



# LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

## DEAR SHAREHOLDERS,

Aeroflot Group's results for 2015 presented in this report give us reason to be confident in the Group's future. Given the complex external environment, as well as the events and trends that characterised the year for the aviation sector and the economy as a whole, our Group's achievements are more than impressive, and speak to its resilience and potential.

The executive management team led by Vitaly Savelyev has once again demonstrated its high level of professional skill, delivering above-market rates of operational growth and increased operational profitability. The Group recorded another year of double-digit growth in passenger numbers, at 13.4%. Proactive revenue and network management delivered an even larger gain in revenue of 29.8%.

Swift reactions to market conditions and fine-tune decisions meant that Aeroflot Group strengthened its position as the leading airline group on the Russian market. The Group today includes airlines covering all segments from premium (Aeroflot) to budget (Pobeda).

The combined company under the Rossiya brand brings together three regional carriers – Rossiya, Orenair and Donavia – and has been designed for the mid-market price segment. Once integration is complete we expect Rossiya to become the second-biggest airline in the country.

Aurora retains its special place in the Group as a single Far Eastern regional carrier, and has proven to be in high demand and delivered record growth rates among regional carriers.

Aeroflot also operates nationwide programmes of discounted fares. Particularly noteworthy during the reporting year was our flat fare programme that brought residents of the Far East, Kaliningrad region and Crimea the opportunity to travel to Moscow and other central regions of Russia at affordable prices.

Another factor strengthening Aeroflot's brand are a number of corporate social responsibility projects. As we marked the 70th anniversary of the end of the Second World War, our programme to provide flights for a special category of passengers – those who bore the full brunt of the war – took on particular importance.

A number of external factors had a significant effect on Aeroflot during 2015. These included the continued decline in Russia's economy, and a fall in real wages and consumer spending. Pricing and visibility were further complicated by continued volatility in the exchange rate, closely correlated with swings in the price of oil. The geopolitical situation also remained tense, and Russia operated under Western sanctions for the whole year.

The issue of monopolist suppliers – a traditional factor in growth of airline ticket prices – once again came to the fore. This year, of particular significance were actions by airports to increase tariffs for their services to airlines. This leads to a direct increase in the end price for air travel, and there is the danger that it could prove unacceptable for passengers, the main ultimate consumers of aviation services.

A number of airlines have also proved to have unsustainable positions. It is possible that other operators may continue to leave the market.

Amid all the challenges of autumn 2015, Aeroflot Group was involved in operational management and ensured transportation for almost 2 million passengers following the abrupt exit from the market of Transaero airline. The management team successfully accomplished this within the budget set by the Board of Directors. In addition, Aeroflot also stepped up to the plate to mitigate the social impact, creating more than 6,000 new jobs for former Transaero staff.

In the short to medium term, we expect structural changes in the domestic market to continue driving growth, particularly in the low-cost and mid-price market segments. In 2015 the air transport market overall declined, but despite that the market retains its long-term growth potential as passengers continue to switch from rail to air travel.

Given the changing conditions on the market, which have demanded a new approach to Aeroflot Group's multibrand platform, the Board of Directors made amendments to our Growth Strategy for 2017-2021. Despite this, we remain confident of the Group's ability to achieve the goals set out in Strategy 2025, to become a top five European and top 20 global carrier by passenger numbers and revenue, assuming the economy stabilises.

Alongside improving market conditions, unified and consistent state policy on aviation are of critical importance to our sector, and our company. We highly appreciate the support from the President and Prime Minister for key Aeroflot projects to improve social mobility, as well as the efforts of legislative and executive bodies to make innovative improvements to the legal framework for air transportation. Aeroflot intends to continue working closely with the Government and State Duma, the Transport Minister, regulators and oversight bodies. Traditionally an important role in coordinating activities with these bodies belongs to members of the Board of Directors representing state interest. I look forward to their continuing active involvement in this area.

In conclusion, I would like to thank once again all of the Group's employees, partners and stakeholders for their commitment to Aeroflot. I am confident that we will emerge stronger from the current challenges, and continue to deliver above the expectations of our shareholders and passengers.



**Kirill Androsov**

Chairman of the Board of Directors,  
PJSC Aeroflot