

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC “Aeroflot”		Page 1 of 7

REPORT
on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group's long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC "Aeroflot"		Page 2 of 7

1. Information on the results of the long-term development programme for the reporting year

In 2015, Aeroflot Group carried 39.4 million passengers, up 13.4% year-on-year. PJSC "Aeroflot" carried 26.1 and 23.6 million passengers, respectively (+10.6%). More detailed information on the results of the long-term development programme with a breakdown by Group company is given in the table below:

Passenger numbers and turnover in 2014-2015 (international and domestic flights)

	Passengers carried, thousand			Passenger turnover, million PKM			Passenger load factor, %		
	2014	2015	% change	2014	2015	% change	2014	2015	% change
Aeroflot	23,610	26,112	10.6%	67,121.7	74,115.9	10.4%	78.2	79.3	+1.1
Rossiya	5,192	4,752	-8.5%	10,147.4	8,695.0	-14.3%	75.6	75.7	+0.1
Orenburg Airlines	3,035	2,840	-6.4%	8,471.0	6,348.7	-25.1%	78.6	72.9	-5.7
DONAVIA	1,736	1,475	-15.0%	2,448.0	1,938.5	-20.8%	73.9	71.3	-2.6
Aurora	1,055	1,125	6.6%	1,753.1	1,869.7	6.7%	75.1	71.6	-3.5
Pobeda	107	3,090	up 28.9 times	134	4,468.4	up 33.3 times	78.0	81.2	+3.2
Total	34,735	39,394	13.4%	90,075.2	97,436.2	8.2%	77.8	78.3	+0.5

The key development objectives of the Group were successfully achieved in 2015, namely:

- increase in Group traffic and revenues;
- intensive development in the low-cost segment (Pobeda Airlines);
- implementation of measures to improve economic efficiency;
- introduction into service of the new Russian-built SSJ-100 aircraft;
- overcoming capacity constraints at Sheremetyevo Airport (expanding the domestic flights sector, achieving the operational programme targets without transferring a portion of flights to an alternative airport).

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC “Aeroflot”		Page 3 of 7

2. Information on the intended use and volume of received budgetary and extra-budgetary funds

The programme was financed through own funds and borrowings (debt financing). No budgetary funding was used.

3. Information on the progress and volume of main programme activities

Development in the low-cost segment (Pobeda Airlines)

In 2015, Pobeda Airlines rapidly increased its traffic, opening new flight destinations in Russia and abroad.

Pobeda’s summer 2015 flight schedule included flights to almost 40 cities in Russia. In addition to flights from Moscow to Anapa, Arkhangelsk, Astrakhan, Belgorod, Vladikavkaz, Volgograd, Gelendzhik, Yekaterinburg, Makhachkala, Nizhnevartovsk, Perm, Surgut, Tyumen and Ufa, it operated flights to 16 destinations from Sochi, and to eight destinations from Anapa. Black Sea resorts have become accessible to residents of Arkhangelsk, Belgorod, Volgograd, Yekaterinburg, Kazan, Kirov, Magnitogorsk, Makhachkala, Murmansk, Nizhnevartovsk, Omsk, Perm, Rostov-on-Don, Tyumen, Ulyanovsk, Ufa, Chelyabinsk and Khanty-Mansiysk.

The 2015-2016 winter schedule included more than 20 Russian cities. Flights from Moscow were operated to Astrakhan, Belgorod, Volgograd, Vladikavkaz, Yekaterinburg, Kaliningrad, Kirov, Krasnodar, Makhachkala, Nazran, Nizhnevartovsk, Ufa, Perm, Samara, Syktyvkar, Sochi, Surgut, Tyumen and Cheboksary. At the end of 2015, the company launched international flights to Bratislava. Its second international route, Moscow-Milan, was inaugurated in December 2015.

Based on Q1 2015 results, Pobeda took the ninth place among the top ten largest air carriers in Russia, having carried about 370,000 passengers between January and March. On June 3, 2015, the company carried its millionth passenger. Based on the results for the first six months of 2015, Pobeda again ranked ninth among the top ten largest Russian airlines, having carried 1.445 million passengers from January to July 2015. On September 10, the two millionth passenger boarded a Pobeda flight.

Pobeda operates the latest comfortable Boeing 737-800 NG aircraft, delivered directly from the factory. At the end of 2015, the air carrier had twelve modern, comfortable Boeing 737-800s with an average age of just a few months.

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC “Aeroflot”		Page 4 of 7

Implementation of measures to improve economic efficiency

Cost Optimization Programme

In 2015, as part of efforts to enhance the Group’s competitiveness and operating efficiency, a set of measures was implemented in order to reduce operating costs (Russian Government Directives No.2303p-P13 dated April 16, 2015).

PJSC “Aeroflot” implemented measures to optimise costs by reducing the requirements for resources and services and through improvements in technologies and processes (reducing aircraft operating empty weight, improving technological processes, optimising use of equipment, etc.). In 2015, it was planned to reduce operating expenses by RUB 4,034 million. According to the 2015 results, through the measures taken during the year, costs were reduced by RUB 6,381 million.

Rossiia Airlines implemented measures to optimise schedules, reduce the fleet, downsize personnel, cut ground handling costs in transit airports, optimise operating expenses, and improve technologies and processes. In 2015, it was planned to reduce operating expenses by RUB 3,599 million. According to the 2015 results, the planned measures were implemented almost in full.

Aurora Airlines implemented measures to optimise fleet management, personnel, IT and maintenance expenses, optimise operational activities, and improve technologies and processes. In 2015, it was planned to reduce operating expenses by RUB 922 million. According to the 2015 results, the planned measures were implemented almost in full.

Orenburg Airlines implemented measures to optimise schedules, reduce the fleet, downsize personnel, optimise operational activities, and improve technologies and processes. In 2015, it was planned to reduce operating expenses by RUB 2,343 million. According to the 2015 results, the planned measures were implemented almost in full.

DONAVIA Airlines implemented measures to enhance network efficiency, reduce staff costs, optimise operational activities, and improve technologies and processes. In 2015, it was planned to reduce operating expenses by RUB 555 million. According to the 2015 results, the planned measures were implemented almost in full.

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC “Aeroflot”		Page 5 of 7

Productivity Enhancement Programme

In 2015, as part of efforts to improve the economic performance of PJSC “Aeroflot”, a set of measures was implemented in order to improve labour productivity in PJSC “Aeroflot” (Russian Government Directive No.1346p- P13 dated March 5, 2015). PJSC “Aeroflot” conducted activities to improve labour standards, introduce new technologies and improve existing technologies, automate processes and control systems used to coordinate operations, introduce technically sound norms and headcount standards, improve work organisation, improve the incentive and motivation system, etc. In 2015, in accordance with the list of measures to improve labour productivity in PJSC “Aeroflot”, it was planned to increase labour productivity by 2 to 8% in major administrative, management and operating subdivisions of the company, with an overall increase for the company of at least 5%. Labour productivity actually rose by 4.94%. This is attributable to the recruitment of more than 900 former employees of Transaero Airlines in Q4 2015. With Transaero personnel excluded, the increase in labour productivity was 5.52%.

Introduction into service of new Russian-built aircraft

In accordance with the agreement concluded in 2005 between PJSC “Aeroflot” and CJSC “Sukhoi Civil Aircraft” for delivery of 30 Russian-built SSJ-100 aircraft, Aeroflot received and put into operation eight SSJ-100s in 2015. At the end of 2015, the total number of SSJ-100 aircraft reached 24.

Overcoming constraints and increasing capacity at Sheremetyevo Airport

A balanced development of Sheremetyevo’s infrastructure is a key strategic priority for achieving strategic objectives of Aeroflot Group.

In 2015, the following measures were carried out in order to overcome constraints and increase the capacity at Sheremetyevo Airport:

- increasing the efficiency of operational management:
 - improving the quality (optimisation) of airport scheduling;
 - improving flight punctuality;
 - synchronising interaction between pilots and air traffic controllers;

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC “Aeroflot”		Page 6 of 7

- improving the principles and rules related to air traffic and flight management within external constraints;
- interactions in control of flight and ground operations:
 - improving the efficiency of operational interaction between airline and airport services;
 - increasing the efficiency of hub operations management;
- optimising existing infrastructure;
- local expansion of Sheremetyevo’s infrastructure:
 - expanding airport capacity to enable an increase in traffic (expanding the domestic area in Terminal D by reducing the international area, extending the apron);
 - creating required infrastructure in the western section of the apron at Terminal D.

In 2015, the domestic area in terminal D was expanded by reducing the international area – the wall separating international and domestic areas was moved, thus increasing the throughput capacity of the domestic area. As a result of the reconstruction of the terminal, the federal sector was increased to eleven aircraft parking stands equipped with boarding bridges (vs. seven parking stands before the reconstruction). There are eleven parking stands equipped with boarding bridges in the international sector.

AEROFLOT Russian Airlines	REPORT on the implementation of Aeroflot Group’s long-term development programme and the achievement of approved key performance indicators in 2015	
PJSC “Aeroflot”		Page 7 of 7

4. Programme Performance Assessment

Assessment of approved key performance indicators*

No.	Indicator	Unit of measure	Target	Actual value	Attainment rate
1	Total Shareholder Return (TSR) (Aeroflot Group)	%	0.0%	68.9%	1,478.0%
2	ROIC (Aeroflot Group)	%	15.7%	18.5% **	117.8%
3	Long-term debt/ EBITDAR (Aeroflot Group)	-	2.3	1.7	126.1%
4	Effectiveness of implementation of the innovative development programme (Aeroflot Group)	%	80%	95%	118.8%
5	Effectiveness of the investment programme (Aeroflot Group)	-	3.8	8.7	228.9%
6	Revenue per Available Seat Kilometre (RASK) (Aeroflot Group)	roubles/SKM	3.20	3.33	104.1%
7	Flight punctuality (Aeroflot Group)	%	87.0%	91.4%	105.1%
8	Flight safety level (PJSC Aeroflot)	%	99.957%	99.978%	104.9%
9	Passenger load factor (Aeroflot Group)	%	77.1%	78.3%	101.6%
10	Labour productivity (Aeroflot Group)	million SKM/ person	4,066	4,060	99.8%***

* Target KPIs for the General Director of PJSC “Aeroflot” for 2015 were approved by the Board of Directors of PJSC “Aeroflot” on April 23, 2015 (Minutes No.15).

** In accordance with the decision of the Board of Directors of PJSC “Aeroflot” dated December 24, 2015 (Minutes No.9), the actual value of the KPI “ROIC (Aeroflot Group)” was calculated without taking the “Transaero effect” into account.

*** Underperformance for the KPI “Labour Productivity” was due to the arrival of more than 1,100 former employees of Transaero Airlines in Q4 2015. The KPI stands at 100.3% if Transaero personnel are excluded.