The Conclusion on the Major Transaction of Interest for the Commercial Control by Aeroflot, PJSC, over the Loading of Flights Operated by Aurora Airlines, JSC, under the Codeshare/Block Space Agreement on joint operation of flights

It is proposed to submit for consideration of the next regular General Meeting of Shareholders of Aeroflot, PJSC, the issue On the Major Transaction of Interest for the Commercial Control by Aeroflot, PJSC over the Loading of Flights Operated by Aurora Airlines, JSC, under the Codeshare/Block Space Agreement on joint operation of flights, which is carried out on the following material terms.

1. Material Terms

The Parties to the Transaction: Aeroflot, PJSC, as a Marketing Partner, Aurora Airlines, JSC, as a Partner-Operator;

Subject: commercial management by Aeroflot, PJSC, of the loading of flights of Aurora Airlines, JSC (including pricing and sale of tickets for such flights) under the Codeshare/Block Space Agreement on joint operation of flights, on the basis of the commuter (regional) carriage model providing for the publication of joint flights in booking systems under the SU uniform code of Aeroflot, PJSC, – in the range of SU5400-5799;

Price: not exceeding seventy-four billion two hundred and fifty million (74,250,000,000) rubles (excluding VAT) for the projected volume of carriage of about 32,000 round-trip flights operated by Aurora Airlines, JSC, within the specified period;

Term: from 01.11.2018 to 31.12.2021;

The persons interested in the transaction and the grounds for their interest: V.N. Antonov and V.Ya. Zingman, the members of the Management Board of Aeroflot, PJSC, who are the members of the Board of Directors of Aurora Airlines, JSC.

2. Information about the expected consequences for the activities of Aeroflot, PJSC, as a result of the transaction and assessment of the appropriateness of its fulfillment

1) For a long time Aurora Airlines, JSC (Partner-Operator), and Aeroflot, PJSC (Marketing Partner), have been carrying out joint flight operation to certain destinations under a single code of Aeroflot, PJSC, under the Codeshare/Block Space Agreement. It is proposed to conclude such an agreement for a new period.

The subject of this agreement is the commercial management by Aeroflot, PJSC, of the loading of flights of Aurora Airlines, JSC (including pricing and sale of tickets for such flights) under the Codeshare/Block Space Agreement on joint operation of flights on the basis of the commuter (regional) carriage model providing for the publication of joint flights in booking systems under the SU uniform code of Aeroflot, PJSC, – in the range of SU5400-5799;

The Partner-Operator is the party to the Codeshare/Block Space Agreement responsible for implementing the agreed joint flight program, and at the same time transfers 100% of space on its aircraft for their implementation by the Marketing Partner. Thus, Marketing Partner carries out the commercial management of joint flights (sale of space, tariff policy, revenue management on the flight).

2) The grounds for mutual settlements between the airlines is the agreed rate for the flight, calculated based on unit costs per seat of the aircraft for each individual route.
The long-term cooperation within the framework of such an agreement model (code-sharing/block space) allows implementing the model of integrated centralized management of strategic issues of Aeroflot Group: sales, revenue management and cost reduction, the creation of a single route network and development of the fleet, and allows increasing the presence in the air transport market and increasing the indicators of the commercial load when carrying out activities for the transportation of passengers and baggage on certain routes. At the same time Aurora Airlines, JSC, carries out operational activities, and the resignation of the functions transferred to Aeroflot, PJSC, allows Aurora Airlines, JSC, focusing on the target tasks solution: enhancement of the production activities efficiency, ensuring flight safety, unit costs reduction, and expenses reduction, while making it possible for Aeroflot, PJSC, to fully use the existing levers of commercial flight management of the Group, ensuring the growth of passenger traffic and expenses reduction across Aeroflot Group.

This model of cooperation allows attaining the following advantages:

− Building a single network of routes of the Group using the network effect, which allows increasing the passenger traffic;
− Distribution of all existing commercial agreements with partners to flights of Aurora Airlines, JSC, to increase the sales growth;
− Reduction of the information technologies and flight distribution costs of Aeroflot Group;

Thus, this transaction is reasonable for Aeroflot, PJSC, and it would lead to positive consequences for Aeroflot Group as a whole.

Director General, Aeroflot, PJSC
V.G. Saveliev

Deputy Director General for Commerce and Finance,
Aeroflot, PJSC
Sh.R. Kurmashov

APPROVED
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