Transparency

Aeroflot has in place an efficient system of corporate governance based on Russian and international best practices. Aeroflot pursues principles of transparency and aims to make information about the Company accessible to ensure equitable treatment of minority and majority shareholders.
In line with top standards and requirements, PJSC Aeroflot’s corporate governance system aims to implement the principles of transparency and accessibility of information about the Company and ensure equitable treatment of minority and majority shareholders.

As part of its efforts to improve corporate governance, in 2013, PJSC Aeroflot started implementing the roadmap on introduction of recommendations of nonprofit partnership Russian Institute of Directors, in 2015 the Company started implementing the recommendations of the Corporate Governance Code, as approved by the Board of Directors of the Bank of Russia on 21 March 2016.

On 19 March 2015, PJSC Aeroflot’s Board of Directors approved the Action Plan (Roadmap) to improve corporate governance practices at PJSC Aeroflot. In 2016, we continued to implement recommendations of the Corporate Governance Code and approved the Corporate Conduct Code of PJSC Aeroflot, the Regulations on the Executive Secretary of the Board of Directors and the Board of Directors Office of PJSC Aeroflot, amended the Regulations on the Personnel and Remuneration Committee, and took major efforts to enhance Aeroflot Group’s integrated risk management system.

PJSC Aeroflot also contributes greatly to the improvement of the corporate governance regulation framework through involvement in dedicated working groups and round table discussions.

Corporate governance is exercised by PJSC Aeroflot’s governance and supervisory bodies, including the General Meeting of Shareholders, the Board of Directors, the Management Board, the CEO, and the Revision Committee.

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. For two consecutive years (2015 and 2016), the Director of Aeroflot’s Corporate Governance Department was recognised as one of the best corporate governance directors by the Independent Directors Association (IDA).

PJSC Aeroflot’s financial and business activities are audited by an external auditor in accordance with both the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS), as well as by the Internal Audit Department functionally reporting to the Audit Committee of the Board of Directors of PJSC Aeroflot.

### Compliance with the Russian Corporate Governance Code

<table>
<thead>
<tr>
<th>Code section</th>
<th>Principles recommended by the Code</th>
<th>Complied with</th>
<th>Not fully complied with</th>
<th>Not complied with</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders Rights</td>
<td>15</td>
<td>11</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>36</td>
<td>29</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Corporate Secretary</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Remuneration System</td>
<td>10</td>
<td>9</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Risk Management System</td>
<td>6</td>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Information Disclosure</td>
<td>7</td>
<td>7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Material Corporate Actions</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>79</td>
<td>68</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

* Non-compliance relates to quasi treasury shares.

Note. Statistics are based on the Corporate Governance Code Compliance Report (Appendix to this Annual Report).
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. On top of that, the Company developed and put in place a cross-functional governance system for its aviation subsidiaries.

In addition, the Company is developing the Corporate Governance Code of PJSC Aeroflot, which provides for high quality corporate governance standards at PJSC Aeroflot. PJSC Aeroflot’s Corporate Governance Structure

Key documents ensuring protection of PJSC Aeroflot’s shareholders’ 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, · Regulations on the Corporate Information Policy, · Dividend Policy, · Corporate Conduct Code.

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.

Superior expertise of PJSC Aeroflot’s management team has been widely acclaimed in the business community.

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 Company holds its AGMs in June every year.

In 2016, PJSC Aeroflot convened the Annual General Meeting of Shareholders in Moscow on 27 June (Minutes No. 38 dated 30 June 2016). The meeting was attended by holders of 71.27% of PJSC Aeroflot’s share capital.

The EGM approved the related-party transaction (several associated transactions) related to assignment of the right to acquire 22 Boeing 787 aircraft.

The Meeting approved a new composition of the Board of Directors and the Revision Committee, and the Company’s auditor for 2016 annual accounting (financial) statements (selected pursuant to the relevant bidding procedures). 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, and Regulations on the Management Board.

The Annual General Meeting of Shareholders resolved not to announce or pay out dividends on PJSC Aeroflot’s shares for FY2015, since Aeroflot Group reported no net profit for that year. This resolution took into account the recommendations of PJSC Aeroflot’s Board of Directors and was passed in line with the Company’s Dividend Policy, which stipulates that Aeroflot Group’s net profit (under IFRS) forms the base for calculating dividends.

The extraordinary General Meeting (EGM) of Shareholders held on 26 December 2016 (Minutes No. 39 dated 27 December 2016) was attended by holders of 67.81% of PJSC Aeroflot’s share capital. The EGM approved the related-party transaction (several associated transactions) related to the Group’s right to acquire 22 Boeing 787 aircraft.

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 the Company’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.
Corporate Governance (continued)

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 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 dividends on the Company’s shares and dividend payout procedure, and present them for approval by the General Meeting of Shareholders;
- approve and monitor performance of the annual budget; 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 Board of Directors’ Audit Committee and Personnel and Remuneration Committee. The majority of members of the Board of Directors do not have any material comments, 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 and the Management Board, 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
As 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 and their role
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 groups of stakeholders.

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.

Members of the Board of Directors
At 31 December 2016, PJSC Aeroflot’s Board of Directors was comprised of the Chairman (non-executive director), seven non-executive directors (including the Chairman), and three independent directors.

PJSC Aeroflot’s Board of Directors is largely independent of the Company’s management: the only executive director on the Board is Vitaly Saveliev, the Chief Executive Officer and Chairman of PJSC Aeroflot’s Management Board.

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

The Chairman and members of the Board of Directors, except for Vitaly Saveliev, held no stake in PJSC Aeroflot during the reporting year. In the reporting year, no members of the Company’s Board of Directors purchased or disposed of their shares in the Company.

In 2016, no claims were filed against members of the Board of Directors.
Membership of the Board of Directors as at 31 December 2016

**Kirill Androsov**
Chairsman of the Board of Directors

**Igor Kamenskoy**
Independent member of the Board of Directors, Head of the Personnel and Remuneration Committee, member of the Audit Committee

**Nikolai Alekeev**
Member of the Board of Directors, member of the Strategy Committee

**Roman Pakhomov**
Member of the Board of Directors, Head of the Strategy Committee, member of the Audit Committee, and the Strategy Committee

**Mikhail Alekseev**
Member of the Board of Directors, member of the Strategy Committee
Born on 13 June 1972. In 1994, graduated with honours from St. Petersburg Maritime Engineering University (School of Engineering and Economics). In 2005, presented his thesis and was awarded a PhD in Economics at St. Petersburg State University of Economics and Finance. From 2003 to 2005, received training at Chicago University Business School (Executive MBA). From 2003 to 2004, First Deputy CEO at UNENERGOGAS; from 2004 to 2005, Director of the Department for Government Regulation of Tariffs and Infrastructure Reforms at the Ministry of Economic Development and Trade of the Russian Federation; since November 2005, Deputy Minister for Economic Development and Trade of the Russian Federation. From April 2006 to April 2015, Deputy Head of the Executive Office of the Government of the Russian Federation. Since 2015, Managing Partner at Altra Capital. Member of boards of directors at Obolisk Holding, Russian Machines, Alfa Invest Finance Co., Rossetpo zp, RUSGASDO Energy Company. At different periods, served on boards of directors at RUS LEO of Russia, Rossotn, Zarshehreff, VTB, Sibur, etc. All-Russian Exhibition Centre (VTSE), Chairman of the Board. Since 2011, member of the Public Council under the Federal Tax Service of Russia; since 2012, professor at the Higher School of Economics. Member of the Civic Chamber of the Russian Federation and member of the Public Council under the Ministry of Energy of Russia. Currently, holds the position of the Managing Director at Altra Investment Fund SICAV SIF.

**Aleksy Germanovich**
Independent member of the Board of Directors, member of the Personnel and Remuneration Committee and the Strategy Committee
Born on 19 July 1971. In 1998, graduated from the Department of Economics, and in 2002, from the Department of Journalist at St. Petersburg State University of Economics. In 2005, graduated from Canadian University, UK (Executive MBA). From 2002 to 2009, Deputy CEO at Velcom. From 2009 to 2012, Director at Moscow EXIMBPO Management School (from 2012 to 2013), member of the Executive Board and advisor to the Russian Direct Investment Fund. Currently, independent director on boards of directors at Urpo (Germany), E O Russia, Bank St. Petersburg, and Ameriabank (Armenia). At different periods, served on boards of directors at a variety of Russian transport companies, such as Siberia Airlines, Hidro International Airport, Volga State Transport Company, SC-Tans, etc. For the past four years, was named among Russia’s 50 best independent directors in the rating compiled by the Russian Union of Industrialists and Entrepreneurs with PwC and the IDA. Member of the Board at Endpoint Asset Management Fund “Development of Saint Petersburg State University”, Chairman of the Corporate Governance Committee at the Expert and Advisory Council of the Federal Agency for State Property Management.

**Dmitry Peslov**
Member of the Board of Directors, member of the Personnel and Remuneration Committee, and the Strategy Committee
Born on 28 December 1975. Graduated from Voronezh State University in 1996. In 1999, obtained a Master’s degree in Political Studies from Moscow School of Social and Economic Sciences at the University of Manchester. Since 2005, has led the strategy development exercise, chaired the Internet Policy Centre and overseen the establishment of the Russian International Studies Association at Moscow State Institute of International Relations (MGIMO University). Last position held — Deputy Scientific Vice-President, Innovation Director. Since 2009, Head of Strategic Initiatives at All-Russian Exhibition Centre (VTSE). Since 2011, Director of Young Professionals at the Agency for Strategic Initiatives. Member of the Government Expert Council; member of the Board of Directors at RVC. Does not own PJSC Aeroflot’s shares.
Corporate Governance (continued)

Vitaly Saveliev  
Member of the Board of Directors, CEO, Chairman of the Management Board


Does not own PJSC Aeroflot’s shares.

Dmitry Saprykin  
Member of the Board of Directors, member of the Strategy Committee


Does not own PJSC Aeroflot’s shares.

Vasiliy Sidorenko  
Independent member of the Board of Directors, Head of the Audit Committee, member of the Personnel and Remuneration Committees, and member of the Strategy Committee

Born on 2 February 1971. In 1993, graduated from Moscow State Institute of International Relations (MGIMO University) with a degree in International Public Law, and from Wharton Business School of the University of Pennsylvania with a degree in Finance. From 1997 to 2000, Deputy CEO at Sputnik. From 2000 to 2007, First Vice-President at Sistema Telekom. From 2007 to 2013, President at RTS. From 2006 to 2010, co-owner of Telecom Express Group. Since 2010, Managing Partner at Euroatlantic Investments Ltd. Since June 2012, member of the Board of Directors at Russian Railways. Since 2012, CEO at the Agency for Recapitalisation of Infrastructure and Long-Term Assets.

Does not own PJSC Aeroflot’s shares.

Sergey Chemezov  
Member of the Board of Directors


Yury Slyusar  
Member of the Board of Directors, member of the Strategy Committee

Changes in the membership of the Board of Directors in 2016

- Mariya Khvostova stepped down from the Board of Directors as from 27 June 2016 by resolution of the Annual General Meeting of Shareholders (Minutes No. 38 dated 30 June 2016).
- Aleksey Germanovich – elected to the Board of Directors as from 27 June 2016 by resolution of the Annual General Meeting of Shareholders (Minutes No. 38 dated 30 June 2016).

There were no other changes in the membership of PJSC Aeroflot’s Board of Directors in 2016. Other members of the Board of Directors were re-elected at the 2016 AGM. Board of Directors’ Performance Report for 2016

In 2016, PJSC Aeroflot’s Board of Directors held 18 meetings, including 9 meetings in person and 9 meetings in absentia. The said meetings addressed over 180 items and passed over 440 resolutions on matters of the Board.

In its resolutions, the Board of Directors covers a number of priority areas and promotes following business targets:

- ensure flight safety and on-time performance;
- determine Aeroflot Group’s strategy and identify priority lines of business;
- build and maintain effective corporate 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 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.

Notes:
- Data format: the number of meetings attended by the member of the Board of Directors / the total number of meetings held in 2016.
- Number of meetings held by the Board of Directors:
  - **In absentia**
  - In person

Note. Data format: the number of meetings attended by the member of the Board of Directors / the total number of meetings held in 2016. Attendance through written opinions or questionnaires (for meetings held in absentia) is shown in brackets.
Key matters discussed by the Board of Directors in 2016

**Strategic management and investment activities**
- progress in implementation of Aeroflot Group’s Strategy;
- Aeroflot Group’s Long-Term Development Programme update;
- Aeroflot Group’s IT Strategy;
- Aeroflot Group’s Investment Programme;
- Aeroflot Group’s Innovative Development Programme;
- PJSC Aeroflot’s branches and representative offices;
- progress in implementation of PJSC Aeroflot’s marketing strategy.

**Budget planning and funding**
- performance of Aeroflot Group’s consolidated budget KPIs;
- PJSC Aeroflot’s budget for 2017;
- PJSC Aeroflot’s budget for 2016;
- annual accounting statements, including the Company’s income statement for the fiscal year 2015;
- opinions of PJSC Aeroflot’s auditors (under RAS and IFRS) for the fiscal year 2015;
- materials and opinions of the Revision Committee and the Audit Committee of the Board of Directors for the fiscal year 2015;
- PJSC Aeroflot’s operational KPIs forecast for 2017;
- distribution of the Company’s profit and loss for the fiscal year 2015; 

**Corporate Governance**
- dividend policy of PJSC Aeroflot;
- implementation of the Corporate Governance Code;
- supervision of corporate governance practices;
- KPIs for 2017;
- incentive programme at PJSC Aeroflot;
- remuneration payable to members of PJSC Aeroflot’s Board of Directors and Revision Committee;
- preparation for the next Annual General Meeting of Shareholders of PJSC Aeroflot;
- PJSC Aeroflot’s internal documents;
- shareholder and investor relations.

**Related-party transactions**
- approval of PJSC Aeroflot’s related-party transactions.

**Other**
- flight safety at Aeroflot airline;
- outcomes of Transaero bailout;
- aircraft lease transactions;
- enhancement of service offerings within Aeroflot Group;
- procurement at PJSC Aeroflot.

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, and 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 2016, the Board of Directors’ Committees held a total of 22 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 2016, the Audit Committee held a total of nine 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 2016:
- performance of Aeroflot Group’s consolidated budget KPIs;
- Aeroflot Group’s and PJSC Aeroflot’s budgets;
- initiatives to reduce Aeroflot Group’s operating expenses;
- financial hedging;
- extending and restructuring of loans;
- controls and risk management;
- 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;
- reports on the results of analysis of the companies’ debt to PJSC Aeroflot;
- PJSC Aeroflot’s key financial and business audit areas;
- procurement;
- aircraft acquisition;
- dividend policy;
- investor relations;
- PJSC Aeroflot’s internal documents, including Operational Quality Guidelines of PJSC Aeroflot; Aeroflot Group’s Risk Register; Aeroflot Group’s Risk Map, Aeroflot Group’s Investment Programme; the Regulations on Procurement of Goods, Works, and Services; the Regulations on the Internal Audit Department.
Corporate Governance (continued)

Changes in the membership of the Audit Committee in 2016

<table>
<thead>
<tr>
<th>Committee membership from January to June 2016</th>
<th>Committee membership from September to December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Vasily Sidorov – independent member of the Board of Directors</td>
<td>- Vasily Sidorov – independent member of the Board of Directors</td>
</tr>
<tr>
<td>- Igor Kamenskoy – independent member of the Board of Directors</td>
<td>- Aleksey Germanovitch – independent member of the Board of Directors</td>
</tr>
<tr>
<td>- Roman Pakhomov – member of the Board of Directors</td>
<td>- Igor Kamenskoy – independent member of the Board of Directors</td>
</tr>
<tr>
<td>- Roman Pakhomov – member of the Board of Directors</td>
<td>- Roman Pakhomov – member of the Board of Directors</td>
</tr>
</tbody>
</table>

Elected by resolution of the Board of Directors on 1 September 2016

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

Personnel and Remuneration Committee

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 2016, the Personnel and Remuneration Committee held a total of six meetings, including one meeting held in absentia. The Committee's meeting agendas were compiled in line with the Committee's action plan approved by the first post-election meeting, and reflected the instructions of the Board of Directors.

Key matters discussed in 2016:
- remunerations of 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;
- candidates and proposals on the members of the Board of Directors representing the interests of the Russian Federation at PJSC Aeroflot's Board of Directors in the corporate year 2017-2018;
- the company's organisational structure;
- PJSC Aeroflot's internal documents, including the Regulations on PJSC Aeroflot's Key Performance Indicators, the Regulations on the Long-Term Incentive Programme, the Regulations on Remuneration of Employees of PJSC Aeroflot out of the Net Profit for the Year, the Policy on Exercising the Rights to PJSC Aeroflot's Phantom Shares, the Regulations on the Executive Secretary of the Board of Directors and the Board of Directors Office of PJSC Aeroflot, the new version of the Regulations on the Personnel and Remuneration Committee.

In December 2016, the number of members of the Personnel and Remuneration Committee was reduced from six to five members to comply with the recommendations of the Corporate Governance Code and the Rules of the Moscow Stock Exchange on the undivided majority of independent directors on the Committee.

Changes in the membership of the Personnel and Remuneration Committee in 2016

<table>
<thead>
<tr>
<th>Committee membership from January to June 2016</th>
<th>Committee membership from September to December 2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Igor Kamenskoy – independent member of the Board of Directors</td>
<td>- Igor Kamenskoy – independent member of the Board of Directors</td>
</tr>
<tr>
<td>- Mikhail Alekseev – member of the Board of Directors</td>
<td>- Mikhail Alekseev – member of the Board of Directors</td>
</tr>
<tr>
<td>- Marien Manasov – independent member of the Board of Directors</td>
<td>- Aleksey Germanovitch – independent member of the Board of Directors</td>
</tr>
<tr>
<td>- Vasily Sidorov – independent member of the Board of Directors</td>
<td>- Vasily Sidorov – independent member of the Board of Directors</td>
</tr>
<tr>
<td>- Roman Pakhomov – member of the Board of Directors</td>
<td>- Dmitry Peskov – member of the Board of Directors</td>
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<tr>
<td>- Roman Pakhomov – member of the Board of Directors</td>
<td>- Roman Pakhomov – member of the Board of Directors</td>
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</tbody>
</table>

Elected by resolution of the Board of Directors on 3 September 2015

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

* By Resolution of the Board of Directors dated 22 December 2016 (Minutes No. 7), Mikhail Alekseev was removed from the Personnel and Remuneration Committee (with his consent).

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 2016, the Strategy Committee held a total of seven meetings (in person). The Committee's meeting agendas were compiled in line with the Committee's action plan approved by the first post-election meeting, and reflected the instructions of the Board of Directors.

Key matters discussed in 2016:
- implementation of Aeroflot Group's Strategy;
- implementation of Aeroflot Group's marketing strategy;
- Aeroflot Group's Long-Term Development Programme update;
- audit the interim results of Aeroflot Group’s Long-Term Development Programme;
- strategic partnerships with airlines;
- enhancement of Aeroflot Group's subsidiary airlines;
- enhancement of maintenance and repair operators within Aeroflot Group;
- results of PJSC Aeroflot's Innovative Development Programme;
- aircraft fleet expansion.
Changes in the membership of the Strategy Committee in 2016

<table>
<thead>
<tr>
<th>Committee membership from January to June 2016</th>
<th>Committee membership from September to December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Roman Pakhomov – member of the Board of Directors, Head of the Committee</td>
<td></td>
</tr>
<tr>
<td>- Mikhail Aksenov – member of the Board of Directors</td>
<td></td>
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<tr>
<td>- Mariya Manasova – independent member of the Board of Directors</td>
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<tr>
<td>- Dmitry Peskov – member of the Board of Directors</td>
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<tr>
<td>- Dmitry Salykin – member of the Board of Directors</td>
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<tr>
<td>- Yury Slyusar – member of the Board of Directors</td>
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<tr>
<td>- Giorgio Callegari – member of the Management Board, Deputy CEO for Commerce and Finance</td>
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<tr>
<td>- Dmitry Peskov – member of the Board of Directors</td>
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<tr>
<td>- Dmitry Salykin – member of the Board of Directors</td>
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<tr>
<td>- Yury Slyusar – member of the Board of Directors</td>
<td></td>
</tr>
<tr>
<td>- Giorgio Callegari – member of the Management Board, Deputy CEO for Strategy and Alliances</td>
<td></td>
</tr>
<tr>
<td>- Shamil Kurmashov – member of the Management Board, Deputy CEO for finance and network and revenue management</td>
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</tr>
</tbody>
</table>

Elected by resolution of the Board of Directors on 3 September 2015

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

Management Board

PSSC 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. 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 PSSC Aeroflot's Articles of Association and Regulations on the Management Board as approved by the General Meeting of Shareholders of PSSC Aeroflot.

In the reporting period, members of the Management Board had no transactions with PSSC Aeroflot's shares.

Membership of the Management Board as at 31 December 2016

Vitaly Saveliev
Chairman of the Management Board, CEO

Vasily Avilov
Deputy CEO for Administrative Management

Vladimir Antonov
First Deputy CEO for Aviation Safety

Vladimir Alexandrov
Deputy CEO for Financial Corporation

Vladimir Avrashkin
Deputy CEO for Legal and Property Matters

PSSC 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. 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 PSSC Aeroflot's Articles of Association and Regulations on the Management Board as approved by the General Meeting of Shareholders of PSSC Aeroflot.

In the reporting period, members of the Management Board had no transactions with PSSC Aeroflot's shares.

Membership of the Management Board as at 31 December 2016

Vitaly Saveliev
Chairman of the Management Board, CEO

Vasily Avilov
Deputy CEO for Administrative Management

Vladimir Antonov
First Deputy CEO for Aviation Safety

Vladimir Alexandrov
Deputy CEO for Financial Corporation

Vladimir Avrashkin
Deputy CEO for Legal and Property Matters

PSSC 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. 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 PSSC Aeroflot's Articles of Association and Regulations on the Management Board as approved by the General Meeting of Shareholders of PSSC Aeroflot.

In the reporting period, members of the Management Board had no transactions with PSSC Aeroflot's shares.
Corporate Governance (continued)

Kirill Bogdanov
Deputy CEO for IT

Vadim Zingman
Deputy CEO for Customer Service

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. Does not own PJSC Aeroflot’s shares.

Shamil Kurmashov
Deputy CEO for Commerce and Finance

Georgy Matveev
Director of Flight Safety Management

Igor Parakhin
Deputy CEO and Technical Director
Born in 1961. Graduated from Moscow Institute of Civil Aviation Engineers. From 2001 to 2011, Head of Programme, Deputy Director of the Academichesk Higher Commercial School. Since 2011, Acting Technical Director, Technical Director, Deputy CEO and Technical Director at PJSC Aeroflot. Holds 0.000007% of PJSC Aeroflot’s share capital.

Igor Chalik
Deputy CEO and Commander of Flight Operations
Corporate Governance (continued)

Changes in the membership of the Management Board in 2016
As from 24 June 2016, Vladimir Alexandrov, Deputy CEO for Legal and Property Matters, was appointed to PJSC Aeroflot’s Management Board. As from the same date, Nikolay Altukhov, Deputy CEO for Sales and Property Management, stepped down from PJSC Aeroflot’s Management Board.

Management Board’s Report for 2016
In 2016, the Management Board of PJSC Aeroflot held a total of 35 meetings, including 5 meetings in absentia.

Key matters discussed in 2016:
- flight safety;
- implementation of Aeroflot Group’s Strategy;
- Aeroflot Group’s Long-Term Development Programme update;
- route network development, to factor in handling capacity limits at the South Terminal Complex (STC);
- performance of Aeroflot Group’s consolidated budget KPIs;
- review of reporting documents (annual accounting statements including PJSC Aeroflot’s income statement for the fiscal year 2015, annual report);
- opinions of PJSC Aeroflot’s auditors (under RAS and IFRS) for the fiscal year 2016;
- Aeroflot Group’s operational KPIs forecast;
- Aeroflot Group’s investment Programme;
- outcome of the assessment of Aeroflot Group’s Net Promoter Score;
- procurement at PJSC Aeroflot;
- investor relations;
- charity projects for children’s homes;
- sponsorship initiatives;
- provision of free flights to citizens eligible for such support under the applicable laws of the Russian Federation;
- enhancement of Aeroflot Group’s IT;
- roadmap for anti-corruption risk management and internal control processes.

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

Committee for Finance and Investments
The Committee for Finance and Investments is a permanent collective advisory body of PJSC Aeroflot’s Management Board. It was set up to provide recommendations and proposals for the Management Board to boost the Company’s business efficiency.

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 efficiency assessment criteria and drafting proposals on Aeroflot Group’s financial, economic, and marketing policies.

In 2016, the Committee for Finance and Investments held a total of 10 meetings.

Membership of the 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 provide recommendations and proposals for the Management Board to boost the Company’s business efficiency.

In its operation, the Committee is guided by the applicable 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.

In 2016, the Committee for Innovative Development held a total of two meetings.

Membership of the Committee for Innovative Development as at 31 December 2016

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shamil Khairutdinov</td>
<td>Deputy CEO for Commerce and Finance, Chairman of the Committee</td>
</tr>
<tr>
<td>Vadim Zinagov</td>
<td>Deputy CEO for Customer Service</td>
</tr>
<tr>
<td>Giorgi Calligari</td>
<td>Deputy CEO for Strategy and Alliances</td>
</tr>
<tr>
<td>Svetlana Arbikova</td>
<td>Director of the Department for Financial Planning and Analysis</td>
</tr>
<tr>
<td>Ilya Alexandrovsky</td>
<td>Director of the Sales Department</td>
</tr>
<tr>
<td>Alexander Moskov</td>
<td>Director of the Economic Security Department</td>
</tr>
<tr>
<td>Andrey Chikhanchik</td>
<td>Director of the Corporate Financial Department</td>
</tr>
<tr>
<td>Evgeny Zherenichko</td>
<td>Director of the Corporate Strategy Department</td>
</tr>
<tr>
<td>Dmitri Galkin</td>
<td>Advisor to the CEO for Commerce and Finance</td>
</tr>
<tr>
<td>Andrey Polozov-Yablonsky</td>
<td>Advisor to the CEO, Director on Innovations</td>
</tr>
</tbody>
</table>

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 provide recommendations and proposals for the Management Board to boost the Company’s business efficiency.

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 2016, the Committee for Innovative Development held a total of two meetings.

Membership of the Committee for Innovative Development as at 31 December 2016

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vadim Zingman</td>
<td>Deputy CEO for Customer Service, Chairman of the Committee</td>
</tr>
<tr>
<td>Andrey Polozov-Yablonsky</td>
<td>Advisor to the CEO, Director on Innovations, Deputy Chairman of the Committee</td>
</tr>
<tr>
<td>Sergey Krylov</td>
<td>Director of the IT Projects Department</td>
</tr>
<tr>
<td>Aleksy Korenevsky</td>
<td>Deputy Director for Flight Training and Training Methodology of the Flight Operations Department</td>
</tr>
<tr>
<td>Azat Zariyev</td>
<td>Deputy Director of the Aviation Security Department</td>
</tr>
<tr>
<td>Dmitry Saksorov</td>
<td>Head of Strategic Projects Coordination at the Corporate Strategy Department</td>
</tr>
<tr>
<td>Ekaterina Krzhizhnikova</td>
<td>Advisor to the CEO for Commerce and Finance</td>
</tr>
<tr>
<td>Alexander Fadeev</td>
<td>Advisor to the CEO and Technical Director</td>
</tr>
</tbody>
</table>
Remuneration for 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 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 indicators.

Remuneration for 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 27 June 2016. One of the key amendments was the adoption of the July to June corporate year in line with the Board of Directors’ election cycle. The Board remuneration framework comprises fixed and variable components. 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 growth on the Moscow Exchange as benchmarked against MICEX Index and market prices of shares issued by foreign carriers.

The Long-Term Incentive Programme for 1 January 2016 – 30 June 2019 was approved in 2016 to replace the previous Stock Option Plan for 2013–2015. The total pool of the long-term incentive programme for 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:

- PJSC Aeroflot’s market capitalisation growth in the relevant year (maximum weight of 1/3);
- PJSC Aeroflot’s ranking among five airline peers based on market capitalisation change in the relevant year (maximum weight of 1/3);
- PJSC Aeroflot’s market capitalisation performance against MICEX Index (maximum weight of 1/3).

50% of the remuneration amount accrued for the relevant corporate year is paid out to the members of the Board of Directors simultaneously with the principle remuneration for the relevant year. 50% of the remuneration amount accrued for the relevant year is not paid out, but set aside until the end of the LTIP (June 2019), added together and paid as a lump sum upon resolution of the General Meeting of the Company’s Shareholders, subject to the capitalisation of at least RUB 100 billion. 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 that was 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 for management is comprised of the fixed component (official salary) and the variable component (current bonuses and long-term incentives).

KPI system

The list and weights of KPIs for the CEO of PJSC Aeroflot for 2016, which form part of the corporate KPI framework, were approved by the Board of Directors of PJSC Aeroflot on 29 October 2015 (Minutes No. 5) and were updated by the Regulations on the Long-Term Incentive Programme. For the CEO of PJSC Aeroflot dated 28 April 2016 (Minutes No. 15) and dated 8 September 2016 (Minutes No. 2).

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 the 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 on 30 December 2015 and updated for H2 2016 on 23 December 2016.

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 defined by the Regulations on Bonus Payments to the Managers and Specialists of PJSC Aeroflot approved on 2 February 2011 and amended on 22 December 2016.

The Regulations stipulate that the bonus 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 resolution of the Board of Directors of PJSC Aeroflot on 2 February 2017. The Programme covered the CEO, members of the Management Board, department heads, Chief Accountant and other employees of the Company, on the CEO’s resolution. The total pool of the Long-Term Management Incentive Programme is equivalent to 3.1% 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 airline peers based on market capitalisation change in each relevant interim period;
- customer satisfaction (Net Promoter Score) with Aeroflot airline’s offering in each relevant interim period;
- achievement of the capitalisation target following the Long-Term Incentive Programme.

Remuneration under the Programme is paid based on the same principles as for the long-term incentive programme for members of the Board of Directors (50% of the remuneration amount is paid out on an annual basis, and the remaining 50% are set aside until the end of the Programme).
In 2016, the actual KPI values of PJSC Aeroflot’s CEO exceeded targets as a result of implementation of initiatives to reduce costs and enhance overall productivity, as well as efficient operational management.

The list and weights of KPIs for the CEO of PJSC Aeroflot were approved by the Board of Directors of PJSC Aeroflot on 24 November 2016, and the KPI targets for the CEO of PJSC Aeroflot were approved by the Board of Directors of PJSC Aeroflot on 22 December 2016.

### Target KPIs for PJSC Aeroflot’s CEO for 2016

<table>
<thead>
<tr>
<th>KPI</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>Performance to plan</th>
<th>Weight</th>
<th>2015</th>
<th>2016</th>
<th>Performance to plan</th>
<th>Measures for inauspicious results (min in 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Shareholder Return (TSR)</td>
<td>%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>15.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Return on Invested Capital (ROIC)</td>
<td>%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>5.0%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Long-Term Debt / EBITDAR</td>
<td>–</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Innovation Development Programme Efficiency KPI*</td>
<td>%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Investment Programme Efficiency</td>
<td>–</td>
<td>5.0%</td>
<td>5.0%</td>
<td>10.0%</td>
<td>5.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>CASR Reduction</td>
<td>%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Share of Subsidised Funding in Total Funding</td>
<td>%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Industry-specific indicators, including the bonus non-payment (disqualification) indicator (a total of four KPIs, weight of 40%)</td>
<td>–</td>
<td>5.0%</td>
<td>0%</td>
<td>0%</td>
<td>100.0%*</td>
<td>5.0%</td>
<td>0%</td>
<td>0%</td>
<td>100.0%*</td>
</tr>
</tbody>
</table>

### Financial and economic results (a total of six KPIs, weight of 30%)

<table>
<thead>
<tr>
<th>KPI</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>Performance to plan</th>
<th>Weight</th>
<th>2015</th>
<th>2016</th>
<th>Performance to plan</th>
<th>Measures for inauspicious results (min in 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Debt</td>
<td>%</td>
<td>20.0%</td>
<td>18.5%</td>
<td>20.0%</td>
<td>18.5%</td>
<td>17.3%</td>
<td>17.3%</td>
<td>17.3%</td>
<td>17.3%</td>
</tr>
<tr>
<td>CASK Reduction</td>
<td>%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Overall Productivity</td>
<td>mn ASK</td>
<td>2015</td>
<td>2016</td>
<td>Performance to plan</td>
<td>Weight</td>
<td>2015</td>
<td>2016</td>
<td>Performance to plan</td>
<td>Measures for inauspicious results (min in 2016)</td>
</tr>
<tr>
<td>Overall Productivity</td>
<td>min ASK 2016</td>
<td>2015</td>
<td>2016</td>
<td>Performance to plan</td>
<td>Weight</td>
<td>2015</td>
<td>2016</td>
<td>Performance to plan</td>
<td>Measures for inauspicious results (min in 2016)</td>
</tr>
<tr>
<td>Overall Productivity</td>
<td>min ASK per emp</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

* 2017 and 2018 KPIs are calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety KPI*


*** Overall Productivity KPI target does not provide for higher productivity due to the social commitment to take on former Transaero employees. Excluding Transaero staff, the overall productivity growth will stand at 7%.
Target KPIs for PJSC Aeroflot’s CEO for 2017

<table>
<thead>
<tr>
<th>KPI*</th>
<th>Weight</th>
<th>Unit</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Shareholder Return (TSR)</td>
<td>10.0%</td>
<td>%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Return on Invested Capital (ROIC)</td>
<td>20.0%</td>
<td>%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Long-Term Debt / EBITDA</td>
<td>5.0%</td>
<td>–</td>
<td>0.83</td>
</tr>
<tr>
<td>Integrated Innovation Key Performance Indicator (IIKPI)</td>
<td>10.0%</td>
<td>%</td>
<td>80%</td>
</tr>
<tr>
<td>Investment Programme Efficiency</td>
<td>5.0%</td>
<td>–</td>
<td>5.22</td>
</tr>
<tr>
<td>CASK</td>
<td>5.0%</td>
<td>cent per ASK</td>
<td>4.9%***</td>
</tr>
<tr>
<td>Share of State-Subsidised Funding in Total Funding Secured</td>
<td>5.0%</td>
<td>%</td>
<td>0%</td>
</tr>
<tr>
<td>Punctuality</td>
<td>5.0%</td>
<td>%</td>
<td>87.0%</td>
</tr>
<tr>
<td>PJSC Aeroflot’s Flight Safety</td>
<td>15.0%</td>
<td>%</td>
<td>99.957%</td>
</tr>
<tr>
<td>Passenger Load Factor</td>
<td>10.0%</td>
<td>%</td>
<td>80.0%</td>
</tr>
<tr>
<td>Overall Productivity****</td>
<td>10.0%</td>
<td>mn ASK per emp.</td>
<td>4.235</td>
</tr>
</tbody>
</table>

* All KPIs are linked for Aeroflot Group except for PJSC Aeroflot’s Flight Safety.
** The target value assumes 50% of the net profit for 2016 distributed as dividends.
*** The target value of 4.9 cent per ASK (the lowest value achieved by Aeroflot Group) is determined in line with the Guidelines for Cost Saving Estimates issued by Federal Agency for State Property Management (Order No. 90 dated 10 March 2016).
**** The Overall Productivity target (for Aeroflot Group) is proposed to be +5% of the estimated actual value for 2016, in line with instructions issued by federal executive authorities. The Group’s approved 2017 consolidated budget for Aeroflot Group provides for more aggressive growth in overall productivity, at about 7%.

The 2017 KPIs for PJSC Aeroflot’s CEO reflecting PJSC Aeroflot’s KPI system were amended versus 2016 to replace the CASK Reduction KPI (for Aeroflot Group) with the CASK KPI (for Aeroflot Group).

Aeroflot Group optimised its operations to achieve the Group’s CASK target and provide for average annual cost savings of 10% since 2011. Aeroflot Group ranks first among peers by cost savings.

Remuneration for the Board of Directors and the Management Board in 2016

The Annual General Meeting of Shareholders held on 27 June 2016 resolved to pay members of PJSC Aeroflot’s Board of Directors the total remuneration of RUB 44,876,254 for 2015, with additional RUB 24,743,515 paid under the Stock Option Plan in 2015, the remuneration amounted to RUB 23,603,280 with no payments under the Stock Option Plan. In 2016, PJSC Aeroflot’s market capitalisation grew by 68.9% following the calculation method applicable for the Plan and ranked first among peers by growth rate. The upward trend continued in 2016, with capitalisation growing by 172.5% — the highest growth among airlines used as benchmarks for the incentive programme.

The total remuneration accrued to members of PJSC Aeroflot’s Management Board for 2016 stood at RUB 598,825,846 (RUB 362,594,270 in 2015).

Remuneration for members of PJSC Aeroflot’s Board of Directors paid in 2016

<table>
<thead>
<tr>
<th>Member of the Board of Directors</th>
<th>Remuneration, RUB</th>
<th>Remuneration under the Stock Option Plan, RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kirill Androsov</td>
<td>4,056,175</td>
<td>2,492,174</td>
</tr>
<tr>
<td>Mikhail Alekseev</td>
<td>3,958,785</td>
<td>2,492,174</td>
</tr>
<tr>
<td>Igor Kager</td>
<td>3,271,440</td>
<td>2,492,174</td>
</tr>
<tr>
<td>Igor Kuznetsov</td>
<td>4,428,482</td>
<td>2,492,174</td>
</tr>
<tr>
<td>Maksim Marsakov</td>
<td>3,958,785</td>
<td>2,492,174</td>
</tr>
<tr>
<td>Roman Pakhomov</td>
<td>4,428,482</td>
<td>3,721,579</td>
</tr>
<tr>
<td>Dmitry Peskov</td>
<td>3,958,785</td>
<td>2,492,174</td>
</tr>
<tr>
<td>Vitaly Savelov</td>
<td>3,808,857</td>
<td></td>
</tr>
<tr>
<td>Dmitry Saprygin</td>
<td>3,808,785</td>
<td></td>
</tr>
<tr>
<td>Vasily Sherstov</td>
<td>4,249,198</td>
<td>2,882,243</td>
</tr>
<tr>
<td>Yury Slyusar</td>
<td>910,000</td>
<td>1,157,798</td>
</tr>
<tr>
<td>Sergey Zhalezov</td>
<td>3,956,566</td>
<td>2,492,174</td>
</tr>
</tbody>
</table>

**TOTAL**                       | **44,876,254**    | **26,794,319**                                |

Remuneration for members of PJSC Aeroflot’s Management Board paid in 2016

<table>
<thead>
<tr>
<th>Remuneration type</th>
<th>Amount, RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary and additional compensations</td>
<td>165,281,962</td>
</tr>
<tr>
<td>Bonuses</td>
<td>232,045,884</td>
</tr>
</tbody>
</table>

**TOTAL**                          | **397,327,846** |
Corporate Governance (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 of loss caused to third parties, arising from claims filed by third parties against the individual 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 cover is USD 100 million per claim and in total. The insurance period is one year. The total insurance premium is USD 9,000.

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

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

Results of internal and external audit assessment by the Audit Committee for 2016

In 2016, the Audit Committee of the Company’s Board of Directors reviewed, on a quarterly basis, the day-to-day operations of the Internal Audit Department and the results of conducted audits. The 2016 action 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. The Committee reviewed, approved, and gave a positive assessment of the Internal Audit Department’s performance in 2016.

In 2016, the Company also performed internal assessment of its internal audit function quality, supported by PricewaterhouseCoopers. 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, the consolidated financial statements prepared under the IFRS. Opinions issued by external auditors in 2016 received a positive assessment by the Audit Committee.

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

In 2016, the Board of Directors of PJSC Aeroflot approved a new version of the Regulations on the Internal Audit Department, developed together with the Audit Committee of the Board of Directors and PricewaterhouseCoopers Audit. These Regulations are in line with the requirements set out in the Guidelines of the Federal Agency for State Property Management, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics for Internal Auditors and the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014.

In the reporting period, the Internal Audit Department conducted a total of 60 audits of the Company’s units and subsidiaries to identify potential risks and assess efficiency in PJSC Aeroflot’s key business lines and processes. Audit findings enabled the management to come up with proposals on further improvements in the Company’s key operations, with the majority of them successfully implemented by the management.

The Internal Audit Department regularly reports to the Audit Committee of PJSC Aeroflot’s Board of Directors on its progress in the implementation of the annual action plan, audits made, and application of the Department’s recommendations.

Revision Committee

The Revision Committee supervises PJSC Aeroflot’s financial and business operations to provide reasonable assurances 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 PJSC Aeroflot’s Articles of Association and the Regulations on the Revision Committee.
Corporate Governance (continued)

As prescribed by the respective Regulations, the Revision Committee checked for accuracy the information contained in the RAS-based annual financial statements for 2016, including the Income Statement and other documents submitted to the General Meeting of Shareholders for review. The Committee benchmarked the metrics of the Company’s financial and business operations in 2016 and their compliance with the applicable laws in 2016.

Based on these audits, the Revision Committee prepared and approved a relevant report containing the balance sheet and financial performance assessment results. The Committee’s report reflects changes in the balance sheet structure and key change drivers, assessing a wide range of the Company’s financial and business operations, including risk management and internal controls, and compliance. The conducted audits and checks enabled the Committee to provide recommendations meant to improve the Company’s performance and thereby increase earnings and cut costs.

In its report, the Revision Committee passed a positive opinion on the 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 2016. The report also provides the Committee’s recommendations on the Company’s financial and business performance.

The General Meeting of Shareholders approved AO BDO Unicon (Minutes No. 38 dated 30 June 2016) as the Company’s external auditors to conduct independent assessment of its 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 also resolved –

Vasily Shipilov – Deputy Head of Division at the Federal Agency for State Property Management on 2 March 2016,

Ekaterina Nikitina – Advisor to the Head of the Ministry of Transport of the Russian Federation;

Sergey Ubigovun – 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 General Meeting of Shareholders also resolved to pay members of the Revision Committee the total remuneration of RUB 2,441,574.

External audit

Each year, PJSC Aeroflot engages external auditors to conduct independent assessment of its 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 total fees paid to AO BDO Unicon for its audit and non-audit services in 2016 amounted to RUB 8,853 thousand (including VAT), in 2016, AO BDO Unicon also received payment of RUB 2,625 thousand for non-audit services provided in 2015. The key scope of services rendered under the 2016 contract included audit of interim and annual statements, development of regulations, preparation of reporting recommendations, and tax advisory services.

The AGM approved ISC PricewaterhouseCoopers Audit (Minutes No. 38 dated 30 June 2016) as the auditor of the Company’s consolidated financial statements for 2016 prepared under the International Financial Reporting Standards (IFRS).

The total fees paid to PricewaterhouseCoopers International Limited for audit, audit-related, and other services for 2016 amounted to RUB 93,518 thousand (excluding VAT). The key scope of services rendered under the 2016 contract included general review of the Company’s operations and condensed consolidated financial statements for 6M and 9M 2016, audit of the IFRS consolidated financial statements for 2016, services on developing the segmentation of PJSC Aeroflot’s target customers, and services on standardisation and automation of the Company’s business processes.

Anti-Corruption Policy

Aeroflot Group openly states its rejection of unfair and illegal business practices and takes additional voluntary anticorruption commitments recommended by international and Russian laws.

Aeroflot is currently working on the implementation of corporate anti-corruption programmes. The Company operates on the basis of public anti-corruption principles and measures, transparent and open procurement processes, and rejection of 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, the Company’s Board of Directors (Minutes No. 8) approved Aeroflot Group’s Anti-Corruption Policy designed to create a uniform approach to adhering 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.

Aeroflot also has a roadmap for anti-corruption risk management and internal control processes at PJSC Aeroflot, approved by its 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 the Federal Agency for State Property Management on 2 March 2016.

From August to September 2016, the Internal Audit Department conducted audit (assessment) of the performance of the Company’s anti-corruption risk management and internal controls, followed by development and implementation of measures to further enhance these processes.

As part of the effort to integrate the Guidelines on anti-corruption risk management and internal controls in partially state-owned joint-stock companies, approved by the Federal Agency for State Property Management on 2 March 2016, the Company introduced the role of Deputy Director of the Economic Security Department responsible for compliance management.

In 2016, we developed and introduced a number of anti-corruption executive documents and regulations, as well as updated the existing regulations, in particular:

- updated the Corporate Conduct Code of PJSC Aeroflot;
- developed the procedure for reporting by PJSC Aeroflot’s employees on gifts received at hospitality events, during business trips, and at other formal events attended by them as part of their roles or duties, handing such gifts over evaluating, disposing of (purchasing), and crediting the resulting proceeds from disposal (purchase);  
- set up a committee to receive and evaluate gifts given to PJSC Aeroflot’s employees;
- developed a standard Anti-Corruption Clause to be incorporated into contracts and agreements with PJSC Aeroflot’s counterparties, and introduced its application procedure.

Remuneration for members of PJSC Aeroflot’s Revision Committee paid in 2016

<table>
<thead>
<tr>
<th>Member of the Revision Committee</th>
<th>Remuneration, RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Igor Belikov</td>
<td>912,984</td>
</tr>
<tr>
<td>Marina Nikitina</td>
<td>706,476</td>
</tr>
<tr>
<td>Ekaterina Nikitina</td>
<td>706,476</td>
</tr>
<tr>
<td>Aleksei Shchepigin</td>
<td>706,476</td>
</tr>
<tr>
<td>Pavel Frolov</td>
<td>706,476</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,441,574</td>
</tr>
</tbody>
</table>
PJSC Aeroflot set up a dedicated incident reporting channel – 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.

Information Disclosure
To enhance corporate transparency and equity story, the Company strives to ensure timely disclosure of complete and accurate material information on its operations. The Company is guided in its information disclosure 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 their 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 relations 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/712040126) and in the IR section of Aeroflot’s website (http://ir.aeroflot.com).

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

Risk Management System
Aeroflot Group’s risk management policy implies building a comprehensive system that helps us promptly identify risks, assess their materiality, and take measures to minimise both the likelihood of risks being realised and losses they can lead to.

In 2015, PJSC Aeroflot’s Board of Directors approved the Regulations on Aeroflot Group’s Risk Management System. The document lays down the fundamentals of a unified risk assessment and management methodology, goals, tasks, principles of organisation and operation of the corporate risk management system (CRMS), and approaches to the distribution of rights, obligations and responsibilities of participants of the risk management system at PJSC Aeroflot and its subsidiaries.

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 Office) 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 realisation 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.

In 2016, PJSC Aeroflot’s Board of Directors approved Aeroflot Group’s Risk Register and Risk Map. PJSC Aeroflot’s business units made comprehensive efforts to identify and assess risks and developed a draft Risk Management Standard implementing the concept of a unified risk management and internal control methodology.

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, Risk Management Office, Financial Risk Management Office of the Corporate Finance 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 corporate risk management system have been designated in subsidiaries, with subsidiaries taking measures to identify and assess risks.
To further improve risk management across key business processes within Aeroflot Group, the CEO, the Audit Committee, and the Board of Directors regularly receive reports on the Company’s key risks, including a report on the actual realisation of financial risks (market and credit risks), submitted by the Audit Committee on a monthly basis. In addition, at least once a month the Management Board receives a report on the steps taken to mitigate identified risks relating to flight safety, based on the results of the implementation of the flight safety management system.

First Deputy CEO for Aviation Safety also receives a quarterly review of the results of monitoring and assessment of potential unlawful interference in the Company’s operations across the route network, and the risk matrix for the airline’s network for the next quarter. This information is also presented to members of the Management Board who have authorised access to confidential information.
Risks and Risk Management Measures

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL RISKS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency and commodity price risk</td>
<td>Currency risk is the risk of incurring losses from potential adverse fluctuations of exchange rates. Commodity price risk is the risk of incurring losses from potential adverse changes in prices of commodities purchased.</td>
<td>To mitigate liquidity risk, finance units carefully plan cash inflows and outflows to identify and promptly eliminate potential gaps with payment deadlines, etc.</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Risk of incurring losses from potential fluctuations in market interest rates.</td>
<td>Aeroflot Group has a policy aimed at balancing receivables and liabilities across each currency. In light of the limits of operational (or natural) hedging, we consider financial hedging options to balance out the income structure and the cost structure we may use derivatives on oil and on FR rates.</td>
</tr>
<tr>
<td>Credit risk</td>
<td>Risk of incurring losses from a potential failure by a counterparty to meet its contractual obligations to Aeroflot Group companies.</td>
<td>A systemic approach including: - internal credit ratings assigned to agents marketing passenger flights in Russia; - financial coverage calculated for sales of passenger and cargo flights; - credit risk limits assigned to credit institutions.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Risk of incurring losses from inability of the company to fully meet its obligations as they fall due.</td>
<td>To mitigate liquidity risk, finance units carefully plan cash inflows and outflows to identify and promptly eliminate potential gaps with payment deadlines, etc.</td>
</tr>
<tr>
<td>Tax risks</td>
<td>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.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, changes in Russian tax laws are monitored, tax systems in foreign jurisdictions and agreements signed by the company are reviewed, etc.</td>
</tr>
<tr>
<td>Capital markets access risks</td>
<td>Risks of incurring losses from the Group’s inability to raise debt for its financial and business activities on acceptable terms.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, the market situation is monitored, a competitive environment for credit institutions is set up, and measures to enhance the Group’s equity story and upgrade and/or maintain our credit rating are taken.</td>
</tr>
<tr>
<td>Other financial risks</td>
<td>Other risks that may affect financial performance.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, the market situation is monitored, market players and analysts are consulted, judgments and opinions by leading global experts are used, necessity to upgrade the fleet is analysed, and specialised business units are involved in strategic planning.</td>
</tr>
<tr>
<td><strong>BUSINESS RISKS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic risk</td>
<td>Risks of incurring losses from errors (mistakes) made when making decisions on the Group’s business and growth strategy.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, the situation is monitored, market players and analysts are consulted, judgments and opinions by leading global experts are used, necessity to upgrade the fleet is analysed, and specialised business units are involved in strategic planning.</td>
</tr>
<tr>
<td>Route network planning risks</td>
<td>Risks of incurring losses from wrong decisions made when planning the route network.</td>
<td>To mitigate this risk such methods as requesting slots in advance when interacting with airports, providing standby aircraft, forecasting constraints, monitoring flight loads and the market situation are applied.</td>
</tr>
<tr>
<td>Operational risks (core and non-core business)</td>
<td>Operational risks (core business) are risks of losses that are explicitly due and directly related to air transportation of passengers, baggage, cargoes, and mail.</td>
<td>Operational risks (non-core business) are risks of losses that are due, but not directly related, to air transportation of passengers, baggage, cargoes, and mail.</td>
</tr>
<tr>
<td>Service quality risks</td>
<td>Risks of incurring losses from potential refusal by consumers to buy goods or services of the Group’s companies as a result of products and services offered by the companies failing to meet the quality requirements of customers.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, a process to obtain feedback from customers through a number of channels and ensure timely, full consideration of all incoming communications and complaints has been put in place. The demand for services offered by Aeroflot Group is also tracked, and measures to enhance service quality, improve consumer loyalty and experience, and monitor employee compliance with regulations are taken.</td>
</tr>
<tr>
<td><strong>OPERATIONAL RISKS (CORE BUSINESS)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aviation security risks</td>
<td>Risks of incurring losses from unlawful interference with aviation activities.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, the situation is monitored and analysed, and remedial measures to ensure safety at the base airport and at destination airports are taken, aircraft 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 internal and external access control systems is monitored on a 24/7 basis.</td>
</tr>
<tr>
<td>Flight safety risks</td>
<td>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).</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, aircraft condition, aircraft maintenance, and the operation of the corporate healthcare unit is in terms of medical examination of flight crew are monitored, medical equipment is replaced, operations and operating processes are continuously monitored.</td>
</tr>
<tr>
<td>Other operational risks</td>
<td>Operational risks (core business) are risks of losses that are explicitly due and directly related to air transportation of passengers, baggage, cargoes, and mail.</td>
<td>Operational risks (non-core business) are risks of losses that are due, but not directly related, to air transportation of passengers, baggage, cargoes, and mail.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, aircraft maintenance processes are monitored and coordinated in line with existing process flows for pre-flight management by the Group’s business units and third parties, existing technologies are improved, as well as processes for personnel selection, training, and provision with advanced equipment and special machinery, other necessary procedures are put in place. Key operational risks of the Group are insured.</td>
</tr>
<tr>
<td>Risk</td>
<td>Description</td>
<td>Action</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>OPERATIONAL RISKS OF SUPPORT ACTIVITIES AND OTHER RISKS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT risks</td>
<td>Risks of incurring losses from the use of information technologies by the company.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, IT vendors and developers have been established; channel redundancy and data backup procedures are implemented; skilled personnel is recruited and trained, and the causes of IT failures are investigated.</td>
</tr>
<tr>
<td>HR risks</td>
<td>A group of risks that arise from, or affect, the Group’s personnel (or an individual employee), including the lack of: (a) required/appropriate number of employees as determined based on the current and forward-looking business plans and existing business processes; HR risks may be viewed as any action or omission by personnel (human resources).</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, relations with IT vendors and developers have been established; channel redundancy and data backup procedures are implemented; skilled personnel is recruited and trained, and the causes of IT failures are investigated.</td>
</tr>
<tr>
<td>Legal risks</td>
<td>Risks of losses due to non-compliance with legal requirements.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, a system for timely communication of legislative changes is put in place, and contracts are reviewed for compliance with applicable legislative requirements.</td>
</tr>
<tr>
<td>Process risks</td>
<td>Risks of losses due to internal errors of Aeroflot Group.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, business processes are analysed and improved, compliance with regulatory requirements is monitored, and personnel is provided with training.</td>
</tr>
<tr>
<td>Risks of quality of purchased spare parts, units, components, and materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic and information security risks</td>
<td>Risks of losses related to changes in the corporate internal and external environment that may lead to the relevant item losing its economic value.</td>
<td>To mitigate the implications and/or the likelihood of these risks being realised, an effective system to monitor, identify, locate 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.</td>
</tr>
</tbody>
</table>
Impact of Key Financial Risks Realised in 2016

Aeroflot Group’s key financial risks depend on the market environment and are primarily represented by currency, price, and interest rate components. Factors that influence the Company’s operations comprise currency exchange rates (EUR/RUB, USD/RUB, EUR/USD), fuel prices, and interest rates (mainly LIBOR).

Significant changes in the above risk factors had a major impact on the Group’s performance in 2016. This was mainly due to sharp changes in currency exchange rates and fuel prices, as well as highly volatile foreign exchange and commodity markets. The market risk management system primarily aims to minimise the Group’s exposure to the above factors.

In particular, in 2016, the Russian rouble appreciated against the US dollar by 16.8% y-o-y (as at 31 December). Growth against the euro was even stronger, with the rouble gaining 19.9% over the same period. The euro also depreciated by 3.2% against the US dollar. However, on average RUB vs USD and EUR was circa 10% weaker in 2016 vs 2015. The latter trend has negative implications for the Group, as its US dollar-denominated costs outpace the euro-denominated revenue.

Global oil prices grew strongly in 2016, with the price of Brent crude going up 52.2%. The negative impact of these changes on fuel prices in rouble terms was offset by the positive trend in the rouble exchange rate.

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

<table>
<thead>
<tr>
<th>RUB MILLION</th>
<th>EUR/RUB, USD/RUB and EUR/USD dynamics in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>48,323</td>
<td>1.20</td>
</tr>
<tr>
<td>6,574</td>
<td>1.06</td>
</tr>
<tr>
<td>14,435</td>
<td>1.05</td>
</tr>
</tbody>
</table>

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.

- The Group receives revenue from ticket sales, and tickets for most international flights are priced in euros;
- Costs of fuel, lease payments, and maintenance (key foreign currency expenses) are denominated in USD and in EUR.

Our currency risk management primarily focuses on reducing the Group’s exposure to currency risk factors. Aeroflot Group pursues a policy of balancing proceeds and liabilities in each currency and also uses currency hedges. In 2016, just one cross-currency hedge was in place, however, it had a zero financial effect at the end of the year due to market conditions. On top of that, Aeroflot Group is exposed to currency risk from revaluation of assets and liabilities in USD and EUR. The Group does not hedge this risk, as it does not affect its actual cash flows.

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, no such transactions were executed, and no risks for 2017 were hedged as at 31 December 2016. In 2017, risks may be hedged during the year based on regular risk assessment and testing of potential hedges using the Financial Hedging Methodology.
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 insured risks.

The Group’s key operational risks are insured, with coverage for aviation risks, such as aircraft destruction, disappearance or damage, and risks of liability related to the property and health of third parties to whom the Company provides transportation services, accounting for 65% of the total insurance costs.

The Group also uses various insurance programmes covering a wide range of non-aviation operational risks of support operations, including motor insurance (compulsory motor third party liability, motor hull insurance), comprehensive civil liability insurance, and hazardous industrial facilities insurance.

In 2016, all insurance contracts were renewed as scheduled. Subsidiary airlines of PJSC Aeroflot were included in consolidated reinsurance coverage, which helped reduce the insurance rates. Stabilisation of the global aviation insurance market has also contributed to the rate reduction. Insurance rates declined on average by 20%. Thus, despite the growing fleet value, the overall aviation risk insurance premium decreased versus the previous insurance period.

Development Plan

Risk management development plans include improvements to the corporate risk management system both for individual and unit risks, as well as across Aeroflot Group in general.

In February 2017, PJSC Aeroflot’s CEO approved the schedule of actions to improve CRMS performance in 2017, comprising the following actions:

- approving and adopting Aeroflot Group’s Risk Management Standard implementing the concept of a unified risk management methodology;
- training the Company’s and subsidiaries’ staff in risk management and internal control;
- updating the risk register and risk map, including analysis of identified risks.

Interest Rate Risk

The Group’s exposure to interest rate risk results from changes in interest rates in the money market, which affects the borrowing costs of the Group. Specifically, costs under lease agreements of Aeroflot Group are linked to USD LIBOR 6M and 3M market interest rates. In 2016, the former rate went up from 0.6117% to 0.9979%, while the latter increased from 0.8423% to 1.3177% y-o-y (as at 31 December).

Interest rate swaps are a common instrument to mitigate interest rate risk. According to a hedging report prepared by the Group’s advisor, this risk factor has a relatively low materiality for the Group, and converting the floating rates into fixed is not considered at the moment.
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Investor Relations, Equity and Debt

Share Capital
PJSC Aeroflot’s charter capital as at 31 December 2016 was RUB 1,110,616,299, consisting of 1,110,616,299 ordinary registered uncertificated shares with a par value of RUB 1 each. The Company did not issue preferred shares.


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 2016.

The total number of PJSC Aeroflot’s shareholders as at 31 December 2016 was 11,377, compared to 10,534 as at 31 December 2015, comprising mostly individuals.

PJC Aeroflot’s register of shareholders is kept by JSC Independent Registrar Company (License No. 045-13954-000001, issued by the Bank of Russia). The register holder’s details are provided in the Contacts section at the end of this Annual Report.

Shareholder structure as of 31 December 2016

<table>
<thead>
<tr>
<th>Holder</th>
<th>Status*</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2016</th>
<th>Change of stake in share capital, p.p.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>O</td>
<td>1,041,180,681</td>
<td>93.75</td>
<td>1,048,923,212</td>
</tr>
<tr>
<td>O</td>
<td>568,313,319</td>
<td>51.17</td>
<td>568,313,319</td>
<td>51.17</td>
</tr>
<tr>
<td>GSC National Settlement Depository</td>
<td>N</td>
<td>370,700,230</td>
<td>34.19</td>
<td>387,462,361</td>
</tr>
<tr>
<td>LLC AEROFLOT-FINANCE***</td>
<td>O</td>
<td>53,716,189</td>
<td>4.84</td>
<td>53,716,189</td>
</tr>
<tr>
<td>LLC RT-Business Development</td>
<td>O</td>
<td>16,720,724</td>
<td>1.51</td>
<td>16,720,724</td>
</tr>
<tr>
<td>LLC Aviacapital-Service***</td>
<td>O</td>
<td>22,688,599</td>
<td>2.04</td>
<td>22,688,599</td>
</tr>
<tr>
<td>Individuals****</td>
<td>O</td>
<td>69,455,218</td>
<td>6.25</td>
<td>61,693,087</td>
</tr>
</tbody>
</table>

* O means "owner", N means "nominee".
*** LLC Aeroflot-Finance’s stake includes the stake held by nominees, with the number of phantom shares unchanged since 2014.
**** LLC Aeroflot-Finance’s stake includes the stake held by nominees.
Including the management and members of the Board of Directors.

Information on the key shareholders of PJSC Aeroflot

Shares
PJSC Aeroflot shares and depository receipts are traded on the stock market. The Company’s ordinary shares are traded on the Russian market, and global depositary receipts (GDRs) and American depositary receipts (ADRs) are traded on foreign markets.

Securities transactions are subject to the T+2 trading mode. PJSC Aeroflot shares are included in the main Russian stock indexes: MICEX Index, MCX BMI (broad market), MICEX TRN (transport companies), and RTSI.

Shares of PJSC Aeroflot are traded on the Moscow Exchange, where as at 31 December 2016 they were included in the Level 1 Quotation List (AF7: MOEX).
Investor Relations, Equity and Debt (continued)

As at 31 December 2016, the Company’s market capitalisation was RUB 169.8 billion, up 172.5% y-o-y.

In the year to date, PJSC Aeroflot share price has been outperforming both Russia’s Micex Index and the global market’s Bloomberg Airlines Index. The spectacular growth in Aeroflot’s market cap was fuelled mostly by strong 1H and 9M performance driven by solid operational results and the rouble’s appreciation against major global currencies.

Despite local currency appreciation in emerging markets (particularly, the Brazilian real and the South African rand), which bolstered the share prices of airlines in a number of emerging markets, some markets have remained volatile, which put the emerging markets’ airlines on a downward trajectory. Moreover, the share prices of European airlines came under additional pressure from the Brexit process, dramatic developments in a number of European cities, and strike actions by staff in certain airlines.

**Analyst recommendations**

<table>
<thead>
<tr>
<th>Date</th>
<th>Recommendations</th>
<th>Bloomberg consensus forecast, RUB</th>
<th>Target price range, RUB</th>
<th>Number of analysts</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2016</td>
<td>Buy</td>
<td>158.0</td>
<td>132.0 – 184.0</td>
<td>12</td>
</tr>
<tr>
<td>31.12.2015</td>
<td>Buy</td>
<td>85.6</td>
<td>64.4 – 83.0</td>
<td>13</td>
</tr>
</tbody>
</table>

**Average daily trading volumes on the Moscow Exchange**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>5,079</td>
<td>130</td>
<td>4,191</td>
<td>5,079</td>
<td>130</td>
</tr>
</tbody>
</table>

**Aeroflot share price highs and lows**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>First trading day</td>
<td>50.9</td>
<td>46.2</td>
<td>33.2</td>
<td>31.2</td>
<td>56.2</td>
</tr>
<tr>
<td>High</td>
<td>81.8</td>
<td>83.2</td>
<td>56.1</td>
<td>56.1</td>
<td>152.9</td>
</tr>
<tr>
<td>Low</td>
<td>46.2</td>
<td>33.2</td>
<td>31.2</td>
<td>56.1</td>
<td>56.2</td>
</tr>
<tr>
<td>Last trading day</td>
<td>44.9</td>
<td>83.8</td>
<td>32.2</td>
<td>56.1</td>
<td>152.9</td>
</tr>
</tbody>
</table>

**Average daily trading volumes**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,537</td>
<td>2,235</td>
<td>4,911</td>
<td>5,079</td>
<td>209</td>
</tr>
</tbody>
</table>

**Price per Aeroflot share**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0</td>
<td>4,193</td>
<td>4,911</td>
<td>5,079</td>
<td>2,235</td>
</tr>
</tbody>
</table>

**Note.** The average daily trading volume was calculated based on the closing price (historical data were re-calculated retrospectively based on the closing prices of a specific period).
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 and as American depositary receipts (ADRs) on the US over-the-counter market. One GDR/ADR represents 5 ordinary shares. Deutsche Bank Trust Company Americas acts as the depository bank, and LLC Deutsche Bank is the custodian. A total of 14,430,910 shares were converted into GDRs as at 31 December 2016, representing 1.3% of the charter capital. As at 31 December 2016, the price of one depositary receipt stood at EUR 11.6, up 240.2% during the year.

PJSC Aeroflot GDR programme

<table>
<thead>
<tr>
<th>Programme type</th>
<th>Sponsored Level-1 GDRs under Regulation S and Rule 144A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio (shares: GDR)</td>
<td>5:1</td>
</tr>
<tr>
<td>Ticker</td>
<td>AERZY</td>
</tr>
<tr>
<td>ISIN</td>
<td>US89343R1091, US89343R2091</td>
</tr>
</tbody>
</table>

PJSC Aeroflot Level-1 ADR programme

<table>
<thead>
<tr>
<th>Programme type</th>
<th>Sponsored Level-1 ADRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio (shares: ADR)</td>
<td>5:1</td>
</tr>
<tr>
<td>Ticker</td>
<td>AERZY</td>
</tr>
<tr>
<td>ISIN</td>
<td>US69343R1014, US69343R2004</td>
</tr>
</tbody>
</table>

Corporate Bonds

In 2016, PJSC Aeroflot fully repaid its BO-03 exchange-traded bond, traded on the Moscow Exchange. A total of 5,000,000 bonds were repaid on 31 March 2016. Coupon on PJSC Aeroflot’s bonds in the reporting year was paid in full and in due time:
- 31 March 2016: BO-03 bond payments of RUB 206,950,000 for the sixth coupon period.
No new debt was issued in 2016.

Credit Ratings

PJSC Aeroflot has a credit rating from Fitch Ratings. In March 2016, the rating agency affirmed the Company’s local and foreign currency long-term issuer default rating at ‘B+’, outlook Stable.

Dividend Policy

Dividend Policy is a key element of the corporate governance framework 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 profit 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 pay-outs is set at 25% of Aeroflot Group’s IFRS net profit.

The Annual General Meeting of Shareholders held on 27 June 2016 resolved not to declare or pay out dividends on PJSC Aeroflot shares for the fiscal year 2015.

PJSC Aeroflot’s dividend history

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend per share, RUB</td>
<td>1.01</td>
<td>1.16</td>
<td>2.50</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total dividends, RUB thousand</td>
<td>2,000,018</td>
<td>1,292,313</td>
<td>2,774,195</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total amount actually paid, RUB thousand</td>
<td>1,999,927</td>
<td>1,292,249</td>
<td>2,773,621</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividend payout ratio, %</td>
<td>98.2</td>
<td>26.0</td>
<td>25.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accounting standards used to calculate the net profit</td>
<td>RAS</td>
<td>RAS</td>
<td>RAS</td>
<td>IFRS</td>
<td>IFRS</td>
<td>IFRS</td>
</tr>
</tbody>
</table>

Forms and other terms of payment for declared dividends:
- In cash

PJSC Aeroflot’s Dividend History

--- --- --- --- --- ---
Dividend per share, RUB 1.01 1.16 2.50 – – –
Total dividends, RUB thousand 2,000,018 1,292,313 2,774,195 – – –
Total amount actually paid, RUB thousand 1,999,927 1,292,249 2,773,621 – – –
Dividend payout ratio, % 98.2 26.0 25.0 – – –
Accounting standards used to calculate the net profit RAS RAS RAS IFRS IFRS IFRS
Form and other terms of payment for declared dividends In cash In cash In cash – – –
Investor Relations, Equity and Debt (continued)

Investor Relations

The Company is particularly focused on relations with both existing and prospective investors. In its interactions with investors, PJSC Aeroflot is committed to providing objective, reliable and consistent information about its activities and complies with current disclosure standards, seeking to increase information transparency as much as practically possible.

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 law. The Company regularly discloses information in its IFRS and RAS financial statements, and in its investor presentations.

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

<table>
<thead>
<tr>
<th># of investor meetings</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>166</td>
<td>205</td>
<td>296</td>
</tr>
</tbody>
</table>

Note. Group meetings are split into 1:1.

Geography of investment funds with shareholdings in PJSC Aeroflot, 2016

- Russia: 25.6%
- Asia: 29.3%
- Europe: 16.1%
- US and Canada: 1.6%
- Middle East: 26.8%
- Other: 0.8%

Presentations by the management were followed by site visits: a tour of PJSC Aeroflot’s Flight Crew Training Centre at Sheremetyevo airport and maintenance hangars where aircraft are serviced, as well as visits to the Hub Control Centre and Operational Control Centre, the units responsible for direct support of the Company’s operations.

In 2016, the Company’s investor relations were recognised by a number of awards:

- Aeroflot’s IR team received Grand Prix for Best Overall Investor Relations, Small Cap, from IR Magazine Russia & CIS and for the third year in a row was named the best in the transport sector;
- Aeroflot’s IR team was also placed high in the overall rankings for Russian IR teams and rankings of the European IR teams in the transport sector, compiled by Extel based on the independent 2016 Russia Investor Relations Survey;
- Aeroflot’s Annual Report 2015 was named the winner in the Best Annual Report in the Consumer Sector category and 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;
- Aeroflot’s Annual Report 2015 also received the highest award, a platinum medal award, in the Transportation & Logistics Industry category and placed in the top 10 of the best annual reports by Russian companies at the 2015 Vision Awards, hosted by the League of American Communications Professionals (LACP);
- Aeroflot’s IR website was announced the winner of the Investor Relations Standard of Excellence award at the WebAwards 2016 Competition hosted by the Web Marketing Association, and was also named the best corporate IR website in the transport sector in the corporate IR website competition held by Russia’s Financial Communications and Investor Relations Alliance (ARFI);
- Aeroflot was shortlisted for the Best Use of Digital Communications – International award (IR website, Top 3) and the Best Annual Report – International award (Top 3) in the IR Society 2016 Best Practice Awards (UK).

Grand Prix
for best overall investor relations