-	-
Profit before income tax	-	-	-	33,726
Income tax	-	-	-	(10,666)
Profit for the year	-	-	-	23,060
31 December 2017				
Segment assets	305,156	16,104	(12,235)	309,025
Investments in associates	-	329	-	329
Unallocated assets	-	-	-	13,976
Total assets	-	-	-	323,330
Segment liabilities	255,027	5,362	(4,426)	255,963
Unallocated liabilities	-	-	-	68
Total liabilities	-	-	-	256,031
2017				
Capital expenditures and PP&E additions (Note 19)	9,417	821	-	10,238
Depreciation (Notes 19)	12,985	365	-	13,350

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	Passenger traffic	Other	Inter-segment sales elimination	Total Group
2016				
External sales	492,455	3,425	-	495,880
Inter-segment sales	-	15,953	(15,953)	-
Total revenue	492,455	19,378	(15,953)	495,880
Operating profit	62,207	980	67	63,254
Loss on sale and impairment of investments, net	-	-	-	(2,935)
Finance income	-	-	-	19,802
Finance costs	-	-	-	(9,443)
Hedging result	-	-	-	(12,310)
Share in financial results of associated companies	-	-	-	12
Subsidiaries disposal	-	-	-	(5,099)
Profit before income tax	-	-	-	53,281
Income tax	-	-	-	(14,455)
Profit for the year	-	-	-	38,826
31 December 2016				
Segment assets	288,553	9,221	(13,495)	284,279
Investments in associates	-	98	-	98
Unallocated assets				14,930
Total assets				299,307
Segment liabilities	257,270	5,647	(4,419)	258,498
Unallocated liabilities				40
Total liabilities				258,538
2016				
Capital expenditures and PP&E additions (Note 19)	11,823	552	-	12,375
Depreciation (Notes 19)	12,109	338	-	12,447

	2017	2016
Passenger revenue:		
International flights from the RF to:		
CIS	11,364	10,446
Europe	57,133	53,244
Middle East and Africa	10,982	9,772
Asia	31,854	32,923
America	12,869	13,144
Total scheduled passenger revenue from flights from the RF	124,202	119,529
International flights to the RF from:		
CIS	10,992	10,835
Europe	57,523	53,355
Middle East and Africa	10,865	9,665
Asia	34,589	30,695
America	12,966	13,245
Total scheduled passenger revenue from flights to the RF	126,935	117,795
Domestic scheduled passenger flights	176,141	166,227
Other international flights	251	209
Total scheduled passenger traffic revenue	427,529	403,760

35. Presentation Of Financial Instruments by Measurement Category

Financial assets and liabilities are classified by measurement categories as at 31 December 2017 as follows:

	Note	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	12	45,978	-	45,978
Short-term financial investments	17	8,931	-	8,931
Financial receivables	14	34,991	-	34,991
Aircraft lease security deposits	13	2,025	-	2,025
Long-term financial instruments	17	32	3,306	3,338
Other current assets		422	-	422
Other non-current assets		161	-	161
Total financial assets		92,540	3,306	95,846

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	Note	Other financial liabilities	Total
Financial payables	25	41,040	41,040
Finance lease liabilities	28	100,689	100,689
Loans and borrowings	29	3,181	3,181
Other non-current liabilities	30	306	306
<b>Total financial liabilities</b>		<b>145,216</b>	<b>145,216</b>

Financial assets and liabilities are classified by measurement categories as at 31 December 2016 as follows:

	Note	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	12	31,476	-	31,476
Short-term financial investments	17	6,318	1	6,319
Financial receivables	14	28,039	-	28,039
Aircraft lease security deposits	13	2,501	-	2,501
Long-term financial instruments	17	2	3,304	3,306
Other non-current assets	148	-	-	148
<b>Total financial assets</b>		<b>68,484</b>	<b>3,305</b>	<b>71,789</b>

	Note	Other financial liabilities	Total
Financial payables	25	30,631	30,631
Finance lease liabilities	28	122,736	122,736
Loans and borrowings	29	20,367	20,367
<b>Total financial liabilities</b>		<b>173,734</b>	<b>173,734</b>

36. Risks Connected with Financial Instruments

The Group manages risks related to financial instruments, which include market risk (currency risk, interest rate risk and aircraft fuel price risk), credit risk, liquidity risk and capital management risk.

Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed financial conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group utilises a detailed budgeting and cash forecasting process to ensure its liquidity is maintained at appropriate level.

The following are the Group's financial liabilities as at 31 December 2017 and 31 December 2016 by contractual maturity (based on the remaining period from the reporting date to the contractual settlement date). The amounts in the table are contractual undiscounted cash flows (including future interest payments) as at respective reporting dates:

	Average interest rate		0–12 months	1–2 years	2–5 years	Over 5 years	Total
	Contractual rate	Effective rate					
31 December 2017							
Loans and borrowings in foreign currency	3.1%	3.1%	-	-	-	431	431
Loans and borrowings in Roubles	11.3%	11.3%	240	224	3,200	-	3,664
Finance lease liabilities	2.9%	3.0%	18,856	17,593	49,565	25,256	111,270
Financial payables			41,040	-	-	-	41,040
Liabilities for guarantees issued			1,618	-	-	-	1,618
<b>Total future payments, including future interest payments</b>			<b>61,754</b>	<b>17,817</b>	<b>52,765</b>	<b>25,687</b>	<b>158,023</b>
31 December 2016							
Loans and borrowings in foreign currency	3.4%	3.4%	4,584	-	-	446	5,030
Loans and borrowings in roubles	11.7%	11.7%	6,085	8,814	3,501	-	18,400
Finance lease liabilities	2.9%	2.9%	19,255	20,998	53,706	43,436	137,395
Financial payables			30,631	-	-	-	30,631
Liabilities for guarantees issued			1,225	-	-	-	1,225
<b>Total future payments, including future interest payments</b>			<b>61,780</b>	<b>29,812</b>	<b>57,207</b>	<b>43,882</b>	<b>192,681</b>

Currency risk

The Group is exposed to currency risk in relation to revenue as well as purchases and borrowings that are denominated in a currency other than Rouble. The currencies in which these transactions are primarily denominated are Euro and US Dollar.

The Groups analyses the exchange rate trends on a regular basis.

The Group uses long-term lease liabilities nominated in US Dollars as hedging instrument for risk of change in US Dollar exchange rate in relation to revenue (Note 28).

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The Group's exposure to foreign currency risk was as follows based on notional amounts of financial instruments:

In millions of Russian Roubles	Note	31 December 2017				31 December 2016			
		US Dollar	Euro	Other currencies	Total	US Dollar	Euro	Other currencies	Total
Cash and cash equivalents	12	1,971	419	375	2,765	2,293	317	418	3,028
Financial receivables		18,669	4,106	3,068	25,843	17,915	3,653	3,575	25,143
Aircraft lease security deposits		1,630	-	-	1,630	2,179	-	-	2,179
Other assets		99	68	4	171	83	62	3	148
<b>Total assets</b>		<b>22,369</b>	<b>4,593</b>	<b>3,447</b>	<b>30,409</b>	<b>22,470</b>	<b>4,032</b>	<b>3,996</b>	<b>30,498</b>
Financial payables		13,858	7,144	3,884	24,886	12,348	5,110	2,558	20,016
Finance lease liabilities		98,513	-	-	98,513	120,254	-	-	120,254
Short-term loans and borrowings and current portion of long-term loans and borrowings	29	-	-	-	-	-	4,478	-	4,478
Long-term loans and borrowings	29	381	-	-	381	395	-	-	395
<b>Total liabilities</b>		<b>112,752</b>	<b>7,144</b>	<b>3,884</b>	<b>123,780</b>	<b>132,997</b>	<b>9,588</b>	<b>2,558</b>	<b>145,143</b>
<b>Total (liabilities)/assets, net</b>		<b>(90,383)</b>	<b>(2,551)</b>	<b>(437)</b>	<b>(93,371)</b>	<b>(110,527)</b>	<b>(5,556)</b>	<b>1,438</b>	<b>(114,645)</b>

Strengthening or weakening of listed below currencies against rouble as at 31 December 2017 and 31 December 2016, would change profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	31 December 2017		31 December 2016	
	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/ decrease)	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/ decrease)
<b>Increase in the rate of currency versus rouble:</b>				
US Dollar	20%	1,301	20%	1,556
Euro	20%	(408)	20%	(889)
Other currencies	20%	(70)	20%	230

	31 December 2017		31 December 2016	
	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/ decrease)	Percent of change in rate of currency versus rouble	Effect on profit after tax ((increase)/ decrease)
<b>Decrease in the rate of currency versus rouble:</b>				
US Dollar	20%	(1,301)	20%	(1,556)
Euro	20%	408	20%	889
Other currencies	20%	70	20%	(230)

As at 31 December 2017 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 14,461 million. The change of other currencies would have no material impact on equity. As at 31 December 2016 the increase in the US dollar rate against rouble by 20% would have led to a reduction in the amount of the Group's equity by RUB 17,684 million. The change of other currencies would have no material impact on equity.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial results and cash flows. Changes in interest rates impact primarily on change in cost of borrowings (fixed interest rate borrowings) or future cash flows (variable interest rate borrowings). At the time of raising new borrowings as well as finance lease management uses judgment to decide whether it believes that a fixed or variable interest rate would be more favourable to the Group over the expected period until maturity.

As at 31 December 2017 and 31 December 2016, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	31 December 2017	31 December 2016
<i>Fixed rate financial instruments:</i>		
Financial assets	39,417	30,127
Financial liabilities	(6,621)	(19,098)
<b>Total fixed rate financial instruments</b>	<b>32,796</b>	<b>11,029</b>
<i>Variable rate financial instruments:</i>		
Financial liabilities	(97,052)	(123,679)
<b>Variable rate financial liabilities</b>	<b>(97,052)</b>	<b>(123,679)</b>

As at 31 December 2017 and 31 December 2016 the Group had loans and finance lease with variable interest rates. If the variable part of interest rates on loans as at 31 December 2017 and 31 December 2016 were 20% higher or lower than the actual variable part of interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2016: would not have changed significantly).

Aircraft fuel price risk

The results of the Group's operations are significantly impacted by changes in the price of aircraft fuel.

The increase or decrease in prices for aircraft fuel as at 31 December 2017 and as at 31 December 2016 would result in a change in the financial result in the amounts presented below:

	31 December 2017		31 December 2016	
	Percent of change in price	Effect on profit after tax ((increase)/ decrease)	Percent of change in price	Effect on profit after tax ((increase)/ decrease)
<b>Increase in the price of aircraft fuel</b>	10%	9,815	10%	8,127
<b>Decrease in the price of aircraft fuel</b>	10%	(9,815)	10%	(8,127)

Capital management risk

The Group manages its capital to ensure its ability to continue as a going concern while maximizing the return to the Company's shareholders through the optimization of the Group's debt to equity ratio.

The Group manages its capital in comparison with rivals in the airline industry on the basis of the following ratios:

- net debt to total capital,
- total debt to EBITDA, and
- net debt to EBITDA.

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Total debt consists of short-term and long-term borrowings (including the current portion), finance lease liabilities, customs duties payable on imported leased aircraft and defined benefit pension obligation.

Net debt is defined as total debt less cash, cash equivalents and short-term financial investments.

Total capital consists of equity attributable to the Company’s shareholders and net debt.

EBITDA is calculated as operating profit before depreciation, amortization and customs duties expenses.

The ratios are as follows:

	As at and for the year ended 31 December 2017	As at and for the year ended 31 December 2016
Total debt	104,792	143,908
Cash and cash equivalents and short-term financial investments	(54,909)	(37,795)
Net debt	49,883	106,113
Equity attributable to shareholders of the Company	65,535	42,453
Total capital	115,418	148,566
EBITDA	56,015	78,004
Net debt/Total capital	0.4	0.7
Total debt/EBITDA	1.9	1.8
Net debt/EBITDA	0.9	1.4

These ratios are analysed by Group’s management over time without any limitations.

There were no changes in the Group’s approach to capital management in 2017 and 2016.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements in 2017 and 2016, except for minimal share capital according to the legislation.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s cash and cash equivalents, financial receivables and investments in securities.

The Group conducts transactions with the following major types of counterparties:

- (i) The Group has credit risk associated with travel agents and industry organisations. A significant share of the Group’s sales is made via travel agencies. Due to the fact that receivables from travel agents are diversified the overall credit risk related to travel agencies is assessed by management as low.
- (ii) Receivables from other airlines and agencies are regulated through the IATA clearing house, in particular for agency sales using BSP and CASS settlement systems, and ARC for part of US agents. Regular settlements ensure that the exposure to credit risk is mitigated to the greatest extent possible.
- (iii) Credit risk arising from dealing with government institutions and banks is assessed as low.
- (iv) Management actively monitors its investing performance and in accordance to current policy investing only in liquid securities with high credit ratings. Management does not expect any counterparty to fail to meet its obligations.
- (v) When working with banks, a system of credit limits is implemented, taking into account that the credit risks that arise when working with banks are limited, and are assessed as low.

As at 31 December 2017 the total amount of investments into securities was RUB 3,252 million (31 December 2016: RUB 3,252 million), major part of financial receivables amounted to RUB 21,140 million relates to receivables regulated by clearing house (31 December 2016: RUB 19,054 million).

The maximum exposure to the credit risk net of impairment provision is set out in the table below:

	31 December 2017	31 December 2016
Cash and cash equivalents (excluding petty cash) (Note 12)	45,891	31,387
Financial receivables (Note 14)	34,991	28,039
Short-term financial investments (Note 17)	8,931	6,319
Long-term financial investments (Note 17)	3,338	3,306
Aircraft lease security deposits (Note 13)	2,025	2,501
Non-current assets	583	148
<b>Total financial assets exposed to credit risk</b>	<b>95,759</b>	<b>71,700</b>

Analysis by credit quality of financial receivables is as follows:

	31 December 2017	31 December 2016
<i>Past due impaired receivables</i>		
- less than 45 days overdue	4	89
- 46 days to 90 days overdue	41	75
- 91 days to 2 years overdue	3,571	7,995
- more than 2 years overdue	8,270	4,183
<b>Total impaired receivables</b>	<b>11,886</b>	<b>12,342</b>

	31 December 2017	31 December 2016
<i>Past due but not impaired</i>		
- less than 90 days overdue	35	33
<b>Total past due but not impaired receivables</b>	<b>35</b>	<b>33</b>

Accounts receivable by category of external credit rating are presented in the table below:

	31 December 2017	31 December 2016
Accounts receivable with investment rating	5,237	3,967
Accounts receivable with non-investment rating	3,510	2,894
Accounts receivable without external rating	26,209	21,145
<b>Total not overdue and not impaired receivables</b>	<b>34,956</b>	<b>28,006</b>

Payables of counterparties with investment rating includes payables with a rating at least BBB- (Fitch and S&P rating agencies) or Baa3 (Moody` rating agency). Payables of counterparties having a rating below the “investing” are classified as “Non-investment rating “. Non-rated payables consist mainly of airline debt, as well as agents BSP, CASS, ARC and direct agents.

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Other measures to manage credit risk in the Group are as follows:

- Applying a system of limits. The limits reflect the Group’s willingness to bear the credit risk within reasonable limits in order to maintain competitiveness and achievement of business objectives. The limit can be set for any source of risk or an individual counterparty. Qualitative factors that take into account the ownership structure (including the presence of an external investment rating), the period of work with the Group, the existence of lawsuits and quantitative coefficients based on the reporting are applied to establish limits.
- Assessment of credit quality of counterparties (credit ratings). The Group applies the internal credit rating system primarily, but not limited to, for agents that sale of passenger and freight traffic. The counterparty’s credit rating is updated on a monthly basis and allows timely response to deteriorating credit quality of the counterparty. The credit rating affects the required amount of financial security under the contract, the recalculation of which also takes place on a monthly basis.
- Regular monitoring of credit risk indicators. Indicators of credit risks allow to reveal in advance the growth of the credit risk of an individual counterparty (a group of counterparties). As a result, the Group may take the necessary actions to prevent financial losses in the event of default of the counterparty. Indicators are applied at the ERP system level. When developing indicators, the company applies methods of quantitative statistical analysis, predictive models, as well as expert indicators.
- Regular reporting on credit risk. Providing regular reporting is an essential component that allows interested persons to observe the efficiency of risk reduction measures and the dynamics of its evaluation. The reporting is provided to the management of the Group, interested structural units, audit commissions, and also to the Board of Directors.

Credit risk concentration

As at 31 December 2017 and as at 31 December 2016, a large portion of cash was placed in two banks, which causes the credit risk concentration for the Group (Note 12).

37. Changes in Liabilities Arising from Financial Activities

The table below summarizes the changes in the Group’s liabilities arising from financial activities for each of the periods presented. Cash flows for these liabilities are reflected in the Statement of Cash Flows as part of financial activities:

	Borrowings	Finance lease liabilities	Other liabilities arising from financing activities	Total
1 January 2017	20,367	122,736	1	143,104
Cash repayment of liabilities	(18,634)	(19,058)	(18,859)	(56,551)
Forex adjustments	350	(1,487)	-	(1,137)
Other changes not related to cash flows	1,098	(1,502)	18,923	18,519
31 December 2017	3,181	100,689	65	103,935
1 January 2016	68,460	164,524	4,800	237,784
Cash repayment of liabilities	(45,893)	(30,192)	(4,410)	(80,495)
Forex adjustments	(5,765)	(435)	-	(6,200)
Other changes not related to cash flows	3,565	(11,161)	(389)	(7,985)
31 December 2016	20,367	122,736	1	143,104

Dividends paid in the amount of RUB 18,859 million are reflected in changes of other liabilities for 2017.

Dividends paid in the amount of RUB 49 million are reflected in changes of other liabilities for 2016.

38. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is an active quoted market price of a financial instrument.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management uses all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The fair value of instruments with a floating interest rate is normally equal to their carrying value. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates effective on debt capital markets for new instruments with similar credit risk and similar maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of financial receivables (Note 14), lease security deposits (Note 13) and deposits for more than 90 days other financial assets and loans issued (Note 17) approximate their fair values, which belong to Level 2 in the fair value hierarchy. Cash and cash equivalents (with exception for cash on hand) belong to level 2 and are carried at amortised cost which is approximately equal to their fair value. The Group’s investment in JSC MASH belongs to Level 3 in the fair value hierarchy and are measured at initial cost less accumulated impairment losses due to the absence of quoted prices.

Liabilities carried at amortised cost

The fair value of financial instruments is measured based on the current market quotes, if any. The estimated fair value of unquoted fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2017 and 31 December 2016, the fair values of financial payables (Note 25), finance lease liabilities (Note 28), loans, borrowings and bonds (Note 29) were not materially different from their carrying amounts. The fair values of financial payables, finance lease liabilities and loans and borrowings are categorised as Levels 2, while bonds are categorised as Level 1 in the fair value hierarchy.

39. Related-Party Transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship attention is directed to the economic substance of the relationship, not merely the legal form.

As at 31 December 2017 and 31 December 2016, the outstanding balances with related parties and income and expense items with related parties for the years ended 31 December 2017 and 31 December 2016 were disclosed below:

Associates

In July 2017, the Group acquired a 25.5% stake in LLC Aeromar-Ufa, which is based at Ufa International Airport. The main activity of the organization is in-flight catering service.

As at 31 December 2017 and 31 December 2016, the outstanding balances with associates and income and expense items with associates for the years ended 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Assets		
Accounts receivable	-	25
Liabilities		
Accounts payable and accrued liabilities	84	120

The amounts outstanding to and from associates will be settled mainly in cash.

	2017	2016
Transactions		
Sales to associates	6	7
Purchase from associates	1,877	1,564

Purchases from associates consist primarily of aviation security services.

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Government-related entities

As at 31 December 2017 and 31 December 2016, the Government of the RF represented by the Federal Agency for Management of State Property owned 51.17% of the Company. The Group operates in an economic environment where the entities are directly or indirectly controlled by the Government of the RF through its government authorities, agencies, associations and other organizations, collectively referred to as government-related entities.

The Group decided to apply the exemption from disclosure of individually insignificant transactions and balances with the state and its related parties because the Russian government has control, joint control or significant influence over such parties.

The Group has transactions with government-related entities, including but not limited to the following transactions:

- banking services,
- investments in JSC MASH,
- finance and operating lease,
- guarantees on liabilities,
- purchase of aircraft fuel
- purchase of air navigation and airport services, and
- government subsidies including those provided for compensating the losses from passenger flights under two government programmes, i.e. flights to and from European Russia for inhabitants of Kaliningrad region and Far East.

Outstanding balances of cash at current rouble, foreign currency and deposit accounts in the government-related banks:

	31 December 2017	31 December 2016
Assets		
Cash and cash equivalents	22,539	13,048

The amounts of the Group's finance lease liabilities are disclosed in Note 28. The share of liabilities to the government-related entities is approximately 73% for finance lease (31 December 2016: 71%). The share of the government-related entities in the amount of the future minimum lease payments under non-cancellable operating leases agreements (note 40) is approximately 36% (31 December 2016: 39%). The share of interest expenses on finance lease is approximately 90% and 38% for operating lease expenses (2016: 86% and 32%, respectively).

For the year ended 31 December 2017 the share of the Group's transactions with government-related entities was about than 24% of operating costs, and more than 2% of revenue (2016: about 20% and less than 3%, respectively). These expenses primarily include supplies of motor fuels, aircraft and engines operating lease expenses, as well as the cost of air navigation and aircraft maintenance services at airports.

As at 31 December 2017 the Group issued guarantees for the amount of RUB 1,618 million to a government-related entity to secure obligations under tender procedures (31 December 2016: RUB 1,225 million).

As at 31 December 2017 the government or government-related entities owned non-controlling interest of particular subsidiaries of the Group amounted to RUB 499 million (31 December 2016: RUB 3,523 million).

Transactions with the state also include taxes, levies and customs duties settlements and charges which are disclosed in Notes 7, 8, 9, 11, 14, 17 and 25.

Compensation of key management personnel

The remuneration of key management personnel (the members of the Board of Directors and the Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group), including salary and bonuses as well as other compensation in 2017, amounted to RUB 2,317 million. In connection with actualization of the Regulation on Remunerations of PJSC Aeroflot, approved by the Board of Directors after reporting date in April 2017, comparative total amount of compensation for the key management (The Board of Directors, the Management Committee and the key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) regarding to the expenses of 2016 year amounted to RUB 2,190 million.

These remunerations are mainly represented by short-term payments. Such amounts are stated before personal income tax but exclude mandatory insurance contributions to non-budgetary funds. According to Russian legislation, the Group makes contributions to the Russian State pension fund as part of compulsory social insurance contributions for all its employees, including key management personnel.

Bonus programmes for key management based on the Company's capitalisation

In 2016 the Group approved bonus programmes for its key management personnel and members of the Company's Board of Directors. These programmes run for 3.5 years and are to be exercised in 4 tranches of cash payments. The amounts of payments depend on the level of increase in the Company's capitalisation, the Company's capitalisation growth rates against its peers based on the results of each reporting period and achievement of target capitalisation by the end of the programmes. The fair value of the liabilities under the bonus programmes as of 31 December 2017, included in accounts payable, was determined based on the expected payment amount for the reporting period from 1 January 2017 till 31 December 2017 and amount of payment deferred till the end of the programmes.

Expenses under bonus programmes amounted to RUB 3,722 million in 2017 and were reflected in labor costs and other financial expenses in the Group's Consolidated Financial Statements of profit or loss Group (in 2016: RUB 1,142 million). As at 31 December 2017, the outstanding amount of the liability under these programmes was RUB 2,558 million (31 December 2016: RUB 1,594 million).

40. Commitments under Operating Leases

Future minimum lease payments under non-cancellable aircraft and other operating lease agreements with third and related parties (Note 39) are as follows:

	31 December 2017	31 December 2016
On demand or within 1 year	73,565	58,191
Later than 1 year and not later than 5 years	272,048	218,479
Later than 5 years	314,968	239,224
Total operating lease commitments	660,581	515,894

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the amounts.

The aircraft that the Group has operated under operating lease agreements as at 31 December 2017 are listed in Note 1. The Group received aircraft under operating lease agreements for the term of 1 to 16 years. The agreements are extendable.

The Group entered into a number of agreements with Russian banks under which the banks guarantee the payment of the Group's liabilities under existing aircraft lease agreements.

41. Capital Commitments

As at 31 December 2017, the Group agreements on future acquisition of property, plant and equipment with third parties amounted to RUB 394,937 million (31 December 2016: RUB 418,671 million).These commitments mainly relate to purchase of 22 Boeing B787 (31 December 2016: 22 aircraft), 22 Airbus A350 (31 December 2016: 22 aircraft), 15 Airbus A320/321 (31 December 2016: 33 aircraft) and 6 Boeing B777 (31 December 2016: 1) aircraft which are expected to be used under operating or finance lease agreements, therefore no cash outflow on entered agreements is expected.

42. Contingencies

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The Group continues to monitor the situation and executes set of measures to minimize influence of possible risks on operating activity of the Group and its financial position.

Tax contingencies

The taxation system in the RF continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes fuzzy and contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to audit and investigation by a number of authorities, which have the authority to impose severe fines and penalties charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the RF suggest that the tax authorities are taking a more tough stance in their interpretation and enforcement of tax legislation.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017  
(All amounts in millions of Russian Roubles, unless otherwise stated)  
continued

These circumstances may create tax risks in the RF that are substantially more significant than in other countries. The Group's management believes that it has provided adequately for tax liabilities in these Consolidated Financial Statements based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of these provisions by the relevant authorities could differ and the effect on these Consolidated Financial Statements, if the authorities were successful in enforcing their interpretations, could be significant.

Since 1 July 2015, the Russian Government has decided to decrease VAT on domestic passenger and luggage carriage by air to 10% for two years, in 2017 the term was extended until 31 December 2020. This is aimed at improving the financial and economic position of the airlines providing domestic services.

In accordance with amendments to the Russian Tax Code made in 2015, excise duties charged on the aviation fuel obtained by the Group's airlines are subject to deduction using the following special coefficients: 1.84 for 2016, 2.08 for 2017.

Since 1 January 2015, the Russian Tax Code has been supplemented with the framework of beneficial ownership to the income paid from the RF (beneficial ownership framework) for the purposes of applying tax benefits under the Double Tax Treaties (DTT). Given the ambiguity of the new rules application procedure and absence of any practice to that effect, it is impossible to reliably assess the potential outcome of any disputes with tax authorities over compliance with the beneficial ownership confirmation requirements, however they may have a significant impact on the Group.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between Group companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Changes in tax legislation or its enforcement in relation to such issues as transfer pricing may lead to an increase in the Group's effective income tax rate.

In addition to the above matters, as at 31 December 2017 and 31 December 2016 management estimates that the Group has no possible obligations from exposure to other than remote tax risks. Management will vigorously defend the Group's positions and interpretations that were applied in calculating taxes recognised in these Consolidated Financial Statements, if these are challenged by the tax authorities.

Insurance

The Group maintains insurance in accordance with the legislation. In addition, the Group insures risks under various voluntary insurance programs, including management's liability, Group's liability and risks of loss of aircraft under operating and finance lease.

Litigations

During the reporting period the Group was involved (both as a plaintiff and a defendant) in a number of court proceedings arising in the ordinary course of business. Management believes that there are no current court proceedings or other claims outstanding which could have a material effect on the results of operations and financial position of the Group.

As at 31 December 2017 the Group's subsidiaries JSC Orenair and JSC Donavia were within bankruptcy process, thus their assets of RUB 1,779 million, including cash and cash equivalents in the amount of RUB 422 million, have had limited availability to the Group as it is defined by Russian legislation.

43. Subsequent Events

In February 2018, the Company and the leasing company Aviakapital-Servis (a subsidiary of the State Corporation Rostec) signed a firm contract for the delivery of 50 MS-21 aircraft under lease contract for 12 years.

Entities in which PJSC Aeroflot  
Holds Shares or Interest  
as at 31 December 2017

Full and abbreviated name	Stake, %	Purpose	Form	Amount, RUB thousand	Core operations as defined in the Articles of Association	Revenue in 2017, RUB thousand*	Profit (loss) in 2017, RUB thousand*	Dividends received in 2017, RUB thousand
Joint Stock Company Rossiya Airlines, JSC Rossiya Airlines	74.9999	Consolidate airlines to establish a strong national carrier based on PJSC Aeroflot, by implementing the best corporate governance standards	shares	689,173	Domestic and international air carriage of passengers, baggage, cargo and mail, and provision of aviation services, including services for passengers and baggage	94,811,510	4,195,560	—
Joint Stock Company Aurora Airlines, JSC Aurora Airlines	51	Consolidate airlines to establish a strong national carrier based on PJSC Aeroflot, by implementing the best corporate governance standards	shares	3,964	Domestic and international commercial air carriage of passengers and cargo, and other aviation services	17,491,190	210,702	—
Joint Stock Company Orenburg Airlines, JSC Orenair	100	Consolidate airlines to establish a strong national carrier based on PJSC Aeroflot, by implementing the best corporate governance standards	shares	665,503	Domestic and international commercial flights	73,317	(1,793,552)	—
Joint Stock Company DONAVIA, JSC DONAVIA	100	Consolidate airlines to establish a strong national carrier based on PJSC Aeroflot, by implementing the best corporate governance standards	shares	328,863	Domestic and international air carriage of passengers, baggage, cargo and mail, and provision of aviation services, including services for passengers and baggage	—	(1,795,937)	—
Limited Liability Company Pobeda Airlines, LLC Pobeda Airlines	100	Consolidate airlines to establish a strong national carrier based on PJSC Aeroflot, by implementing the best corporate governance standards	interest	1,200,000	Domestic and international commercial air carriage of passengers, baggage, cargo and mail, in line with the Air Code and other civil aviation laws and regulations of the Russian Federation, the Company's internal regulations, and duly issued airline licences	20,296,003	3,499,236	1,666,011
Joint Stock Company Sherotel, JSC Sherotel	100	Provide hotel accommodations for PJSC Aeroflot's crews, premises for lease, passenger services in business lounges, implement investment projects	shares	882,813	Hotel accommodation services and services in luxury lounges at airports	1,353,613	259,216	49,011

Entities in which PJSC Aeroflot Holds Shares or Interest as at 31 December 2017  
continued

Full and abbreviated name	Stake, %	Purpose	Form	Amount, RUB thousand	Core operations as defined in the Articles of Association	Revenue in 2017, RUB thousand*	Profit (loss) in 2017, RUB thousand*	Dividends received in 2017, RUB thousand
Limited Liability Company Aeroflot-Finance, LLC Aeroflot–Finance	99.9999	Implement investment projects	stake in share capital	5,729,229	Implementation of financial projects	10,594,995	919,307	1,599,998
Limited Liability Company A-Technics, LLC A-Technics	Founded by LLC Aeroflot-Finance	Provide maintenance and maintain airworthiness for Aeroflot Group's aircraft	–	–	Maintenance and repair of Russian and foreign-made aircraft	1,777,351	327,697	–
Closed Joint Stock Company Aeromar, CJSC Aeromar	51	Provide in-flight catering services for PJSC Aeroflot's flights	shares	28	Production and supply of food for in-flight catering, in-flight shopping service, aircraft cleaning and outfitting	19,492,359	1,443,383	222,830
Limited Liability Company Transnautic Aero GmbH	49	Implement investment projects	stake in share capital	105	Cargo flight sales agent, the company went out of business	–		
Joint Stock Company AeroMASH–Aviation Security, JSC AeroMASH–Aviation Security	45	Provide aviation security services for passengers and aircraft	shares	45	Aviation security services at airports	3,354,406	352,844	–
Joint Stock Company International airport Sheremetyevo, JSC MAS	2.43	Implement investment projects	shares	2,259,687	Airport operations	28,504,538	9,987,804	24,398**
Public Joint Stock Company Transport Clearing House, JSC TCH	3.85	Implement investment projects	shares	50	Flight sales settlement services	2,000,781	867,675	20,172***
Private Vocational Education Institution Aeroflot Aviation School, Aeroflot Aviation School	Founded by PJSC Aeroflot	Provide professional training and professional development training for Aeroflot Group's employees	Founder's contribution	–	Training services including those for flight attendants	616,929	31,244	–

\* According to RAS.  
\*\* Including tax on dividends.  
\*\*\* Net of VAT (13%).

# Major Transactions and Interested Party Transactions

## Major transactions

In 2017, PJSC Aeroflot made transactions recognised as major transactions according to Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995; the need to approve such transactions is set forth in Article X of the Federal Law On Joint-Stock Companies. Information on such transactions is contained in the Report on PJSC Aeroflot's Major Transactions in 2017 approved on 29 May 2018 and available in the Materials for General Meetings of Shareholders section of the Company's official website at <http://ir.aeroflot.ru/ru/corporate-governance/general-meeting-of-shareholders/>.

## Interested party transactions

In 2017, PJSC Aeroflot made transactions recognised as interested party transactions according to the Federal Law On Joint-Stock Companies; the need to approve such transactions is set forth in Article XI of the Federal Law On Joint-Stock Companies. Information on such transactions is contained in the Report on PJSC Aeroflot's Interested Party Transactions in 2017 approved on 29 May 2018 and available in the Materials for General Meetings of Shareholders section of the Company's official website at <http://ir.aeroflot.ru/ru/corporate-governance/general-meeting-of-shareholders/>.

# Execution of Presidential and Governmental Instructions

No.	Document type, date, and number	Summary	Execution status
1	<b>Ensuring the transparency of financial and business activities</b> <b>(Federal Law No. 273-FZ On Countering Corruption dated 25 December 2008, Decree of the President of the Russian Federation No. 309 On Measures to Implement Certain Provisions of the Federal Law On Countering Corruption dated 2 April 2013, Decree of the President of the Russian Federation No. 460 On Approval of the Form of Statement to Inform on Income, Expenses, Property and Property-Related Obligations, and Amendments to Certain Acts of the President of the Russian Federation dated 23 June 2014, Decree of the President of the Russian Federation No. 147 On National Anti-Corruption Plan for 2016–2017 dated 1 April 2016)</b>		
1.1	Decree of the President of the Russian Federation No. 147 On the National Anti-Corruption Plan for 2016–2017 dated 1 April 2016	Clause 2 of the Decree. Establish control over the execution of initiatives stipulated by anti-corruption plans. Clause 5 of the Plan. Continue to form the negative attitude of employees to corruption. Clause 8 of the Plan. Improve the efficiency of anti-corruption initiatives in entities. Clause 15 of the Plan. Make provision to consider the status of anti-corruption efforts at the meetings (sessions) of relevant panels and take specific actions to improve such efforts. Clause 17 of the Plan. a) Conduct professional development training for employees who are in charge of countering corruption at state-owned enterprises (companies) in line with educational programmes approved by the Presidential Executive Office b) Monitor the implementation of anti-corruption initiatives in subsidiaries	In November 2014, PJSC Aeroflot signed up to the Anti-Corruption Charter of Russian Business (certificate No. 0514 dated 5 November 2014) and is actively involved in anti-corruption efforts under the Charter. In 2017, a declaration procedure was conducted via the Chamber of Commerce and Industry of the Russian Federation to verify the completeness, accessibility, and efficiency of anti-corruption measures implemented by PJSC Aeroflot. PJSC Aeroflot is working to implement the Guidelines on Anti-Corruption Risk Management and Internal Controls in Partially State-Owned Joint-Stock Companies (the Guidelines) approved by Order No. 80 of the Federal Agency for State Property Management dated 2 March 2016. On 28 April 2016, PJSC Aeroflot's Board of Directors approved and implemented the Roadmap for Anti-Corruption Risk Management and Internal Control Processes at PJSC Aeroflot. To implement the Roadmap, PJSC Aeroflot: – in line with Order No. 143 dated 6 May 2016, introduced the role of Deputy Director of the Department for Economic Security responsible for compliance management at PJSC Aeroflot – developed and approved plans of business units to develop/update operating documents aimed at setting up a risk management and internal control system to prevent and counter corruption – on 5 October 2016, approved the Programme to Develop, Implement, and Ensure the Effectiveness of Initiatives Aimed at Preventing and Countering Corruption Prevention at PJSC Aeroflot, which includes anti-corruption actions undertaken by PJSC Aeroflot on an ongoing basis. Corruption Risk Management Section was added to the Company's Standard STO UR 21.9 Risk Management. Risk Management Procedure. General Provisions (Version 01) in line with Order No. 288 dated 27 July 2017. In August–November 2017, the Internal Audit Department conducted the second annual audit (assessment) of the performance of the Company's anti-corruption risk management and internal controls prescribed by clause 5.3 of the Guidelines. Following the audit, measures to further enhance these processes were developed and implemented. Pursuant to sub-clause a, clause 17 of the National Anti-Corruption Plan for 2016–2017, the Company signed a framework contract with Rosatom Institute for Global Nuclear Safety and Security (since August 2017, reorganized into Rosatom Technical Academy) to arrange for professional development training courses for PJSC Aeroflot's employees, valid until 31 December 2018 (No. 29063984/R922-28/03.05.2017), which provides for professional development training in anti-corruption programmes in line with PJSC Aeroflot's applications for services. Under the contract, employees of PJSC Aeroflot's business units (92 people) completed the following professional development training course: Compliance of Employees of State-Owned Enterprises (Companies) with the Restrictions, Bans, and Liabilities Established to Counter Corruption. Employees of the Legal Department and Department for Economic Security involved in anti-corruption efforts participated in the Corruption Offences Prevention in Corruption Countering workshop conducted by the Prosecutor General's Office of the Russian Federation and the Moscow Government on 18–19 April 2017. The Company participated in: – the VI Eurasian Anti-Corruption Forum “Social Control as a Key Factor of Anti-Corruption” conducted by the Institute of Legislation and Comparative Law Under the Government of the Russian Federation on 26–27 April 2017 – the All-Russian Interactive Campaign conducted by the Chamber of Commerce and Industry of the Russian Federation on 11 December 2017 to celebrate the International Anti-Corruption Day. As part of the review of business best practices to counter corporate corruption, PJSC Aeroflot made a presentation on this matter. To inform and educate PJSC Aeroflot's employees on preventing and countering corruption, 28 Anti-Corruption information boards were manufactured and placed in unrestricted access areas of PJSC Aeroflot.
1.2	Instruction of the Government of the Russian Federation No. DM-P17-2666 dated 5 May 2016	Ensure the implementation of the National Anti-Corruption Plan for 2016–2017 and submit appropriate proposals or draft reports: under clauses 2 and 4 of the Decree: as regards the submission of reports on implementing initiatives stipulated by anti-corruption plans quarterly starting from 1 October 2016 under clause 5 and sub-clause b, clause 6 of the National Plan by 1 November 2017 under clause 8 of the National Plan by 1 July 2016 (remains monitored) under clause 17 of the National Plan by 1 April 2017.	

No.	Document type, date, and number	Summary	Execution status
1.3	The Guidelines on Anti-Corruption Risk Management and Internal Controls in Partially State-Owned Joint-Stock Companies (approved by Order No. 80 of the Federal Agency for State Property Management on 2 March 2016)	Clause 3.1. Identifying and assessing corruption risks, areas (business processes), and operations exposed to corruption risks Clause 4.1. Constant informing of employees, counterparties, and potential business partners on activities to prevent and counter corruption Clause 4.3. Anti-corruption training for all employees Clause 5.2. Regular audit of the performance of anti-corruption risk management and internal controls is conducted within the framework of audits by the Internal Audit Service, as well as external audits (certification) of anti-corruption risk management and internal controls	Materials designed to raise employees' awareness were prepared, including: – a quick reference card on criminal liability for bribery and commercial bribery, and administrative action for illegal remuneration on behalf of a legal entity – a quick reference card on liability for committing corruption offences – a booklet “What you need to know about the conflict of interest” – a booklet “Why entities need to take measures to prevent and counter corruption?” The following regulations on preventing and countering corruption were developed and updated: – Regulations on the Anti-Corruption and Conflict of Interest Commission at PJSC Aeroflot established in line with Order No. 83 dated 6 March 2017 were developed (Order No. 224 dated 31 May 2017) – Procedure for reporting to the employer on personal interest that leads or may lead to a conflict of interest was updated to cover all PJSC Aeroflot's employees (Order No. 253 dated 29 June 2017), and updated again later (Order No. 20 dated 18 January 2018)
1.4	Instruction of the Government of the Russian Federation No. P17-53932 dated 16 October 2017	Clause 8 of the National Anti-Corruption Plan for 2016–2017 remains monitored. By 1 February 2018, submit information on measures taken to enhance the effectiveness of anti-corruption efforts in entities established to fulfil the tasks set for the Government of the Russian Federation between 15 March 2017 and 1 January 2018.	Specific provisions aimed at preventing and countering corruption were added, in particular, to the following internal regulations of PJSC Aeroflot: – Template Regulations on PJSC Aeroflot's Branch, to establish obligations and responsibilities of the directors of branches (Order No. 100 dated 16 March 2017) – Template Regulations on PJSC Aeroflot's Representative Office Abroad, to establish obligations and responsibilities of heads of representative offices (Order No. 115 dated 20 March 2017) – Regulations on Internal Investigation, to cover corruption offences investigation and enable the questioning of employees using a polygraph (Order No. 146 dated 10 April 2017) – Procedure for interaction between business units when procuring goods and services, to determine the requirements to prevent a conflict of interest (Order No. 175 dated 27 April 2017) – The Company's Standard STO DOU 07 Management Document Support. Procedure for Preparation, Signing, Amendment, Execution, and Termination of PJSC Aeroflot's Agreements, to appoint responsible persons and determine the procedure for reporting to the former employee on signing of a civil contract with a citizen who was a public or municipal official within two years after they left public or municipal service (Order No. 243 dated 20 June 2017) – Regulations on the Procurement of Goods, Works, and Services (approved by PJSC Aeroflot's Board of Directors on 23 June 2017), to stipulate anti-corruption requirements to bidders (in line with Federal Law No. 489-FZ dated 28 December 2016), expand requirements for preventing a conflict of interest, and introduce anti-corruption questionnaires for bidders – Template employment contracts with PJSC Aeroflot's employees, to stipulate employees' obligations (Order No. 364 dated 14 September 2017) – Regulations on the Formation and Use of the Charity Fund, to stipulate provisions aimed at preventing and countering corruption in relevant activities (approved by PJSC Aeroflot's Board of Directors on 28 September 2017) – Regulations on PJSC Aeroflot's Commission on Real Estate Disposals (buildings, structures, premises, and land plots), to determine requirements for preventing a conflict of interest (Order No. 478 dated 6 December 2017) – Regulations on business units (including branches and representative offices), their structural units, job descriptions, and instructions for blue collar employees, which were amended to establish anti-corruption obligations and responsibilities of directors and other employees Furthermore, the following initiatives were implemented: – Information on PJSC Aeroflot's anti-corruption regulations in the Anti-Corruption Policy section of PJSC Aeroflot's intranet website is updated – Emails describing specific anti-corruption activities implemented in the Company were sent to all corporate email users – Emails detailing certain aspects of implementation of the approved Programme to Develop, Implement, and Ensure the Effectiveness of Initiatives Aimed at Preventing and Countering Corruption at PJSC Aeroflot were sent to all deputy CEOs and directors of business units – Emails dedicated to compliance with the extraterritorial local laws on countering corruption were sent to certain representative offices of PJSC Aeroflot abroad As part of ongoing anti-corruption efforts, PJSC Aeroflot implements the following initiatives: – PJSC Aeroflot's employees are briefed on compliance with PJSC Aeroflot's Corporate Conduct Code – All communications coming from Aeroflot Group's employees, customers, business partners, and other parties through the Hotline for Confidential Reports to the Board of Directors (Audit Committee of the Board of Directors) are reviewed

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
			<div><div>– PJSC Aeroflot’s regulations and draft regulations are examined to reveal the potential for corruption and eliminate it using the methods approved by Resolution of the Russian Government No. 96 On Anti-Corruption Examination of Statutory Regulations and Draft Statutory Regulations dated 26 February 2010</div><div>– PJSC Aeroflot assesses its business partners, competitors, and customers</div><div>– PJSC Aeroflot collects comprehensive information from its counterparties about their ownership structure including beneficiaries (in particular, ultimate beneficiaries) and composition of their executive bodies, and, and submits this information to competent government authorities</div><div>– The standard anti-corruption clause is incorporated in contracts and agreements signed with PJSC Aeroflot’s counterparties</div><div>– PJSC Aeroflot examines draft contracts and agreements with Russian and foreign counterparties</div><div>– The Company oversees the application of legal sanctions for non-compliance with the bans, restrictions, and requirements aimed at countering corruption</div><div>– The Company regularly controls its accounting records, availability and accuracy of primary accounting documents</div><div>– PJSC Aeroflot audits the financial and business operations of its business units, branches and representative offices, and subsidiaries</div><div>– PJSC Aeroflot interacts with law enforcement authorities and other government authorities to matters related to countering corruption within the Company</div><div>– Information about the execution of instructions is sent to the Executive Office of the Government of the Russian Federation and the Ministry of Transport of the Russian Federation within prescribed timelines</div></div>
1.5	Article 92 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995 Chapter VIII of Decree of the Federal Financial Market Service of Russia No. 11-46/pz-n On Approval of the Regulations on Information Disclosure by Securities Issuers dated 4 October 2011 Decree of the Ministry of Economic Development of the Russian Federation No. 208 On Approval of Information Disclosure by State-Owned Joint-Stock Companies and by State (Municipal) Unitary Enterprises dated 11 May 2011	Disclose information to the extent and in the manner specified by the federal executive authority for the securities market. Joint-stock companies included in the projected privatisation plan are obliged to disclose information.	Regulations on information exchange through the interdepartmental portal for state property management were approved by PJSC Aeroflot’s Board of Directors on 4 April 2012 (Minutes No. 11). Reports on shareholder and investor relations are submitted to the Board of Directors on a quarterly basis. The Company fully complies with the requirements to disclose information set out in Russian laws. In particular, all information is disclosed on PJSC Aeroflot’s website and in the news feed. Procedure for submission and disclosure of information on material facts about the Company and information treated as the Company’s insider information was approved by Order No. 80 dated 5 March 2015.
1.6	Paragraph 7, clause 2 of Minutes of a meeting held at the office of First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISH-P13-98pr dated 3 October 2013	Publish resolutions of boards of directors that are not treated as commercially sensitive information.	Execution is in progress in line with applicable Russian laws on information disclosure. The minutes of PJSC Aeroflot’s Board of Directors are posted in the Company’s account on the interdepartmental portal for state property management.
1.7	Instruction of the Government of the Russian Federation No. P17-1771 dated 17 January 2017	On submission of: – lists of managers who must submit information on their income, expenses, property, and property-related obligations in line with anti-corruption laws by 6 February 2017 – information on their income, expenses, property, and property-related obligations, as well as their spouse’s and minor children’s income, expenses, property, and property-related obligations for 2016 by 30 April 2017.	The information was submitted within prescribed timelines.
1.8	Instruction of the Government of the Russian Federation No. P17-46158 dated 4 September 2017	For the purpose of developing a draft regulation which will establish a list of long-term corporate measures to enhance the efficiency of the national anti-corruption policy, submit reasoned proposals to be included in the above list by 1 October 2017.	Proposals were submitted to the Executive Office of the Government of the Russian Federation within prescribed timelines (our reference number of the outgoing document: 09-943, date: 28 September 2017).

No.	Document type, date, and number	Summary	Execution status
2	On specifics of participation of small and medium-sized enterprises in procurement of goods, works, and services by certain types of legal entities (Decree of the President of the Russian Federation No. 287 On Measures to Further Develop Small and Medium-Sized Enterprises dated 5 June 2015, Resolution of the Government of the Russian Federation No. 1352 dated 11 December 2014)		
2.1	Instruction of the Government of the Russian Federation No. 6362p-P13 dated 24 October 2013	Ensure the efficiency of the customer’s interaction with small and medium-sized enterprises (SMEs), including as regards procurement of innovative products:  1. Set up an Advisory Board in charge of independent audit of procurement efficiency   2. Develop Regulations on the Advisory Board, ensure the transparency of its activities   3. Ensure control over the efficiency of the customer’s one-stop-shop system to implement innovative products and results of research, development, and technological work carried out by SMEs, and ensure mutual technology transfer   4. Ensure maximum transparency of the activities of the Advisory Board in charge of independent audit of procurement efficiency   5. Create a special section in the Annual Report on the efficiency of procurement from small and medium-sized enterprises   6. Develop, with the involvement of the Advisory Board’s representatives, approve, and put into effect the Regulations on Procedures and Rules for Implementing Innovative Solutions in the Customer’s Activities	<div>The Advisory Board was set up (Order No. 188 dated 19 June 2014), amendments were made (Order No. 91 dated 24 March 2016), the membership structure of the Advisory Board was approved by Instruction No. 242/U dated 18 December 2014, amendments were made (Instruction No. 240/U dated 15 December 2015). Regulations on the Advisory Board were developed (RI-GD-227, Appendix to Order No. 188 dated 19 June 2014).</div> <div>Commercial launch of the one-stop-shop system took place in April 2017.</div> <div>Information on the Advisory Board’s activities, including minutes of its meetings, is published in the relevant section of the website at <a href="http://www.aeroflot.ru/cms/content/soveshchatelnyi-organ">http://www.aeroflot.ru/cms/content/soveshchatelnyi-organ</a>.</div> <div>Section 3.12 Procurement was included in PJSC Aeroflot’s Annual Report available on the Company’s website at <a href="http://ir.aeroflot.ru/ru/akcioneram-i-investoram/">http://ir.aeroflot.ru/ru/akcioneram-i-investoram/</a>.</div> <div>Regulations on Procedures and Rules for Implementing Innovative Solutions (RI-GD-303) were approved by Order No. 248 dated 18 July 2016.</div>

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
		<p>7. Make amendments to the customer's regulations on procurement or other executive documents with respect to procurement involving SMEs only, which stipulate:</p> <ul style="list-style-type: none"><li>– mandatory granting to SMEs of the right to choose between bank guarantee and cash collateral as the bid security, as well as introduction of additional (to bank guarantee and cash collateral) bid security terms, and granting to small and medium-sized enterprises of the right to select the terms of bid security</li><li>– mandatory return by the customer of the bid security within no more than seven business days from the announcement of the bidding results to all SME bidders, except for those ranked 1st and 2nd in the bidding</li><li>– mandatory return by the customer of the bid security within seven business days from signing a contract with SME bidders ranked 1st and 2nd in the bidding</li><li>– the customer's obligation to limit the term from signing a contract with SMEs to 20 business days</li><li>– the customer's obligation to set a maximum period for payment for work completed at 10 business days after the date of closing documents with an SME acting as the service provider, and a maximum period of 10 business days from the completion date of obligations secured by a deferred payment if a contract provides for a deferred payment as a security of the supplier's (contractor's, service provider's) obligations</li><li>– the possibility to assign claims under contracts with SMEs to financial institutions</li></ul>	<p>Amendments were made. Regulations on Procurement taking into account the specifics of participation of small and medium-sized enterprises were approved by the Board of Directors on 29 April 2016 (Minutes No. 16).</p>
		<p>8. Develop and adopt a mandatory performance measure for the management – the proportion of procurement contracts awarded to SMEs, including procurement of innovative goods (works, services), R&amp;D and technology projects (share of procurement). The share of procurements shall be determined based on the customer's quarterly statistics on the participation of SMEs in customers' procurement, including the procurement of innovative goods (works, services), R&amp;D and technology projects. Design systemic incentive (penalty) measures for compliance (non-compliance) with the above performance measure for the management (aligned with the financial efficiency of the customer's operations)</p>	<p>The relevant measure was included in KPI lists for department director level managers engaged in the procurement of goods, works, and services in 2014. The Achievement of Targets for the Share of Procurement from SMEs KPI weighing 5% was included in the list of bonus KPIs. The KPI is measured based on the year-end results in order to exclude the seasonal factor from the assessment of procurement from SMEs.</p>
		<p>9. Make amendments to the customer's documents on determining relevant statistics and including mandatory measures reflecting the company's innovative development in the list of KPIs for the customer's top management:</p> <ul style="list-style-type: none"><li>– Overall Productivity KPI with an annual growth of at least 5% until the industry average for foreign peers is achieved in 2018</li><li>– Efficient Energy Use KPI with an annual growth of at least 5% until the industry average for foreign peers is achieved in 2018</li><li>– Environmental Friendliness KPI not lower than that of foreign peers</li></ul>	<p>The Overall Productivity KPI (for Aeroflot Group) were included in the list of KPIs of PJSC Aeroflot's CEO/management in 2015.</p>
			<p>The Efficient Energy Use and Environmental Friendliness KPIs were included in PJSC Aeroflot's KPI system and KPI lists for relevant department heads in 2015.</p>

No.	Document type, date, and number	Summary	Execution status
2.2	Instruction of the Government of the Russian Federation No. 7377p-P13 dated 7 December 2013	<p>Ensure the efficiency of the customer's interaction with SMEs, including as regards procurement of innovative products.</p> <p>1. Increase the share of e-procurement in the total annual volume of procurement through public tenders to the extent and within the timelines stipulated in paragraph 7 of the Road Map:</p> <ul style="list-style-type: none"><li>– the share of e-procurement in the total annual volume of procurement through public tenders in 2015 should be at least 45%</li><li>– the share of e-procurement in the total annual volume of procurement through public tenders in 2016 should be at least 50%</li><li>– the share of e-procurement in the total annual volume of procurement through public tenders in 2017 should be at least 60%</li><li>– the share of e-procurement in the total annual volume of procurement through public tenders in 2018 should be at least 70%</li></ul> <p>2. Make amendments to the customer's regulations on procurement or other executive documents (when approving the specifics of procurement from SMEs) by separate documents stipulating that at least 20% of the annual procurement of standard products should be allocated to procurement of innovative products that can be replaced with innovative products developed by SMEs</p> <p>3. Develop a pilot programme of partnership with SME associations</p> <p>4. Prepare proposals for simplifying the procurement procedure for SMEs by reducing, simplifying, and standardising the documents required for SMEs participation in customers' procurement</p> <p>5. Develop a methodology for determining the life cycle of goods, works and services to be procured</p> <p>6. Develop and introduce criteria for evaluating and comparing bids based on the "life cycle cost of a product or work result" for innovative, high-tech, or technically sophisticated products in the procurement procedures</p> <p>7. Ensure that annual procurement of innovative, hi-tech or technically sophisticated products is conducted using the "life cycle cost of a product or work result" criterion</p>	<p>Execution is in progress taking into account the Company's business specifics.</p> <p>Execution is completed. In 2015, e-procurement accounted for 48.296% of total procurement by value.</p> <p>Execution is completed. In 2016, e-procurement accounted for 56.36% of total procurement by value.</p> <p>Execution is completed. In 2017, e-procurement accounted for 61.09% of total procurement by value.</p> <p>Execution is scheduled for 2018.</p> <p>Amendments were made. The version of the Regulations on Procurement of Goods, Works, and Services was approved by PJSC Aeroflot's Board of Directors on 20 May 2016 (Minutes No. 67).</p> <p>The pilot programme of the Company's partnership with SMEs was developed and approved by the CEO's Order No. 408 dated 25 November 2015. As at 1 January 2018, 35 SMEs joined the pilot partnership programme.</p> <p>Procurement document templates were approved, with a focus on the procurement procedures in place at the Company (requests for proposals, tender). Document templates were developed taking into account the simplified participation of SMEs in procurement.</p> <p>The methodology for determining the life cycle of goods, works, and services to be procured (the Methodology) was approved by the CEO's Order No. 321 dated 28 September 2015 after obtaining a positive opinion of the auditor, Higher School of Economics (No. 6.18.1-19/1706-06 dated 17 June 2015).</p> <p>Execution is in progress in line with the approved Methodology.</p> <p>Execution is in progress in line with the approved Methodology.</p>

Execution of Presidential and Governmental Instructions continued

2.3	Decree of the Government of the Russian Federation No. 2258-r dated 6 October 2015, Resolution of the Government of the Russian Federation No. 1169 dated 29 October 2015	On assessment of draft plans for procurement of goods, works, and services; draft plans for procurement of innovative and high-tech products, pharmaceutical products; draft amendments to these plans, prior to approval, for their compliance with Russian laws providing for SMEs participation in procurement and the requirements of JSC Russian Small and Medium Business Corporation (RSMB Corporation).	PJSC Aeroflot's draft procurement plan for purchases of goods, works, and services in 2017 was published in the unified information system on 26 December 2016, No. 2160197696 (notification No. P2160197696001) and complies with Russian laws (Findings of RSMB Corporation No. OZS-1208/2016 dated 26 December 2016). All amendments to the plan were published in the unified information system in due time and their compliance with Russian laws was approved by RSMB Corporation. The CEO of RSMB Corporation Alexander Braverman highly appreciated PJSC Aeroflot's efforts to increase the procurement of goods, works, and services from SMEs; for significant contribution to SMEs development, he also expressed his acknowledgement to PJSC Aeroflot's CEO, Deputy CEO for Legal and Property Matters Vladimir Alexandrov, as well as the Company's employees; Mr Garrov and Ms Mochalova, employees of the Procurement Management Department were noted for being highly professional and competent (Letter No. AB-11/894 dated 24 January 2018, our reference number: 740, date: 29 January 2018).
3	On procurement		
3.1	Clause 2 of the List of Instructions issued by the Government of the Russian Federation No. DM-P9-8413 dated 12 December 2015 on procurement regulation and the development of relevant procurement regulations for purchases of goods, works, and services Instruction of the Government of the Russian Federation No. 2793p-P13 dated 19 April 2016 (our reference number: 3773, date: 17 May 2016)	Instructions: 1. Develop and adopt procurement regulations for purchases of goods, works, and services by 30 April 2016. Procurement regulations shall specify price limits for listed goods, works, and services, and/or requirements to their quantity, usability, and other characteristics. The regulations shall focus on meeting the needs of customers without promoting purchases of goods, works, and services with excessive consumer properties  2. Publish procurement regulations on websites of joint-stock companies by 30 April 2016  3. Starting from 1 May 2016, ensure mandatory application of procurement regulations when planning business activities  4. Starting from 2017, conduct annual monitoring (on a year-on-year basis) of procurement performance in joint-stock companies, including adherence to the requirements of the approved procurement plan and relevant regulations for purchases of goods, works, and services for the needs of joint-stock companies, as well as fitness of the goods, works, and services purchased by joint-stock companies for purposes of their business defined in the articles of association  5. Annually adjust (update) procurement regulations for purchases of goods, works, and services for the needs of joint-stock companies. Implement these requirements across subsidiaries and associates	The list of certain goods, works, and services which shall comply with the requirements set out for their usability and other characteristics was approved by the CEO's Order No. 296 dated 23 August 2016.  The list was published on PJSC Aeroflot's website (Documents subsection, Sales and Procurement section).  The report On Procurement Activities is submitted to the Management Board and the Board of Directors of PJSC Aeroflot on a quarterly basis. Furthermore, annual monitoring of procurement activities is conducted by the Revision Committee with a mandatory report by the Chairman of the Bidding Commission and the Director of the Procurement Management Department. A meeting of the Advisory Board in charge of independent audit of PJSC Aeroflot's procurement efficiency takes place on a quarterly basis. The minutes of meetings are available on the Company's website.  The order does not need to be amended (Order No. 296 dated 23 August 2016).  The requirements apply to the subsidiaries which arrange for the approval of reports on procurement activities.

No.	Document type, date, and number	Summary	Execution status
3.2	Instruction of the Government of the Russian Federation No. 6558p-P13 On Amendments to the Company's Procurement Policy for Purchases of Innovative Building Materials dated 5 September 2016 (our reference number: 6855, date: 12 September 2016)	Instructions: – amend the procurement policy to give priority to purchases of innovative building materials made in Russia – amend the procurement policy to provide an opportunity to sign long-term contracts with Russian manufacturers of building materials for supply of innovative building materials with guaranteed supply volumes in the future, and with the manufacturers that have duly entered into special investment agreements to start manufacturing these products – implement the directives across subsidiaries of joint-stock companies.	The Regulations on Procurement of Goods, Works, and Services were amended to give priority to purchases of innovative building materials made in Russia and provide an opportunity to sign long-term contracts with Russian manufacturers of building materials for supply of innovative building materials with guaranteed supply volumes in the future, and with the manufacturers that have duly entered into special investment agreements to start manufacturing these products (clause 6.1.2.8). The respective version of the Regulations on Procurement of Goods, Works, and Services (RI-GD-148E) was approved by the resolution of the Board of Directors dated 17 October 2016 (Minutes No. 3). The current version of the Regulations (RI-GD-148G) includes the above provisions. The directives are complied with by the subsidiaries in line with the Resolution of PJSC Aeroflot's Board of Directors dated 17 October 2016 (Minutes No. 3).
3.3	Instruction of the Government of the Russian Federation No. 7704p-P13 On Expanding the Use of Factoring when Executing Agreements for the Supply of Goods (Performance of Works, Provision of Services) dated 11 October 2016 (our reference number: 7711, date: 17 October 2016)	Amend the Company's procurement regulations to establish procedures for sale of receivables (factoring) when executing agreements for the supply of goods (performance of works, provision of services) signed by the Company and small and medium-sized enterprises based on purchases made using methods specified in the procurement regulations excluding tenders as defined in Russian civil laws.	The version of the Regulations on Procurement of Goods, Works, and Services (RI-GD-148G) was approved by the Board of Directors on 28 September 2017 (Minutes No. 3): "Clause 6.1.5. When conducting procurement procedures involving SMEs only, the customer shall ensure: f) the possibility to assign the claims under procurement contracts with mandatory inclusion in this contract of the terms stipulated by clause 20.23 of RI-GD-148X to a company (financial agent) which signed a loan agreement with a SME against assignment of the claims (factoring agreements)."
4	On long-term planning and operational performance improvement at state-owned companies (List of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014)		
4.1	List of Instructions of the President of the Russian Federation No. Pr-3086 dated 27 December 2013 Instruction of First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. 4955p-P13 dated 17 July 2014	Instructions: – Develop and approve the Long-Term Development Programme (the LDP) – Audit the implementation of the LDP and approve a relevant audit standard – Amend the regulations on remuneration of the sole executive body	Aeroflot Group's Development Strategy 2025 was approved by the Board of Directors on 2 December 2014 (Minutes No. 8) and has been updated in line with the 2014 Long-Term Development Programme Development Guidelines of the Federal Agency for State Property Management for Strategic Public Joint-Stock Companies and Federal State Enterprises. The Standard on, and Terms of Reference for, Auditing the Implementation of the of Aeroflot Group's LDP were developed and approved by PJSC Aeroflot's Board of Directors on 29 January 2015 (Minutes No. 10). The Regulations on Updating and Managing the Implementation of Aeroflot Group's Long-Term Development Programme were approved by Order No. 126 dated 27 March 2017. Progress Reports on Aeroflot Group's Long-Term Development Programme and Achievement of Key Performance Indicators for 2017 are reviewed and approved by PJSC Aeroflot's Board of Directors on a quarterly basis (Minutes No. 3 dated 28 September 2017 and No. 7 dated 21 December 2017). The audit of the LDP implementation at Aeroflot Group in 2016 was conducted by BDO Unicon; the report was reviewed by PJSC Aeroflot's Board of Directors on 28 April 2017 (Minutes No. 14). The Regulations on PJSC Aeroflot's Key Performance Indicators and the list of KPIs were approved by PJSC Aeroflot's Board of Directors on 28 April 2016 (Minutes No. 15) and introduced by Order No. 203 dated 28 June 2016. The Terms of Reference for Auditing the Implementation of the of Aeroflot Group's and Achievement of Key Performance Indicators for 2017 were approved by PJSC Aeroflot's Board of Directors on 26 October 2017 (Minutes No. 4). The updated LDP 2018–2022 of Aeroflot Group was approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7).

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
4.2	Instruction of the President of the Russian Federation No. Pr-3013 dated 27 December 2014 Methodology for Analysis of Implementation of Internal Regulations approved in line with the List of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014 (developed by the Russian Ministry of Economic Development)	1. The JSC shall develop and approve: the development strategy the long-term development programme (LDP)	Aeroflot Group's Development Strategy 2025 (LDP) was approved by the Board of Directors on 2 December 2014 (Minutes No. 8) and has been updated in line with the 2014 LDP Development Guidelines of the Federal Agency for State Property Management for Strategic Public Joint-Stock Companies and Federal State Enterprises.
	Instruction of the Government of the Russian Federation No. 2007p-P13 dated 6 April 2015	the procedures for the development and approval of LDP auditing standards	The Standard on Auditing the Implementation of Aeroflot Group's LDP was developed and approved by PJSC Aeroflot's Board of Directors on 29 January 2015 (Minutes No. 10).
	Instruction of the President of the Russian Federation No. Pr-769 dated 26 April 2016	the regulations on key performance indicators (KPIs)	The Regulations on PJSC Aeroflot's Key Performance Indicators and the list of KPIs were approved by PJSC Aeroflot's Board of Directors on 28 April 2016 (Minutes No. 15) and introduced by CEO's Order No. 203 dated 28 June 2016. The updated Regulations on PJSC Aeroflot's Key Performance Indicators were approved by PJSC Aeroflot's Board of Directors on 28 September 2017 (Minutes No. 3) and introduced by Order No. 452 dated 22 November 2017.
	Instruction of the Government of the Russian Federation No. ISh-P13-2747 dated 10 May 2016 (clause 1)	the regulations on operational and investment performance improvement and cost reduction	The Regulations on Operational and Investment Performance Improvement and Cost Reduction was approved by PJSC Aeroflot's Board of Directors on 21 December 2015 (Minutes No. 8) and introduced by Order No. 153 dated 19 May 2016.
	Instruction of the Government of the Russian Federation No. AD-P36-4292 dated 20 July 2016 (clause 6)	the investment programme	Aeroflot Group's Investment Programme makes part of the Group's LDP.
	Instruction of the Government of the Russian Federation No. ISh-P13-8144 dated 30 December 2016	the regulations on internal audit	The Regulations on Internal Audit at Aeroflot Group were approved by PJSC Aeroflot's Board of Directors on 1 October 2015 (Minutes No. 4).
		the regulations on the quality management system	The Operational Quality Guidelines have been in place at PJSC Aeroflot since 15 May 2004 (No. 16/l dated 6 May 2014) and the revised Guidelines were approved by PJSC Aeroflot's Board of Directors on 2 February 2018 (Minutes No. 9).
		the regulations on the procedure for developing and implementing the innovative development programme	The Regulations on the Procedure for Developing and Implementing the Innovative Development Programme were approved by PJSC Aeroflot's Board of Directors on 26 November 2015 (Minutes No. 7).
		the regulations on the formation and use of the sponsorship and charity funds	The Regulations on the Formation and Use of the Charity Fund were introduced by Order No. 74 dated 16 March 2016 and the revised Regulations were approved by PJSC Aeroflot's Board of Directors on 28 September 2017 (Minutes No. 3).
			The Regulations on the Formation and Use of the Sponsorship Fund were introduced by Order No. 94 dated 29 March 2016 and the new version was approved by PJSC Aeroflot's Board of Directors on 28 September 2017 (Minutes No. 3).
		the innovative development programme	Aeroflot Group developed the Innovative Development Programme 2025 and obtained its approval from federal executive authorities, the Interdepartmental Committee for Technological Development at the Praesidium of the Presidential Council of the Russian Federation on Economic Modernisation and Innovative Development of Russia as specified in the Regulations. PJSC Aeroflot's Board of Directors approved the Programme on 25 August 2016 (Minutes No. 1).
		the regulations on procurement	The Regulations on Procurement of Goods, Works, and Services have been in place at PJSC Aeroflot since 4 April 2012, the revised Regulations were approved by PJSC Aeroflot's Board of Directors on 28 September 2017 (Minutes No. 3).
		the regulations on committees of the board of directors	The Regulations on the Personnel and Remuneration Committee were approved by PJSC Aeroflot's Board of Directors on 23 December 2016 (Minutes No. 8). The Regulations on the Audit Committee were approved by PJSC Aeroflot's Board of Directors on 28 January 2016 (Minutes No. 10).
		the regulations on remuneration of the JSC's management, members of the board of directors, members of the revision committee, including a section providing that the JSC's sole executive bodies' remuneration and responsibility shall be subject to the achievement of the KPIs detailed in the LDP	The Regulations on the Strategy Committee were approved by PJSC Aeroflot's Board of Directors on 1 September 2011 (Minutes No. 3).
		the regulations on non-core assets disposal	The Regulations on Remuneration and Compensation Payments to the Members of the Board of Directors of PJSC Aeroflot were approved by the Annual Meeting of Shareholders on 26 June 2017 (Minutes No. 40). PJSC Aeroflot has in place a Programme for Non-Core Assets Disposal which includes the procedure for identifying and valuating non-core assets, as well as disposal methods and procedures.

No.	Document type, date, and number	Summary	Execution status
		the programme for non-core assets disposal	The Programme for Non-Core Assets Disposal of JSC Aeroflot was approved by JSC Aeroflot's Board of Directors on 26 July 2012 (Minutes No. 1). The updated Programme for Non-Core Assets Disposal of PJSC Aeroflot was approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7).
		the programme on energy saving and efficiency	The JSC Aeroflot's Energy Saving and Environmental Performance Programme until 2020 was approved by JSC Aeroflot's Board of Directors on 18 August 2008 (Minutes No. 2).
		the procedure for using voluntary environmental protection tools	The Procedure for Using Voluntary Environmental Protection Tools is set up in the Environmental Management Guidelines in place since 30 January 2010. The updated Environmental Management Guidelines were approved and introduced by Order No. 39 dated 10 February 2016.
		the regulations on the risk management system	The Regulations on Aeroflot Group's Risk Management System, Aeroflot Group's Risk Register, Aeroflot Group's Risk Map, and Aeroflot Group's Risk Appetite Statement were approved by the resolution of the Board of Directors dated 21 December 2017 (Minutes No. 7).
	2. Submit to federal executive authorities the analysis of internal documents implementation by 1 March on an annual basis		The report on the implementation of the List of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014 was submitted to the Russian Ministry of Transport within prescribed timelines. The interactive versions of questionnaires and the information on the development and approval of mandatory internal documents at PJSC Aeroflot are posted in the Company's account on the interdepartmental portal for state property management.
	3. Modify the structure of the Company's annual report by adding information on areas and amounts of sponsorship and charitable contributions made by the Company, its subsidiaries, and associates during the reporting period (starting from reporting for the 2015–2016 corporate year)		PJSC Aeroflot's Annual Report for 2016 was prepared in line with the directives, approved by PJSC Aeroflot's Board of Directors on 25 May 2017 (Minutes No. 15), and by the General Meeting of Shareholders on 26 June 2017.
	4. The Company and its subsidiaries and associates shall submit reports on the utilization of the sponsorship and charity fund through the interdepartmental portal for state property management on the Internet on a quarterly basis (by the 15th day of the month following the reporting quarter, starting from reporting for Q4 2015)		The information is posted in the Company's account on the interdepartmental portal for state property management in the Instructions section – "Instruction No. 17 Long-Term Development Programme" and "Instruction No. 20 The Company's Internal Documents".
4.3	Instruction of the Government of the Russian Federation No. AD-P36-4292 dated 20 July 2016	Boards of directors shall approve the plans stipulating consideration of the following matters at the meetings of the boards of directors (after preliminary consideration by the personnel and remuneration committee and the investment committee, starting from the next reporting period in 2016): – Quarterly reporting on the implementation of the LDP and achievement of KPIs  – Assessment of expected KPIs, analysis of reasons for difference between actual and target KPIs – Adoption of a remedial plan in case of significant difference between actual and target KPIs – Approval of the amount of quarterly and annual remuneration based on KPI achievement	These matters are included for consideration in PJSC Aeroflot's Board of Directors action plan for July 2017 – June 2018 (based on the results of the reporting period). Progress Reports on Aeroflot Group's Long-Term Development Programme and Achievement of Key Performance Indicators are reviewed and approved by PJSC Aeroflot's Board of Directors on a quarterly basis. Quarterly progress reports on Aeroflot Group's LDP for 2017 are approved by PJSC Aeroflot's Board of Directors (Minutes No. 3 dated 28 September 2017 and No. 7 dated 21 December 2017).  Quarterly reports on achievement of key performance indicators include assessment of expected KPIs, analysis of reasons for difference between actual and target KPIs, and a remedial plan (in case of significant difference between actual and target KPIs). PJSC Aeroflot's Board of Directors approves the amount of bonus payments to PJSC Aeroflot's management following KPI achievement during the reporting period.

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
5	<b>On developing (updating) innovative development programmes</b> <b>Guidelines on Adjusting Innovative Development Programmes approved by Deputy Prime Minister of the Russian Federation Arkady Dvorkovich</b> <b>(No. AD-P36-621 dated 9 February 2016)</b>		
5.1	Minutes of the Meeting of the Praesidium of the Presidential Council of the Russian Federation on Economic Modernisation and Innovative Development of Russia No. 2 dated 17 April 2015 (sub-clause a, clause 2, section II) (our reference number: 3907, date: 14 May 2015)	On the need to update (develop) and approve innovative development programmes subject to the Guidelines (Appendix 1 to the Minutes).	The Board of Directors approved the Regulations on the Procedure for Developing and Implementing the Innovative Development Programme on 26 November 2015 (Minutes No. 7). Aeroflot Group developed the Innovative Development Programme 2025 and obtained its approval from federal executive authorities, the Interdepartmental Committee for Technological Development at the Praesidium of the Presidential Council of the Russian Federation on Economic Modernisation and Innovative Development of Russia as specified in the Regulations. PJSC Aeroflot's Board of Directors approved the Programme on 25 August 2016 (Minutes No. 1).
5.2	Instruction of the Government of the Russian Federation No. 1471p-P13 dated 3 March 2016	Instructions: – Approve the innovative development programme developed (updated) in line with the Guidelines approved by Instruction No. DM-P36-7563 and the Regulations approved by Instruction No. DM-P36-7563 – Annually report on the implementation of innovative development programmes to federal executive bodies in line with the Regulations	The report on the implementation of PJSC Aeroflot's Innovative Development Programme in 2016 was approved by PJSC Aeroflot's Board of Directors on 29 May 2017 (Minutes No. 16) and submitted to federal executive authorities in line with the Regulations. The Integrated Innovation Key Performance Indicator (IIKPI) (for Aeroflot Group) has been included in the KPI list of Aeroflot Group's Long-Term Development Programme and PJSC Aeroflot's KPIs for senior management since 2016 and is taken into account when determining the amount of senior management's (including CEO's) bonus payments for KPI achievement.
5.3	Instruction of the Government of the Russian Federation No. 1472p-P13 dated 3 March 2016	Starting from 2016, include the integrated key performance indicator reflecting innovation performance in the list of key performance indicators within long-term development programmes and in the list of key performance indicators for the senior management, and take this integrated KPI into account when calculating the amount of incentive remuneration for the Company's management including the Company's sole executive body.	The final assessment of the Innovative Development Programme (IDP) update at PJSC Aeroflot in 2016 totalled 95.33%. To implement the decisions made at the Meeting of the Inter-Agency Working Group on Supporting Innovative Development Priorities of the Praesidium of the Presidential Council for Economic Modernisation and Innovative Development of Russia, a List of Instructions (No. 47/PI dated 30 June 2017) was developed.  The results of the independent assessment of the IDP implementation quality, as well as proposals on improving the quality of IDP preparation and implementation were reviewed at the meeting of PJSC Aeroflot's Board of Directors on 28 September 2017 (Minutes No. 3).

No.	Document type, date, and number	Summary	Execution status
5.4	Minutes of the Meeting of the Inter-Agency Working Group on Supporting Innovative Development Priorities of the Praesidium of the Presidential Council for Economic Modernisation and Innovative Development of Russia chaired by Deputy Prime Minister of the Russian Federation Arkady Dvorkovich No. 1 dated 14 April 2017 (our reference number: 3912, date: 17 May 2017)	Clause 4, section I. Ensure the review of the rating, as well as the proposals of state-owned companies' senior management on quality improvement of preparation and implementation of their innovative development programmes (the IDP) at the meetings of the Board of Directors.  Clause 4, section II. The IIKPIs for 2017 were approved for the indicators lower than the actual 2014–2016 values. Ensure the target IIKPI approval for 2018 for the indicators not lower than the average value for the past five years (2013–2017) by 1 March 2018.  Clause 4, section III. Instructions: 1) Benchmark own level of technological development and current KPI values against such of the leading foreign peers 2) Develop proposals on the IIKPIs for 2019 based on the specified assessment and submit them for approval to federal executive authorities by 1 December 2017  Clause 15, section III. Following the review of industries' development strategies, ensure update of corporate strategies, LDPs, KPIs, and IDPs.	The proposals on the target IIKPI of Aeroflot Group, as well as proposals on the change in IIKPI calculation method were submitted to the Russian Ministry of Transport (our reference number of the outgoing document: 511-2, date: 17 January 2018). On 27 December 2017, the Company signed an agreement with Lomonosov Moscow State University for the research activities on PJSC Aeroflot's Innovative Development Benchmarking against international peers to include its results in the IDP. The development of the IIKPIs for 2019 was rescheduled for May 2018 (Minutes of the Meeting of the Inter-Agency Working Group on Supporting Innovative Development Priorities of the Praesidium of the Presidential Council for Economic Modernisation and Innovative Development of Russia No. 2 dated 19 September 2017, clause 3, section IV). The updated LDP 2018–2022 of Aeroflot Group was approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7).
6	<b>On the implementation of KPI-based manager bonus system to reduce operating expenses (costs) by at least 2%–3% annually</b> <b>(List of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014)</b>		
6.1	Instruction of the Government of the Russian Federation No. 4750p-P13 dated 4 July 2016	On making decisions providing for the following: – Development (update) by companies and their subsidiaries (if any), within one month, of a set of measures (list of measures) as part of the long-term development programme aimed at achieving the KPI of reducing operating expenses (costs) by at least 10% in 2016 taking into account the need to implement the initiatives specified in the Directives of the Government of the Russian Federation No. 2303-p-P13 dated 16 April 2015 – Consideration of management reports on the implementation of the set of measures (list of measures) to reduce operating expenses (costs) at meetings of the boards of directors (supervisory boards) on a quarterly basis – Submission of companies' reports on the implementation of the set of measures (list of measures) to reduce operating expenses (costs) considered and approved by the board of directors (supervisory boards) to industry federal executive authorities on a quarterly basis	The set of measures (list of measures) aimed at achieving the KPI of reducing operating expenses (costs) at Aeroflot Group by at least 2%–3% annually, as well as at determining target measures for the implementation of the above activities was included in the respective section of the LDP on 19 June 2015. In line with the Instruction of the Government on the reducing operating expenses (costs) by at least 10% in 2016, the Operating Expenses Optimisation Programme at the Group was updated on 2 November 2016. The set of measures aimed at reducing operating expenses (costs) in 2016 was reviewed by PJSC Aeroflot's Board of Directors on 20 April 2017 and was considered fully completed (Minutes No. 14). The CASK KPI (for Aeroflot Group) was approved for 2017 (Order No. 465 dated 30 December 2016). Target KPI achievement is guided by the Regulations on PJSC Aeroflot's Key Performance Indicators and does not require the development of separate activities. The values of the operating expenses (costs) KPI are included in the Aeroflot Group's KPI system. The report on the implementation of the set of measures aimed at reducing operating expenses is submitted for approval to PJSC Aeroflot's Board of Directors and submitted to the industry federal executive authority (Federal Agency for State Property Management) on a quarterly basis.

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
7	<b>On disposal of non-core assets</b> (Paragraph 4, sub-clause c, clause 2 of Decree of the President of the Russian Federation No. 596 dated 7 May 2012 On Long-Term National Economic Policy, Instruction of the Government of the Russian Federation No. ISh-P13-668 dated 31 January 2014 and No. DM-P13-8542 dated 19 November 2014, Instruction of President of the Russian Federation Vladimir Putin No. 348 dated 22 February 2016)		
7.1	Paragraph 4, sub-clause c, clause 2 of Decree of the President of the Russian Federation No. 596 dated 7 May 2012 On Long-Term National Economic Policy Instruction of the Government of the Russian Federation No. 4863p-P13 dated 7 July 2016 Guidelines on Identification of Non-Core Assets Disposal (approved by Instruction of the Government of the Russian Federation No. ISh-P13-4065 dated 7 July 2016) Guidelines on Identification and Disposal of Non-Core Assets (approved by Resolution of the Government of the Russian Federation No. 894-r dated 10 May 2017)	1. Develop (update) programmes for the disposal of the joint-stock company's non-core assets and the register of the joint-stock company's non-core assets in line with the Guidelines 2. Approve the programme (updates to the programme) for, and the register of, non-core assets 3. Instructions: – Approve the annual plan for the implementation of the programme for disposal of the joint-stock company's non-core assets broken down by quarter and publish the plan on the interdepartmental portal for state property management – Consider the joint-stock company's progress reports on the programme at the meetings of the board of directors (supervisory board) on a quarterly basis and publish the relevant materials signed by the joint-stock company's authorised person on the interdepartmental portal for state property management – Timely publish all the necessary well-developed information on disposal of non-core assets as specified by the Federal Agency for State Property Management on the interdepartmental portal for state property management – Implement the provisions of these directives across subsidiaries of joint-stock companies	The Programme for Non-Core Assets Disposal was approved by JSC Aeroflot's Board of Directors on 26 July 2012 (Minutes No. 1). The updated Programme for Non-Core Assets Disposal (including the Register of Non-Core Assets and the Action Plan on Non-Core Assets Disposal of PJSC Aeroflot) was approved by PJSC Aeroflot's Board of Directors on 17 October 2016 (Minutes No. 3) PJSC Aeroflot's Programme for Non-Core Assets Disposal updated in line with the Guidelines on Identification of Non-Core Assets Disposal, Register of Non-Core Assets (Appendix 1 to the Programme), and Action Plan on Non-Core Assets Disposal (Appendix 2 to the Programme) were approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7). The progress reports on the Programme for Non-Core Assets Disposal are reviewed at the meetings of PJSC Aeroflot's Board of Directors on a quarterly basis. The information is posted in the Company's account on the interdepartmental portal for state property management in the Instructions section – "Instruction No. 10 Non-Core Assets Structure Optimisation" within prescribed timelines since 2015.  The audit of assets was conducted in the Company's subsidiaries, following which non-core assets were identified in Rossiya airline and included in the Rossiya airline's Programme for Non-Core Assets Disposal (Rossiya airline's Board of Directors on 31 March 2017). The Board of Directors of Rossiya airline decided review the progress report on the Programme on a quarterly basis on 12 July 2017. The respective materials are reviewed by the Board of Directors of Rossiya airline within prescribed timelines.
7.2	Instruction of the Government of the Russian Federation No. 6604p-P13 dated 18 September 2017	By 1 November 2017, amend the employment contract with the sole executive body of the joint-stock company (the person performing his/her duties) in terms of including provisions on personal responsibility for untimely disclosure of information or disclosure of misleading information on non-core assets disposal on the interdepartmental portal for state property management.	The resolution on amending the employment agreement with PJSC Aeroflot's CEO was passed by the Board of Directors on 1 February 2018 (Minutes No. 8).

No.	Document type, date, and number	Summary	Execution status
8	<b>On managing intellectual property rights</b>		
8.1	Clause 34 of the Action Plan to implement the Social and Economic Development Strategy of the Central Federal District until 2012 approved by Resolution of the Government of the Russian Federation No. 2564-r dated 27 December 2012 Instruction of the Government of the Russian Federation No. ISh-P8-800 dated 4 February 2014 Recommendations on Intellectual Property Rights (the IPR) Management (approved by Instruction of the Government of the Russian Federation No. ISh-P8-5594 dated 25 August 2017)	1. Develop and approve Key Regulations on IPR Management and an Action Plan on their implementation in line with the Recommendations of the Federal Agency for State Property Management and the company's innovative development programme  2. Appoint the official responsible for the efficient operation of the IPR management system, and the implementation of the Key Regulations and the Action Plan	Regulations on Intellectual Property Rights Management (RI-GD-224) were approved by Order No. 263 dated 29 July 2016. The Action Plan on Intellectual Property Rights Registration was developed and approved for the rights identified during the audit in December 2016. The business process "Intellectual Property Rights Management" (BP-511-003) was approved on 31 March 2017.  The Deputy CEO for Customer Relations was appointed responsible for the implementation of the Regulations on Intellectual Property Rights Management.
	Instruction of the Government of the Russian Federation No. 9177p-P13 dated 12 December 2017	Instructions: 1. Ensure the analysis of IPR management in line with the Recommendations 2. Develop a programme or make amendments to the existing programme (if needed) for IPR management 3. Post and later update the information on the IPR management programme implementation on the interdepartmental portal for state property management	The matter was reviewed at the meeting of PJSC Aeroflot's Board of Directors on 2 February 2018 (Minutes No. 9). In September 2018, the Management Board of PJSC Aeroflot shall: 1. conduct the analysis of intellectual property rights management system of PJSC Aeroflot in line with the Recommendations on Intellectual Property Rights Management in Entities approved by Instruction of the Government of the Russian Federation No. ISh-P8-5594 dated 25 August 2017 (the Recommendations) and submit the results of the analysis at a Board of Directors meeting 2. ensure the update of the Regulations on Intellectual Property Rights Management (RI-GD-224) in line with the Recommendations 3. ensure posting and further updating of the information on the implementation of the Regulations on Intellectual Property Rights Management (RI-GD-224) on the interdepartmental portal for state property management.

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
9	On scheduled substitution of imported products (works, services) with those of Russian origin (works, services), having similar specifications and consumer properties		
9.1	Directives of the Government of the Russian Federation No. 4972p-P13 dated 11 July 2016 (our reference number: 5553, date: 25 July 2016)	<p>Instructions:</p> <p>1. Amend the regulations on the joint-stock company's procurement processes so as to ensure the following:</p> <p>1.1 Procurement requirements and other local regulations, which are subject to approval when making any purchases of the computer and database software available, irrespective of the type of agreement, on physical media and/or in electronic form through communication channels and of the right to use the software, including temporary use, shall provide for submission of bids offering only such software which is included in the unified register of Russian computer and database software (the Register) that was developed in line with Article 12.1 of Federal Law No. 149-FZ On Information, Information Technology and Information Protection dated 27 July 2006, except in the following cases:</p> <p>a) the register does not include data on software which belongs to the same class of software as the software offered for purchase</p> <p>b) the software, which is included in the register and belongs to the same class of software as the software offered for purchase, is uncompetitive (its functions, specifications and/or performance characteristics do not meet the requirements set out by a customer for the software offered for purchase)</p> <p>1.2. If a purchase is subject to the above exceptions, publish information on each such purchase with a rationale explaining inability to comply with restrictions imposed on foreign-made software on the joint-stock company's website in a dedicated procurement section within seven calendar days after publication of information on procurement on the joint-stock company's website or dedicated websites on the Internet used by the joint-stock company for procurement (bidding platforms)</p> <p>2. Implement the above approach across subsidiaries directly and/or indirectly controlled by the joint-stock company by more than 50% in total</p>	<p>The requirements were included in PJSC Aeroflot's Regulations on Procurement of Goods, Works and Services (RI-GD-148E) approved by the Board of Directors on 17 October 2016 (Minutes No. 3).</p> <p>The information is posted on PJSC Aeroflot's website in the prescribed order.</p> <p>The matter was reviewed at the meeting of PJSC Aeroflot's Board of Directors on 17 October 2016 (Minutes No. 3).</p> <p>The Company's Management Board has been instructed to set up the approval of similar amendments to the regulations on procurement of goods, works, and services of its subsidiaries directly and/or indirectly controlled by PJSC Aeroflot by more than 50% in total.</p> <p>These requirements have been included in the regulations on procurement of goods, works, and services of the subsidiaries and approved by their boards of directors.</p> <p>Rossiya airline – Minutes No. 8-2017 dated 23 March 2017.</p> <p>Pobeda airline – Minutes No. 3-17 dated 31 January 2017.</p> <p>Aurora airline – Minutes No. 11-16 dated 30 November 2016.</p>

No.	Document type, date, and number	Summary	Execution status
9.2	Instructions of the Government of the Russian Federation No. DM-P9-87pr dated 25 November 2013, No. AD-P9-9176 dated 12 December 2014, No. ISh-P13-1419 dated 5 March 2015, and No. 1346p-P13 dated 5 March 2015	<p>Instructions:</p> <p>1. Prepare a set of measures aimed at planned and scheduled substitution of imported products (works, services) with those of Russian origin, having similar specifications and consumer properties, to be used in investment projects and day-to-day operations, based on economic and technological feasibility principles and technological justification</p> <p>2. Inclusion of the set of measures and the indicator values of the above activities implementation in the Company's Long-Term Development Programme</p>	The set of measures aimed at planned and scheduled substitution of imported products (works, services) with those of Russian origin, having similar specifications and consumer properties, to be used in investment projects and day-to-day operations, based on economic and technological feasibility principles and technological justification was included in Aeroflot Group's LDP (Appendix C) on 15 May 2015, amended on 4 June 2015, and updated on 21 December 2017.
9.3	Instruction of the Government of the Russian Federation No. 6558p-P13 dated 5 September 2016	Ensure the amendments in the joint-stock company's procurement policy to give priority to purchases of Russian-made innovative construction materials.	The requirements were considered in the Regulations on Procurement of Goods, Works, and Services (version RI-GD-148F) approved by the Board of Directors on 23 June 2017 (Minutes No. 17). Amendment No. 1 was made to the Guidelines for Determining and Applying Criteria Assessment and Comparing Bidders' Applications (RI-GD-318) (Order No. 296 dated 3 August 2017).
10	On ensuring priority funding for the social and economic development of the Russian Far East		
10.1	List of Instructions of the President of the Russian Federation following the Eastern Economic Forum Instructions of the Government of the Russian Federation No. DM-P16-6658 dated 30 September 2015 and No. 4531p-P13 dated 28 June 2016	<p>Instructions:</p> <p>– Amend development plans including long-term development programmes, strategies and investment programmes of the Company (the Strategic Documents) so as to add to them dedicated sections (dedicated measures) ensuring priority funding (development of such measures, if necessary) for the social and economic development of the Russian Far East</p> <p>– Align strategic documents with state programmes of the Russian Federation (in line with the appended list)</p>	A dedicated section on Ensuring Priority Funding for the Social and Economic Development of the Russian Far East was added to Aeroflot Group's Long-Term Development Programme 2016–2021 on 7 July 2016. The section was updated on 21 December 2017.
11	On creating a barrier-free environment for disabled people (Federal Law No. 419-FZ On Amendments to Certain Laws of the Russian Federation Aimed at Social Protection of Disabled People Following Ratification of the Convention on the Rights of Persons with Disabilities dated 1 December 2014, Resolution of the Government of the Russian Federation No. 599 On Procedures and Timelines for Development of Measures to Improve Indicators Reflecting Accessibility of Facilities and Services for Disabled People in Specified Areas of Activity by Federal Executive Authorities, Executive Authorities of Constituent Entities of the Russian Federation and Local Authorities dated 17 September 2015, Resolution of the Government of the Russian Federation No. 1297 On Approval of the Russian State Accessible Environment Programme 2011–2020 dated 1 December 2015, Decree of the Ministry of Transport of the Russian Federation No. 24 On Approval of the Procedure for Provision of Services for Disabled People in Airports and Aircraft dated 15 February 2016)		

Execution of Presidential and Governmental Instructions continued

No.	Document type, date, and number	Summary	Execution status
11.1	Instruction of the Ministry of Labour and Social Protection of the Russian Federation No. 13-6/10/V-2014 dated 28 March 2016 (our reference number: 5527, date: 9 July 2015)	Adopt decisions providing for the following: – Establishment of corporate standards (rules) ensuring accessibility of the entity's facilities and services for disabled people – Certification of facilities and services and subsequent approval of plans for step-by-step bringing their accessibility in line with applicable laws – Training (briefings) of relevant employees in ensuring accessibility of the entity's facilities and services for disabled people – Annual (starting from 2017) allocation of funds from the entity's budget and provision of other material resources to fulfil the above obligations	PJSC Aeroflot continues to implement its Action Plan for Ensuring Accessibility of PJSC Aeroflot's Services for Disabled People approved in 2016. PJSC Aeroflot's entire fleet comprising 224 aircraft was fully equipped with wheelchairs. Starting from January 2018, the new B737 aircraft delivered to the airline will have the cockpit design enabling to take on board a passenger on a stretcher. One of the aircraft was modified. The improvements to aircraft in operation are scheduled to end before late 2019 (at the moment, if a stretcher is needed, the Company modifies the flight through changing the aircraft). An agreement was signed to develop design documents to conduct overhauls providing access to PJSC Aeroflot's own sales offices and buildings for disabled people; overhauls are scheduled for 2018. All sections of the website have been enhanced in cooperation with Lab.Ag to assist visually impaired air travellers.
11.2	Instruction of the Ministry of Labour and Social Protection the Russian Federation No. 13-6/10/V-5159 dated 26 July 2016 Minutes of the Meeting led by Minister of Labour and Social Protection of the Russian Federation Maxim Topilin No. 1/13/23b dated 15 July 2016 (our reference number: 5821, date: 2 August 2016)	Develop roadmaps to improve accessibility of facilities and services for disabled people using the recommendations developed by the Ministry of Labour and Social Protection of the Russian Federation by 30 December 2016.	Website tests on booking special services for passengers with disabilities have been performed successfully; the service has been commercially launched. Information in the Passengers with Disabilities section of the website has been updated, the Travelling the World Unhindered! video on the airline's rules and services was posted, as well as the questionnaire to assess the flight; the launch of an online chat which will enable passengers to get answers and the help needed in real time is scheduled for March 2018. In December 2017, a hotline for passengers with disabilities was launched in PJSC Aeroflot's Contact Centre – specially trained staff provides qualified help to organise air travel and information support on service matters.
11.3	Minutes of the Meeting led by Deputy Minister of Transport of the Russian Federation Alexey Tsydenov No. ATs-109 dated 9 August 2016 (our reference number: 6719, date: 6 September 2016)	Recommend business entities providing transport services to execute the following by 1 December 2016: 1. Confer functions on one of the deputy chief executives of the entity (company) and one of the business units in relation to the development and implementation of internal management decisions to comply with applicable laws requiring accessibility of transport infrastructure facilities, vehicles and the entity's/company's transport services for disabled people 2. Adopt internal regulations to establish procedures for ensuring accessibility of transport infrastructure facilities, vehicles and transport services for disabled people 3. Arrange for training and retraining (professional development) of employees (instructors) at entities (companies) by educational institutions for transport across the professional development programmes developed by the Industry Resource Training and Methodology Centre of Transport Accessibility for Disabled Persons at the Institute of International Transport Communications of Moscow State University of Railway Engineering (MIIT) 4. Issue the entity's/company's executive document implementing initiatives to stop, starting from 1 June 2016, phasing in of facilities, equipment and vehicles (upon construction, overhaul, upgrade, purchase) which are not fully adapted for use by disabled people in line with Rules SP-59.13330.2012 5. Develop and approve corporate plans for step-by-step improvement of indicators reflecting accessibility for disabled people in relation of existing facilities used to provide services for disabled people, as well as for simultaneous creation of suitably adjusted conditions (until overhaul or upgrade are completed) for them to provide services in line with the rule of Part 4, Article 15 of Federal Law No. 181-FZ On Social Protection of Disabled People in the Russian Federation dated 24 November 1995	In-flight entertainment programme has been implemented for visually and hearing impaired passengers, which now contains eight films with subtitles and/or audio descriptions. Briefing on the seat, flight safety instructions, and in-flight services is provided to visually impaired passengers in information brochures translated into Braille. Passengers using a wheelchair who need additional back support are provided with a shoulder belt restraint if ordered in advance. This service is currently being tested. The professional development system was expanded with a new online training course for flight attendants which takes into account recommendations on diverse categories of disabled passengers. The second version of the standard for servicing passengers with disabilities is being updated; the second audit has been conducted on the compliance of the standard of servicing passengers with disabilities in place at PJSC Aeroflot. In 2017, a positive trend was noted in the development of ground services for passengers with disabilities in the Russian airports within PJSC Aeroflot's route network. In the context of infrastructure restrictions, the issue of providing airports with passenger boarding and disembarking equipment has become urgent. Ambulifts and other equipment is missing in the airports of: Abakan (scheduled for 2019), Voronezh, Magnitogorsk (stairclimber), Murmansk (scheduled for March 2018), Novokuznetsk, Orenburg (stairclimber), Saratov (scheduled for 2019), Stavropol (stairclimber), and Syktyvkar (stairclimber scheduled for 2020). Checked and carry-on baggage allowances have been increased. Without additional payments for the baggage, the number of seats, and weight, in line with the travel class, fare and the terms of fare families, a passenger can take on board a wheelchair and one more means of transportation provided that it is used by a disabled person. As carry-on baggage, a passenger can also take on board: – crutches, a cane, a walker, a rollator, and removable prosthetic arms and/or legs – a folding wheelchair, which can be safely placed under the seat in front or in the locker – a gaseous oxygen tank for medical purposes – a portable oxygen concentrator, which can be safely placed under the seat in front or in the locker – medical equipment for the in-flight life support of the passenger.

No.	Document type, date, and number	Summary	Execution status
11.4	Instruction of the Government of the Russian Federation No. OG-P12-7731 dated 16 December 2016	Arrange for annual monitoring of roadmaps implementation.	
11.5	Instruction of the Ministry of Labour and Social Protection of the Russian Federation No. 13-6/10/V-6702 dated 10 October 2017	By 10 November 2017, submit information on measures taken in 2017 to implement the UN Convention on the Rights of Persons with Disabilities, Federal Law No. 419-FZ dated 1 December 2014, as well as proposals on improving PJSC Aeroflot's interaction mechanisms with government authorities in line with further enhancement of a barrier-free environment in passenger air travel.	
12 On implementing occupational standards in PJSC Aeroflot			
12.1	Directives of the Government of the Russian Federation No. 5119p-P13 dated 14 July 2016 (our reference number: 5555, date: 25 July 2016)	Implement occupational standards in joint-stock companies subject to Federal Law No. 122-FZ On Amendments to the Labour Code of the Russian Federation dated 2 May 2015 and Articles 11 and 73 of the Federal Law On Education in the Russian Federation through the approval and implementation of relevant plans, and make provision for considering the performance of the implementation of occupational standards when assessing and rewarding joint-stock companies' HR management. Request to convene meetings of boards of directors (supervisory boards) of joint-stock companies at least every six months and include the implementation of occupational standards in joint-stock companies in agendas.	The matter was considered at the meeting of the Board of Directors on 25 August 2016 (Minutes No. 15). The action plan to implement occupational standards in PJSC Aeroflot was approved by the Management Board on 9 December 2016 (Minutes No. 34). Order No. 434 dated 22 December 2016 established a dedicated task force to implement occupational standards at PJSC Aeroflot. Reports on implementation of occupational standards in PJSC Aeroflot's operations are regularly (once every six months) submitted to the Board of Directors.
13 On implementation of the Corporate Governance Code			
13.1	Instructions of the Government of the Russian Federation No. ISh-P13-5859 dated 31 July 2014, No. 5667-P13 dated 2 September 2014, and No. 1109p-P13 dated 26 February 2015	On Approving the Action Plan (Roadmap) on Implementation of the Corporate Governance Code.	The Action Plan (Roadmap) to Improve Corporate Governance Practices was approved by PJSC Aeroflot's Board of Directors on 19 March 2015 (Minutes No. 14). The progress report on the Action Plan (Roadmap) to Improve Corporate Governance Practices at PJSC Aeroflot as at December 2016 was considered by the Board of Directors on 22 December 2016 (Minutes No. 7). The information on the status of the Corporate Governance Code principles implementation at PJSC Aeroflot in 2016 was referred to the Federal Agency for State Property Management.
14 On establishing the unified treasury of the Company, its subsidiaries, and associates			
14.1	Instruction of the Government of the Russian Federation No. 5110p-P13 dated 8 August 2014 Instruction of the Government of the Russian Federation No. 1796p-P13 dated 26 March 2015	1. Ensure the operation of the unified treasury of the Company, its subsidiaries, and associates providing the centralised management of financial flows of the group of companies, minimisation of financial risks and operating expenses, and maximisation of the return on investment of available resources 2. Instructions: – Develop and approve the structure of the unified treasury of the Company, its subsidiaries, and associates (the Group) – Develop and approve internal documents of the group regulating operations of the Treasury and a financial flow management system – Conduct annual analysis of the results of establishing the unified treasury of the Company, its subsidiaries, and associates – Submit the report on the analysis to the Ministry of Finance of the Russian Federation and the Federal Financial Monitoring Service by 15 September on an annual basis	Regulations on the Unified Treasury were approved on 29 May 2015 (RI-04-078 No. 151/). Procedure for Implementation of Key Treasury Functions as Part of Operation of the Unified Treasury was approved on 29 May 2015 (RI-04-079 No. 152/). Conducting an annual analysis of the results of establishing the Unified Treasury of Aeroflot Group was approved by the Board of Directors decision dated 23 April 2015 (Minutes No. 15). The analysis of the results of establishing the Unified Treasury of Aeroflot Group, its subsidiaries, and associates is conducted on a regular basis. The report on the 2016 analysis was submitted to the Russian Ministry of Finance and the Federal Financial Monitoring Service on 13 September 2017 (our reference number of the outgoing document: 403-1403).

Execution of Presidential and Governmental Instructions  
continued

No.	Document type, date, and number	Summary	Execution status
15.	On increasing labour productivity, creating and upgrading highly productive jobs		
15.1	Clause 6, section 2 of the Action Plan approved by the Resolution of the Government of the Russian Federation No. 1250-r dated 9 July 2014 Instruction of the Government of the Russian Federation No. 7389p-P13 dated 31 October 2014	Instructions: – Develop a set of measures (list of measures) aimed at increasing labour productivity within the Company (list of measures) with target indicators for the above measures implementation – Include the list of measures, the target indicators for the above measures implementation, and the labour productivity indicator (LPI) in the long-term development programme – Include target LPIs in the list of key performance indicators for management which must be considered when making remuneration and HR decisions, and ensure that LPI achievement is aligned with the Company's management remuneration – Make amendments to the employment agreement (contract) with the Company's sole executive body by including the responsibility to achieve the LPIs determined in the Company's long-term development programme – Complete the annual federal statistical monitoring form "Labour Productivity in Partially State-Owned Non-Financial Corporations" via the Company's account on the interdepartmental portal for state property management, in line with Order of the Federal State Statistics Service No. 576 dated 23 September 2014	The list of measures aimed at increasing labour productivity has been included in Aeroflot Group's LDP (as an Appendix to Aeroflot Group's LDP) since 2015. The list of measures aimed at increasing labour productivity (the Appendix to Aeroflot Group's LDP) was approved by PJSC Aeroflot's Board of Directors on 21 December 2017. The Labour Productivity Indicator (for Aeroflot Group) has been included in the KPI list of Aeroflot Group's Long-Term Development Programme and PJSC Aeroflot's KPIs for management and is taken into account when determining the amount of management's (including CEO's) bonus payments for KPI achievement. The Labour Productivity KPI achievement (for Aeroflot Group) is considered by PJSC Aeroflot's Board of Directors on a quarterly basis. Information on KPI achievement is annually posted in the Company's account on the interdepartmental portal for state property management in the Instructions section – "Instruction No. 19 Increasing Labour Productivity".
16.	On including the key metrics for adequate talent pipeline in the long-term development programme, including engineering and technical positions necessary to implement the key measures of the programme		
16.1	Sub-clause b, clause 2 of the List of Instructions of the President of the Russian Federation following the Meeting of the Presidential Council for Science and Education on 23 June 2014 (No. Pr-1627 dated 1 July 2014) Instruction of the Government of the Russian Federation No. OG-P8-5496 dated 22 July 2014	Develop and submit proposals as prescribed: – on expanding the practice of targeted training in higher educational institutions specialising in engineering, technology, and technical science – on preparing methods to assess the need for engineering and technical talent of Russian regions, industries, and major employers in the medium and long term.	The proposals have been submitted (our reference number of the outgoing document: 12-1342, date: 23 September 2014).
16.2	Instruction of the Government of the Russian Federation No. 7439p-P13 dated 5 November 2014	Include the key metrics for adequate talent pipeline in the long-term development programme, including engineering and technical positions necessary to implement the key measures of the programme.	The key metrics of PJSC Aeroflot's need for talent are described in the respective section of the Long-Term Development Programme (6.9. Talent Pipeline Plan) approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7).
17.	On ensuring achievement of the joint-stock company's key performance indicators		
17.1	Instruction of the Government of the Russian Federation No. 7439p-P13 dated 5 November 2014	Include the key metrics for adequate talent pipeline in the long-term development programme, including engineering and technical positions necessary to implement the key measures of the programme.	The key metrics of PJSC Aeroflot's need for talent are described in the respective section of the Long-Term Development Programme (6.9. Talent Pipeline Plan) approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7).
18	On preparing for the 2018 FIFA World Cup in the Russian Federation (Resolution of the Government of the Russian Federation No. 518 dated 20 June 2013)		
18.1	Minutes of the Meeting led by Prime Minister of the Russian Federation Dmitry Medvedev No. DM-P9-37pr dated 23 June 2016	On Measures to Implement the Programme to Prepare for the 2018 FIFA World Cup in the Russian Federation (in the Moscow air transport hub).	The matter of preparation for the 2018 FIFA World Cup was reviewed by the Management Board (Minutes No. 28/PrP dated 18 October 2017). The works are conducted in strict compliance with PJSC Aeroflot's Plan on Preparation for the 2018 World Cup dated 8 November 2017 (No. 77/PI). PJSC Aeroflot made a proposal on transporting fans of the Russian team to the World Cup matches at a special price of RUR 5 (No. GD-1250 dated 20 December 2017). The President of the Russian Federation supported the proposal. The respective activities are under way.

Report on Compliance  
with the Principles and  
Recommendations Set Out in  
the Corporate Governance Code

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.	The company ensures fair and equitable treatment of all shareholders in exercising their corporate governance right.			
1.1.1.	The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company's internal document approved by the general meeting of shareholders and governing the procedures for holding the general meeting is publicly available. 2. The company provides accessible means of communication via hotline, e-mail or online forum for shareholders to voice their opinions and submit questions on the agenda in preparing for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	Full	
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general shareholders meeting is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting specifies the meeting venue and documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who proposed nominees to the company's board of directors and the revision committee.	Full	
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were able to put questions to members of executive bodies and directors before and during the annual general meeting. 2. The position of the board of directors (including dissenting opinions entered into the minutes) on each agenda item of general meetings held in the reporting period was included in the materials to the general meeting of shareholders. 3. The company gave duly authorised shareholders access to the list of persons entitled to attend the general meeting, as from the date of its receipt by the company, for all general meetings held in the reporting period.	Full	
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company's governing bodies, and to make proposals for the agenda of the general meeting.	1. In the reporting period, shareholders were able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the annual general meeting. 2. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.	Full	

Report on Compliance with the Principles and Recommendations Set Out in the Corporate Governance Code continued

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	An internal document (internal policy) of the company provides that each participant of the general meeting may request a copy of the ballot filled out by them and certified by the counting commission before the end of the relevant meeting.	Full	
1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions.	1. General meetings of shareholders held in the reporting period in the form of a meeting (i.e. joint presence of shareholders) provided for sufficient time for making reports on and for discussing agenda items. 2. Nominees to the company's governing and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote. 3. When passing resolutions on preparing and holding general meetings of shareholders, the board of directors considered using telecommunication means for remote access of shareholders to general meetings in the reporting period.	Full	
1.2.	Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.			
1.2.1	The company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	Full	
1.2.2	The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company's performance.	The company's dividend policy clearly identifies financial/economic circumstances under which the company shall not pay out dividends.	Full	
1.2.3	The company does not allow for dividend rights of its existing shareholders to be impaired.	In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	Full	
1.2.4	The company makes every effort to prevent its shareholders from using other means to profit (gain) from the company other than dividends and liquidation value.	To prevent shareholders from using any means to profit (gain) from the company other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognise such deals as related-party transactions.	Partial	Actually complied with. The relevant restriction is set out in the Corporate Governance Code of PJSC Aeroflot (paragraph 3.2.1). In addition, PJSC Aeroflot signed up to the Anti-Corruption Charter of the Russian Business, which rules out the possibility of corruption in its transactions. PJSC Aeroflot intends to achieve full compliance with this principle of the Code in the future.
1.3.	The corporate governance framework and practices ensure equal conditions for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	No phantom shares were issued or used to vote in the reporting period.	Partially complied with.	Actually complied with. The relevant restriction is set out in the Corporate Governance Code of PJSC Aeroflot (paragraph 3.2.1). In addition, PJSC Aeroflot signed up to the Anti-Corruption Charter of the Russian Business, which rules out the possibility of corruption in its transactions. PJSC Aeroflot intends to achieve full compliance with this principle of the Code in the future.
1.4.	Shareholders are provided with reliable and effective means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.			
1.4.1	Shareholders are provided with reliable and effective means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	The company's registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.	Full	
2.1.	The board of directors provides strategic management of the company, determines key principles of, and approaches to, setting up a corporate risk management and internal control framework, monitors performance by the company's executive bodies, and performs other key functions.			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	1. The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.	Full	
2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) of the company's strategy and business plans.	Full	
2.1.3	The board of directors defines the company's principles and approaches to risk management and internal controls.	1. The board of directors defined the company's principles and approaches to risk management and internal controls. 2. The board of directors assessed the company's risk management and internal controls in the reporting period.	Full	
2.1.4	The board of directors determines the company's remuneration and reimbursement (compensation) policy for its directors, members of executive bodies, and other key executives.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies, and other key executives. 2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	Full	
2.1.5	The board of directors plays a key role in preventing, identifying, and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying, and resolving internal conflicts. 2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	Full	

Report on Compliance with the Principles and Recommendations Set Out in the Corporate Governance Code continued

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors plays a key role in preventing, identifying, and resolving internal conflicts. 2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	Full	
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	In the reporting period, the board of directors reviewed the company's corporate governance practices.	Full	
2.2.	The board of directors is accountable to the company's shareholders.			
2.2.1.	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	Partial	Attendance at meetings of the Board of Directors and its committees is disclosed in the Annual Report for the reporting period. No assessment of the Board of Directors' performance was run in the reporting period. On the request of the federal executive authorities, the Personnel and Remuneration Committee of PJSC Aeroflot's Board of Directors assesses members of the Board of Directors representing the interests of the state in preparation for their nomination to PJSC Aeroflot's Board of Directors for the following corporate year. PJSC Aeroflot intends to achieve full compliance with this principle of the Code in the future.
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	Full	
2.3.	The board of directors manages the company in an efficient and professional manner and is capable of making fair and independent judgements and adopting resolutions in the best interests of the company and its shareholders.			
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise, and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. The procedure for assessing the board of directors performance established in the company includes, inter alia, assessment of professional qualifications of directors. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, business reputation, absence of conflicts of interest, etc.	Full	
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	Full	
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise, and business skills, and enjoys its shareholders' trust.	As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience, and business skills.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.4	The company has a sufficient number of directors to organise the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	Full	
2.4.	The board of directors includes a sufficient number of independent directors.			
2.4.1	An independent director is a person who is sufficiently professional, experienced, and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or related to the government, may not be considered as independent under normal circumstances.	In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors.	Full	
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders. 2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report. 3. The company has in place procedures defining the actions to be taken by directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.	Full	
2.4.3	Independent directors make up at least one third of elected directors.	Independent directors make up at least one third of directors.	Full	
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.	Full	Material corporate actions undergo preliminary assessment by the Audit Committee of the Board of Directors that is fully made up of independent directors.
2.5.	The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is appointed from among the elected independent directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	None	The balanced composition of the Board of Directors and the comprehensive preliminary review of the matters brought before the Board of Directors (in particular, by committees made up of, and lead by, independent directors) as well as active engagement of the independent directors make implementation of this recommendation redundant.

Report on Compliance with the Principles and Recommendations Set Out in the Corporate Governance Code continued

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	Not complied with.	No assessment of the Board of Directors' performance was run in 2017. Individual attendance at meetings of the Board of Directors and its committees is factored in remunerations of members of the Board of Directors.
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to directors of information required to pass resolutions on agenda items.	The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to directors of materials for the agenda of a board meeting.	Full	
2.6.	Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	1. The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item. 2. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.	Full	
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	The company adopted and published an internal document that clearly defines the rights and duties of directors.	Full	
2.6.3	Directors have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period. 2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governance bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.	Partial	1. No assessment of the Board of Directors' performance was run in the reporting period. However, individual attendance at meetings of the Board of Directors is factored in remunerations of members of the Board of Directors. PJSC Aeroflot intends to achieve full compliance with this principle of the Code in the future. 2. The relevant responsibility of the Board of Directors' members is set out in the Company's internal documents.
2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents. 2. The company has in place a formalised induction programme for newly elected directors.	Full	
2.7.	Meetings of the board of directors, preparation for such meetings, and attendance by directors ensure efficient performance by the board of directors.			
2.7.1	Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.	The board of directors held at least six meetings in the reporting year.	Full	
2.7.2	Internal regulations of the company formalise a procedure for the preparation and holding of the board meetings, enabling directors to properly prepare for such meetings.	The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting is to be given, as a rule, at least five days prior to such meeting.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of its agenda items. The most important matters are dealt with at meetings of the board of directors held in person.	The company's articles of association or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	Full	
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors.	The company's articles of association provide for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected directors.	Full	
2.8.	The board of directors sets up committees to preview the most important matters of the company's business.			
2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	1. The board of directors set up an audit committee comprised solely of independent directors. 2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analysing, assessing, and auditing accounting (financial) statements. 4. In the reporting period, meetings of the audit committee were held at least once a quarter.	Full	
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is chaired by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	Partial	PJSC Aeroflot set up its Personnel and Remuneration Committee, predominantly comprised of independent directors.
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments and personnel) committee was set up, predominantly comprised of independent directors.	1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee), predominantly comprised of independent directors. 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	Full	
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with the company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety, and environment committee, etc.).	In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	Full	
2.8.5	Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee, and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	Full	

Report on Compliance with the Principles and Recommendations Set Out in the Corporate Governance Code continued

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8.7	Committee chairmen regularly report to the board of directors and its chairman on the performance of their committees.	In the reporting period, committee chairmen regularly reported to the board of directors on the performance of committees.	Full	
2.9.	The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors.			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's growth requirements, as well as at bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual directors, and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board of directors.	None	Relevant practice is to be introduced.
2.9.2	Performance of the board of directors, its committees, and members is assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	None	Relevant practice is to be introduced.
3.1	The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests, and supports efficient performance of the board of directors.			
3.1.1	The corporate secretary has the expertise, experience, and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	Full	
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	The board of directors approves the appointment, dismissal, and additional remuneration of the corporate secretary.	Full	
4.1.	Remuneration payable by the company is sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies, and other key executives of the company is in compliance with the approved remuneration policy of the company.			
4.1.1	The amount of remuneration paid by the company to directors, executive bodies, and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of such persons and the company's employees.	The company has in place an internal document (internal documents) – the policy (policies) on remuneration of directors, executive bodies, and other key executives, which clearly defines (define) the approaches to remuneration of such persons.	Full	
4.1.2	The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	During one reporting period, the remuneration committee reviewed the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates all types of expenses, benefits, and privileges provided to such persons.	The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates (regulate) all types of expenses, benefits, and privileges provided to such persons.	Full	
4.1.4	The company defines a policy on reimbursement (compensation) of expenses, detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies, and other key executives of the company may claim. Such policy can make part of the company's remuneration policy.	The remuneration policy (policies) defines (define) the rules for reimbursement of expenses incurred by directors, executive bodies, and other key executives of the company.	Full	
4.2.	Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of the shareholders.			
4.2.1	The company pays fixed annual remuneration to its directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for its directors.	Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period.	Partial	In addition to the fixed remuneration component, members of the Company's Board of Directors are also paid a variable remuneration component, calculated based on PJSC Aeroflot's capitalisation values, also aligned with long-term interests of PJSC Aeroflot's shareholders.
4.2.2	Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do not participate in stock option plans.	If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members are to be defined and disclosed, aimed at stimulating long-term ownership of such shares.	Full	
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, resulting from the change of control or any other reasons whatsoever.	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, resulting from the change of control or any other reasons whatsoever.	Full	
4.3	The company reviews its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of a fee payable to members of the executive bodies, and other key executives of the company.			
4.3.1	Remuneration due to members of executive bodies, and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable components of remuneration, depending on the company's results and the employee's personal contribution.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable component of remuneration due to members of executive bodies, and other key executives of the company. 2. During the latest assessment of the system of remuneration of members of executive bodies, and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies an efficient ratio of the fixed and variable remuneration components. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies, and other key executives of the company.	Full	

Report on Compliance with the Principles and Recommendations Set Out in the Corporate Governance Code continued

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.3.2	The company has in place a long-term incentive programme for members of executive bodies, and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive programme for members of executive bodies, and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive programme for members of executive bodies, and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this programme takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	Full	
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed component of their annual remuneration.	In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed component of their annual remuneration.	Full	
5.1.	The company has in place effective risk management and internal controls providing reasonable assurance in the achievement of the company's goals.			
5.1.1	The company's board of directors determined the principles of and approaches to organising risk management and internal controls at the company.	Functions of different governing bodies and units of the company in risk management and internal controls are clearly defined in the company's internal documents / relevant policy approved by the board of directors.	Full	
5.1.2	The company's executive bodies ensure establishment and continuous operation of effective risk management and internal controls at the company.	The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of business units and departments accountable to them.	Full	
5.1.3	The company's risk management and internal controls ensure an objective, fair, and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches or any violations of the law, the company's internal procedures, and conduct code.	Full	
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	In the reporting period, the board of directors or the board's audit committee assessed the performance of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	Full	
5.2	The company performs internal audit for regular independent assessment of the reliability and performance of risk management and internal controls and the corporate governance practice.			
5.2.1	The company set up a separate business unit or engaged an independent external organisation to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organisation with the same line of reporting.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	Full	
6.1.	The company and its operations are transparent for its shareholders, investors, and other stakeholders.			
6.1.1	The company developed and implemented an information policy ensuring efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) reviewed the matters of the company's compliance with its information policy at least once in the reporting period.	Full	
6.1.2	The company discloses information on its corporate governance framework and practice, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board of directors' committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	Full	
6.2.	The company makes timely disclosures of complete, updated, and reliable information to allow shareholders and investors to make informed decisions.			
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness, and comparability of disclosed data.	1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organised markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year. 3. If foreign shareholders hold a material portion of the company's shares, the relevant information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.	Full	
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the corporate website.	Full	
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's annual performance results.	1. The company's annual report contains information on the key aspects of its operational and financial performance. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	Full	

Report on Compliance with the Principles and Recommendations Set Out in the Corporate Governance Code continued

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.3	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.			
6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	Full	
6.3.2	When providing information to shareholders, the company ensures reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitive edge.	1. In the reporting period, the company did not refuse any shareholder requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	Full	
7.1	Actions that materially affect or may affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") are taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.			
7.1.1	Material corporate actions include reorganisation of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's authorised capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's articles of association provide for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	1. The company's articles of association include a list of transactions or other actions deemed to be material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general meeting of shareholders, the board of directors presents relevant recommendations to shareholders. 2. According to the company's articles of association, material corporate actions include at least: company reorganisation, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's authorised capital, listing or de-listing of the company's shares.	Full	
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	Full	
7.1.3	When taking material corporate actions affecting the rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders of the company; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Due to specifics of the company's operations, the company's articles of association contain less stringent minimal criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2	The company performs material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when performing such actions.			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances, and consequences.	In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	Full	
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction. 2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and bought back by the company. 3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors, as well as other persons as per the applicable law, are deemed to be related parties to the company's transactions.	Partial	No internal documents are in place; however, relevant procedures are put into practice.  PJSC Aeroflot intends to achieve full compliance with this principle of the Code in the future.

# Information About the Programme for Disposal of Non-Core Assets

The Programme for Disposal of PJSC Aeroflot's Non-Core Assets (version No. 7) was approved by PJSC Aeroflot's Board of Directors on 21 December 2017 (Minutes No. 7). The Programme provides for disposal of eight non-core assets (shares, stakes in the share capital of business entities, real estate). PJSC Aeroflot's Board of Directors resolved to retain three assets and to exclude another three assets from the Non-Core Asset Register following their reclassification as core assets. The Programme also contains criteria for classification of assets as non-core, the non-core asset register, information on encumbrances, book and market value, approach to selecting assets for disposal, as well as disposal methods, procedures and timescales.

The non-core assets owned by PJSC Aeroflot include property and property rights which are outside its flight services, but may be closely related to the development of the Company's end product.

The Company's approach to technological (non-core) assets that have a significant impact on the core business of PJSC Aeroflot:

- Compare benefits from these assets (discounts, reduction in prices and rates, improvement of PJSC Aeroflot's product quality) with the cost of ownership
- Monitor the effectiveness of corporate control

Assets are sold if ownership is found to be ineffective and the corporate control – insufficient.

Technological assets that have a low impact on the core business of PJSC Aeroflot are evaluated in terms of the cost of, and the need for, ownership, based on non-production criteria (achievement of non-commercial objectives, type of business, goodwill, etc.). These assets are disposed of if the effect of ownership is insignificant.

Real estate assets are analysed to determine their highest and best use for the airline's operational and commercial activities.

## Disposal of PJSC Aeroflot's non-core assets in 2017

Asset	Inventory number	Asset balance sheet item containing the asset as at the reporting date prior its disposal	Accounting items (analytics included) containing asset disposal income and expense	Book value of the asset, RUB thousand	Actual cost of disposal, RUB thousand	Actual cost of disposal vs book value, RUB thousand	Reason for discrepancies
Hotel complex, 3,670 square metres, Republic of Cabo Verde	8231 (hotel, asset card SAP ERP 102000136) 8230 (road, asset card SAP ERP 102000136) 8217 (open swimming pool, asset card SAP ERP 102000136)	1130	9111200010 – revenue from the sale of property, plant and equipment	13,886.3 (Inv. No. 8231)	60,848.2 (Inv. No. 8231)	56,173.6	Market value (cost of disposal) of the asset is higher than its book value
			9121200010 – residual value of the sold property, plant and equipment	0.0 (Inv. No. 8230)	7,694.1 (Inv. No. 8230)		
				85.8 (Inv. No. 8217)	603.4 (Inv. No. 8217)		
200 Class A ordinary shares of Sampo plc	-	1150	9111400020 – revenue from the sale of securities traded on the regulated market 9121400020 – costs of the sale of securities traded on the regulated market	544.3	598.4	54.1	Market value (cost of disposal) of the asset is higher than its book value
BCERO				14,516.4	69,744.1	56,227.7	

## Contracts to purchase/sell securities/interest in non-core entities signed in 2017

Initiatives to increase/decrease the stake in the share capital of subsidiaries and associates	Change in the stake in the share capital of subsidiaries and affiliates (amount of decrease (–) / increase (+), %)	Reference to the resolution that introduced the change	Benefit
The sale of shares of Sampo plc (Finland)	– 200 Class A ordinary shares	The Programme for Disposal of PJSC Aeroflot's Non-Core Assets approved by PJSC Aeroflot's Board of Directors on 17 October 2016; the Resolution of PJSC Aeroflot's Board of Directors dated 23 June 2017	The shares were sold for RUB 598,400, i.e. above its book value (RUB 544,300).

# Operating Data

## Aeroflot airline

Indicator	2013	2014	2015	2016	2017
Passenger traffic, thousand PAX	20,902.4	23,610.0	26,111.7	28,977.9	32,845.2
International Routes	12,294.5	12,468.2	13,445.4	14,873.7	17,154.1
Domestic Routes	8,607.9	11,141.8	12,666.3	14,104.2	15,691.1
Passenger turnover, million RPK	60,226.3	67,121.7	74,115.9	82,693.3	91,809.9
International Routes	40,614.4	42,676.5	46,774.4	53,339.0	60,669.4
Domestic Routes	19,611.9	24,445.2	27,341.5	29,354.3	31,140.5
Available seat-kilometres, million ASK	76,444.8	85,822.1	93,471.1	101,757.9	112,246.0
International Routes	52,392.4	56,206.9	60,209.1	67,387.0	75,315.6
Domestic Routes	24,052.4	29,615.2	33,262.0	34,370.9	36,930.4
Passenger load factor, %	78.8	78.2	79.3	81.3	81.8
International Routes	77.5	75.9	77.7	79.2	80.6
Domestic Routes	81.5	82.5	82.2	85.4	84.3
Cargo and mail carried, thousand tonnes	176.5	145.3	135.1	175.5	226.6
International Routes	118.0	81.5	74.6	96.1	148.7
Domestic Routes	58.5	63.8	60.5	79.4	77.9
Revenue tonne-kilometres, million TKM	6,339.9	6,722.7	7,291.0	8,253.1	9,316.5
International Routes	4,306.9	4,236.8	4,571.1	5,264.6	6,199.0
Domestic Routes	2,033.0	2,485.9	2,719.9	2,988.5	3,117.5
Available tonne-kilometres, million TKM	9,848.7	10,660.0	11,706.1	12,694.6	13,676.8
International Routes	6,821.1	6,983.1	7,548.6	8,412.0	9,228.5
Domestic Routes	3,027.6	3,676.9	4,157.5	4,282.6	4,448.3
Revenue load factor, %	64.4	63.1	62.3	65.0	68.1
International Routes	63.1	60.7	60.6	62.6	67.2
Domestic Routes	67.1	67.6	65.4	69.8	70.1
Revenue flights	167,071	183,645	206,228	218,734	243,317
International Routes	98,084	97,668	104,336	110,149	121,003
Domestic Routes	68,987	85,977	101,892	108,585	122,314
Flight hours, hours	509,058	554,659	594,863	639,524	702,807

# Aeroflot Group Operating Data

continued

## Rossiya airline

Indicator	2013	2014	2015	2016	2017
Passenger traffic, thousand PAX	9,084.7	9,962.6	9,066.9	8,800.3	11,152.7
International Routes	4,793.0	4,414.5	2,342.1	2,627.1	4,136.0
Domestic Routes	4,291.7	5,548.1	6,724.7	6,173.2	7,016.7
Passenger turnover, million RPK	22,171.2	21,066.4	16,982.1	20,482.3	28,119.2
International Routes	14,947.1	12,097.0	5,795.4	8,552.8	13,889.0
Domestic Routes	7,224.1	8,969.4	11,186.7	11,929.5	14,230.2
Available seat-kilometres, million ASK	28,445.3	27,502.0	22,913.9	25,245.4	33,300.9
International Routes	18,189.0	15,526.4	7,615.0	9,892.2	15,248.2
Domestic Routes	10,256.3	11,975.6	15,298.9	15,353.2	18,052.6
Passenger load factor, %	77.9%	76.6%	74.1	81.1	84.4
International Routes	82.2%	77.9%	76.1	86.5	91.1
Domestic Routes	70.4%	74.9%	73.1	77.7	78.8
Cargo and mail carried, thousand tonnes	17.7	14.3	14.6	22.7	32.8
International Routes	2.8	2.3	2.1	1.5	2.2
Domestic Routes	15.0	12.0	12.5	21.2	30.6
Revenue tonne-kilometres, million TKM	2,043.2	1,925.3	1,558.3	1,936.2	2,681.5
International Routes	1,352.3	1,094.7	526.6	773.4	1,261.8
Domestic Routes	691.0	830.6	1,031.7	1,162.8	1,419.7
Available tonne-kilometres, million TKM	3,074.7	2,919.6	2,478.5	2,917.0	3,948.2
International Routes	1,947.9	1,625.1	826.2	1,097.2	1,660.3
Domestic Routes	1,126.8	1,294.4	1,652.3	1,819.8	2,287.9
Revenue load factor, %	66.5%	65.9%	62.9	66.4	67.9
International Routes	69.4%	67.4%	63.7	70.5	76.0
Domestic Routes	61.3%	64.2%	62.4	63.9	62.1
Revenue flights	81,622	89,425	82,106	68,590	75,182
International Routes	34,790	35,192	20,778	18,511	22,391
Domestic Routes	46,832	54,233	61,328	50,079	52,791
Flight hours, hours	224,325	230,547	190,446	178,969	200,798

Note. For 2013–2016 consolidated data for Rossiya, Donavia and Orenair airlines.

## Pobeda airline

Indicator	2014	2015	2016	2017
Passenger traffic, thousand PAX	107.4	3,089.7	4,285.9	4,582.9
International Routes	–	6.2	473.6	875.1
Domestic Routes	107.4	3,083.5	3,812.3	3,707.8
Passenger turnover, million RPK	134.0	4,668.4	6,712.9	7,929.6
International Routes	–	12.3	1,050.5	1,913.9
Domestic Routes	134.0	4,656.1	5,662.4	6,015.7
Available seat-kilometres, million ASK	171.8	5,746.3	7,605.5	8,418.9
International Routes	–	17.8	1,334.0	2,084.4
Domestic Routes	171.8	5,728.5	6,271.5	6,334.6
Passenger load factor, %	78.0	81.2	88.3	94.2
International Routes	–	68.8	78.8	91.8
Domestic Routes	78.0	81.3	90.3	95.0
Cargo and mail carried, thousand tonnes	0.5	0.3	0.3	6.0
International Routes	–	–	–	2.0
Domestic Routes	0.5	0.3	0.3	4.0
Revenue tonne-kilometres, million TKM	12.6	420.7	604.6	725.7
International Routes	–	1.1	94.5	176.6
Domestic Routes	12.6	419.6	510.1	549.1
Available tonne-kilometres, million TKM	17.6	601.0	800.3	875.2
International Routes	–	1.9	140.5	212.5
Domestic Routes	17.6	599.1	659.8	662.7
Revenue load factor, %	71.6	70.0	75.6	82.9
International Routes	–	58.2	67.3	83.1
Domestic Routes	71.6	70.0	77.3	82.9
Revenue flights	735	20,057	25,668	25,761
International Routes	–	48	3,208	5,062
Domestic Routes	735	20,009	22,460	20,699
Flight hours, hours	1,476	41,016	53,892	59,831

# Aeroflot Group Operating Data

continued

## Aurora airline

Indicator	2013	2014	2015	2016	2017
<b>Passenger traffic, thousand PAX</b>	<b>1,403.6</b>	<b>1,055.2</b>	<b>1,124.8</b>	<b>1,376.2</b>	<b>1,548.2</b>
International Routes	303.9	213.0	234.7	314.4	384.6
Domestic Routes	1,099.7	842.2	890.1	1,061.8	1,163.7
<b>Passenger turnover, million RPK</b>	<b>2,875.8</b>	<b>1,753.1</b>	<b>1,869.7</b>	<b>2,221.8</b>	<b>2,363.7</b>
International Routes	551.2	333.4	370.6	490.1	562.1
Domestic Routes	2,324.6	1,419.7	1,499.1	1,731.7	1,801.6
<b>Available seat-kilometres, million ASK</b>	<b>4,173.6</b>	<b>2,337.9</b>	<b>2,609.8</b>	<b>3,045.2</b>	<b>3,244.8</b>
International Routes	948.3	485.6	647.7	721.1	781.1
Domestic Routes	3,225.3	1,852.3	1,962.1	2,324.1	2,463.7
<b>Passenger load factor, %</b>	<b>68.9</b>	<b>75.0</b>	<b>71.6</b>	<b>73.0</b>	<b>72.8</b>
International Routes	58.1	68.7	57.2	68.0	72.0
Domestic Routes	72.1	76.6	76.4	74.5	73.1
<b>Cargo and mail carried, thousand tonnes</b>	<b>10.4</b>	<b>6.2</b>	<b>6.2</b>	<b>7.2</b>	<b>7.9</b>
International Routes	1.1	0.5	0.4	0.4	0.4
Domestic Routes	9.3	5.7	5.8	6.8	7.5
<b>Revenue tonne-kilometres, million TKM</b>	<b>283.0</b>	<b>170.0</b>	<b>180.3</b>	<b>213.8</b>	<b>227.5</b>
International Routes	51.6	30.8	34.0	44.8	51.3
Domestic Routes	231.4	139.2	146.3	169.0	176.2
<b>Available tonne-kilometres, million TKM</b>	<b>465.0</b>	<b>252.9</b>	<b>287.3</b>	<b>335.1</b>	<b>343.1</b>
International Routes	103.6	53.5	75.4	84.4	84.4
Domestic Routes	361.4	199.4	211.9	250.7	258.7
<b>Revenue load factor, %</b>	<b>60.9</b>	<b>67.2</b>	<b>62.8</b>	<b>63.8</b>	<b>66.3</b>
International Routes	49.8	57.6	45.1	53.0	60.8
Domestic Routes	64.0	69.8	69.1	67.4	68.1
<b>Revenue flights</b>	<b>16,176</b>	<b>12,801</b>	<b>15,441</b>	<b>18,861</b>	<b>24,213</b>
International Routes	4,256	2,852	3,617	4,032	4,969
Domestic Routes	11,920	9,949	11,824	14,829	19,244
<b>Flight hours, hours</b>	<b>42,875</b>	<b>28,695</b>	<b>33,281</b>	<b>39,390</b>	<b>45,673</b>

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# Glossary

## Aviation terminology

Aviation fuel	aviation fuel, lubricants, and special fluids.
Low-Cost Carrier (LCC)	an airline that offers lower fares than traditional airlines, reflecting limited service provision, while also charging additional fees for on-board and airport services.
Routes	domestic routes, international routes.
Code Sharing	agreement on joint commercial operation of a flight by two or more airlines, one of which acts as the operator (operates the flight in addition to selling tickets), while the others act as marketing partners (selling tickets only).
Network Carrier	an airline that, unlike low-cost carriers, offers a wide variety of services through one or more hubs with connecting flights.
Maintenance, Repair and Overhaul (MRO)	Technical maintenance, ongoing repairs, and major renovations to aircraft.
TCH	Transport Clearing House.
Hub	a hub airport is a central connection point for many different flights: passengers and goods are transported from their departure point to a hub, from which they are carried to their final destination on another plane with other passengers and goods from other parts of the world.
BSP/ARC (Billing and Settlement Plan / Airline Reporting Corporation)	settlement systems between agents and airlines, organised by IATA, that facilitate and simplify air transportation sales on neutral forms (not owned by any airline) thereby offering airlines the opportunity to expand their market presence, minimise financial risks and reduce expenses incurred through the maintenance of sales systems. ARC is an analogous system operated in the United States.
GDS (Global Distribution System)	a global computerised booking network used as a single access point by travel agents, online booking websites, or large corporates to book (reserve) tickets on airlines’ flights, as well as hotel rooms, rental cars, etc.
NDC (New Distribution Capability)	a new aviation industry standard (standards) being developed by the IATA to provide airlines with more opportunities to sell their services to passengers both via own channels (such as a website or sales offices), and travel agents. Airlines will be able to customise and offer their air products across all sales channels, improve investment performance, and manage air product pricing. The benefits for passengers will include a simple and convenient access to an airline’s products and services, as well as the opportunity to compare offers from different airlines on a range of metrics. Travel agents will be able to provide both a wider offering of products and services, and easier access to them.
IATA (International Air Transportation Association)	IATA, founded in 1945, is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure, and economical air services – for the benefit of the world’s consumers.
ICAO (International Civil Aviation Organization)	an international civil aviation body established following the signing of the Chicago Convention on International Civil Aviation in 1944. It is a specialized UN agency responsible for developing international standards, recommended practices and regulations regarding the technical, economic, and legal aspects of international civil aviation.
IOSA (International Operational Safety Audit)	The IATA IOSA program is an internationally recognized and accepted evaluation system designed to assess a company’s: organization and operational management, flight operations, engineering and technical maintenance of aircraft, ground service for aircraft, the operational control systems including maintenance management and flight scheduling, on-board service, aviation safety, and provisions for transporting cargo and hazardous cargo.
ISO	The International Organization for Standardization.

## Operational terminology

Passenger traffic (PAX)	the number of passengers carried by an airline.
Direct PAX	passengers flying directly between their origin and destination.
Transit PAX	passengers flying with a stop-over in a hub airport on their way from origin to destination.
Passenger-Kilometres	a measure of passenger capacity actually used, representing transport of one passenger seat over a distance of one kilometre.
Available Seat-Kilometres (ASK)	an airline’s available passenger capacity, calculated as the sum of the products of the number of seats available for sale on each flight segment and the length of the segment.
Revenue Passenger-Kilometres (RPK)	passenger capacity actually used, calculated as the sum of the products of the number of passengers carried on each flight segment and the length of the segment.
Tonne-Kilometres	a measure of cargo and passenger capacity used, representing the actual transport of one tonne of cargo (passengers at 90 kg per passenger, commercial cargo, and mail) over a distance of one kilometre.
Available Tonne-Kilometres (ATK)	an airline’s available cargo and passenger capacity, calculated as the sum of the products of the maximum commercial load in tonnes on each flight segment and the length of the segment. Maximum commercial load is determined based on relevant flight and transportation documents.
Revenue Tonne-Kilometres (TKM)	an airline’s available cargo and passenger capacity actually used, calculated as the sum of passenger, mail, and cargo tonne-kilometres.
Passenger Load Factor (PLF)	a measure of an airline’s passenger capacity utilisation, calculated as the ratio of revenue passenger-kilometres (RPKs) to available seat-kilometres (ASKs).
Revenue Load Factor	a measure of an airline’s passenger and cargo capacity utilisation, calculated as the ratio of revenue tonne-kilometres (TKMs) to available tonne-kilometres (ATKs).
Origin and Departure points (O&D)	locations between which passengers are transported. This term is used in measuring the quantitative indicators of various markets, as defined by arrival and departure points, irrespective of whether direct or transit traffic is involved.

## Financial terminology

Unit revenue and cost	key performance measures in the aviation industry, defined as revenue or cost for ASK or RPK:
Yield	the ratio between passenger revenue and revenue passenger-kilometres;
Revenue per Available Seat-Kilometre (RASK)	the ratio between revenue (either passenger revenue or total revenue) and available seat-kilometres;
Cost per Available Seat-Kilometre (CASK)	the ratio between operating expenses and available seat-kilometres.
Total Shareholder Return (TSR)	measures the return on investment for shareholders, taking into account the share price appreciation and dividends paid.
EBITDA	earnings before interest, taxes, depreciation, and amortization. Aeroflot includes customs duties in this indicator.
EBITDAR	earnings before interest, taxes, depreciation, amortization, and operating lease expenses (rent costs). Aeroflot includes customs duties in this indicator.

# Contact Information

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