

PROCUREMENT

Procurement activities at Aeroflot Group comply with Federal Law No. 223-FZ On Procurement of Goods and Services by Certain Legal Entities of 18 July 2011, Aeroflot Procurement Policy, relevant policies of Aeroflot's subsidiaries, and other procurement-related regulations adopted by the Russian Government. Procurement needs of subsidiaries are met both through a consolidated procurement process by PJSC Aeroflot, and individual subsidiary procedures.

Procurement transparency, no discrimination and unreasonable restrictions, and ability to procure from a wide pool of quality bidders are top priorities for the Group in its strive to maximise procurement efficiency and reduce costs.

FUEL PROCUREMENT

In 2015, all fuel supply contracts were signed by PJSC Aeroflot based on results of bidding processes won by tenderers who could offer the best financial terms and guarantee required reliability, including security assurance. In 2015, the average monthly fuel procurement for Aeroflot Group aircraft in Russia totalled 81 thousand tonnes, of which PJSC Aeroflot accounted for 27% and other Group companies – for 73%.

Transparent competitive procedures and formula-based pricing optimise fuel costs, which has always been a major expense item for the Company. Fuel pricing formulas are devised in the bidding process. The share of fuel procured at formula-based prices in 2015 reached 76% in Russian and 96% in foreign airports. In 2015, due to volatile economic environment formula-based pricing in Russia went down by 4 p.p. y-o-y.

Pursuant to the order of the Deputy Prime Minister and paragraph 3 of Meeting Minutes No. IS-P9-25pr of 21 November 2011, PJSC Aeroflot focuses on direct cooperation

The procurement process in PJSC Aeroflot and its subsidiaries is organised in line with the best practices, including online bidding. In 2015, 95.98% of all PJSC Aeroflot's tenders were organised online. In monetary terms, 50.45% of all supplies was procured via online bidding process (6.3% y-o-y), complying with the requirements of the Federal Agency for State Property Management (Instruction No. GN-13/1206 of 21 January 2011). Each tender received an average of 3.53 bids (+1.1 y-o-y). This testifies to complete transparency and competitive nature of the tenders organised by PJSC Aeroflot, and a growing interest of potential suppliers.

with vertically integrated oil producers and their subsidiaries specialising in aircraft fuel sales to avoid an unjustified rise in fuel prices or an artificial supply shortage.

At the Group level, fuel procurement terms are determined by agency agreements. When making a consolidated order covering the demand of all Group companies, PJSC Aeroflot initiates bidding process to select suppliers of fuel and related aircraft services.

These arrangements cover virtually the entire fuel needs of subsidiary airlines excluding a small number of Russian airports (less than 3%) which are not contracted or alternate airports, as well as airports where fuel procurement is part of integrated ground handling agreements.

Optimisation of fuel procurement at Aeroflot airline is in the competence of the Bidding Commission of PJSC Aeroflot and is subject to approval by the Fuel Committee.

PROCUREMENT FROM SMALL AND MEDIUM ENTERPRISES

Procurement processes at PJSC Aeroflot provide for a broad involvement of small and medium businesses (SMEs). Between 1 July 2015 and 31 December 2015, supplies of PJSC Aeroflot from SMEs accounted for 17.9% of the procurement volume established in accordance with Government Resolution No. 1352, with supplies procured under SME-only bidding accounting for 8.55% – far exceeding the share prescribed by the law.

PJSC Aeroflot has developed and duly adopted an SME cooperation pilot and composed a list of goods and services to be procured from small and medium businesses.

SMEs are also actively involved in the import substitution programme.

The Group is committed to continue supporting SMEs by facilitating their access to corporate tenders in accordance with the specifics of SME participation in procurement and the specifics of civil aviation.

ADVISORY BOARD IN CHARGE OF INDEPENDENT AUDIT OF PROCUREMENT EFFICIENCY

In its pursuit of procurement transparency, PJSC Aeroflot established an advisory board in charge of independent audit of procurement efficiency. The Advisory Board includes representatives of public organisations, scientists, and procurement experts.

The Advisory Board:

- is responsible for auditing PJSC Aeroflot procurement operations;
- monitors implementation by PJSC Aeroflot of measures enhancing access of small and medium businesses to corporate tenders;
- improves efficiency of applied advanced technologies, ensures transparency, and enhances fair competition in PJSC Aeroflot's procurement processes.

The Advisory Board operates under an action plan approved for each calendar year.



Information on Advisory Board is available on Aeroflot airline website. <http://www.aeroflot.ru/cms/content/soveshchatelnyj-organ>.