

# MARKET OVERVIEW

## AIR TRANSPORTATION MARKET

### INTERNATIONAL AIR TRANSPORTATION MARKET

2015 was a successful year for the global aviation industry, with passenger turnover increasing by 6.7%, according to IATA. Scheduled passenger traffic grew by 6.5% to 3.5 billion passengers. Worldwide, the passenger load factor was 80.6%, up 0.7 p.p. y-o-y.

Passenger turnover in Europe grew by 5.8% y-o-y. In 2015, the European market was mainly driven by growing international traffic. The upward trend was the result of a 3.8% increase in capacity, a reduction in fares due to the expansion of the low-cost segment, and falling fuel prices.



**3.5 billion passengers**

carried on scheduled flights globally

**6.5%**

growth of global scheduled passenger traffic

**80.6%**

passenger load factor in the global aviation industry

In 2015, the Middle East continued to deliver the highest growth rates with passenger turnover up 11.6% y-o-y. The main driver of this growth was the continued expansion of the region's airlines into international markets, including through acquisitions of European carriers.

According to IATA, industry-wide revenue was USD 710 billion, down 6.3% y-o-y. Traditionally, passenger flights account for the bulk of the industry's revenue, their share standing at 74%. The decline in revenue is due to falling fuel prices, which enabled carriers to reduce fares without affecting profits. According to IATA's estimates, in 2015 the industry's net income totalled about USD 33 billion, a ten-year high.

Asia-Pacific ranked second in terms of growth, with passenger turnover growing by 8.1% in 2015. One of the growth drivers here was an increase in domestic passenger traffic in the region, with China leading the charge (+10.9%).

Lower fuel prices also had a positive effect on the industry's expenses. In 2015, expenses decreased by 8.5% to USD 655 billion. Fuel costs remained consistently high, reaching 27% of overall expenses (2014: 32%).

The North American market also demonstrated an upward trend – passenger turnover in the region grew by 4.3% y-o-y. An increase in traffic was driven by steady economic growth in the US, which boosted the domestic passenger traffic (+4.9%).

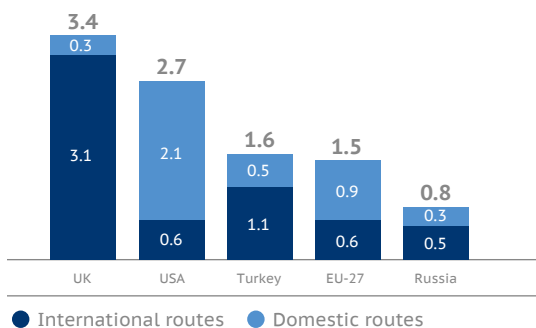
### RUSSIAN AIR TRANSPORTATION MARKET

The Russian air transportation market's fundamentals make it structurally well-positioned for long-term growth despite passenger traffic trending downward in 2015, primarily due to low rates of passenger travel in Russia as compared to other countries in continental Europe. The average number of air trips per capita in Russia was 0.8, which

offers considerable growth opportunities given the size of the country. Another growth driver is the redistribution of passenger flows between rail and civil aviation, a trend prominent in recent years. As a result, the share of air transport users in the total number of passengers went up from 30.0% to 44.7%.

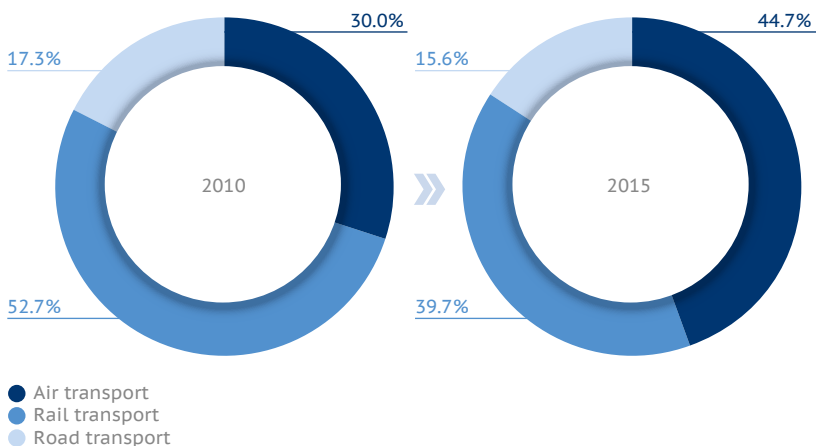
### Passenger traffic per capita

Sources: aviation authorities and national statistics services, Aeroflot estimates.



### Russian passenger transportation market evolution

Sources: Transport Clearing House, Russian Railways, Centre for Strategic Research, Aeroflot data.



2015 was a challenging year for Russian air transportation, with the industry showing signs of stagnation. The total volume of the Russian market, including foreign carriers, reduced by 4.1% y-o-y to 107.2 million passengers (PAX). Russian airlines carried a total of 92.1 million passengers, down 1.2% y-o-y. Russian carriers' passenger turnover was down by 6.0% to 226.8 billion passenger-kilometres (RPK). At the same time, available seat-kilometres reduced by 5.9% to 284.6 billion, driving an insignificant (0.1 p.p.) decrease in the passenger load factor to 79.7%.

The Russian air transportation market was significantly affected by macroeconomic factors, including volatility in the ruble rate and the resulting decline in real disposable income. As a result, in 2015 international passenger traffic dropped by 16.6% y-o-y

to 54.7 million passengers. The market in general felt additional pressure from restrictions on-flights to Egypt, Turkey, and Ukraine, introduced in Q4 2015. Given the significant share of traffic to Egypt and Turkey in the international segment, these restrictions affected international passenger traffic, which has been trending downward since late 2014, and resulted in a reduction in flight frequencies by foreign carriers.

The domestic market proved resilient to macroeconomic fluctuations and continued to grow. In 2015, domestic passenger traffic was up by 13.6% to 52.6 million passengers due to the rise of domestic tourism in Russia, including the shift from outbound travel to local destinations, in particular, the Black Sea and winter ski resorts.

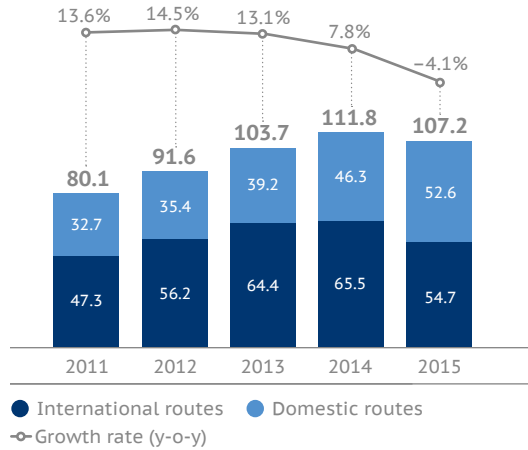


## 107.2 million passengers

Russian air transportation market

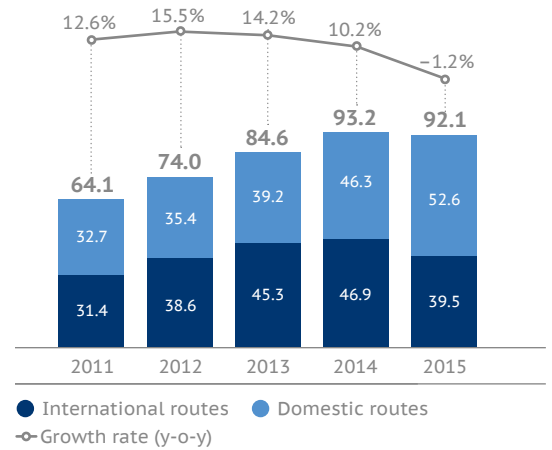
### Passenger traffic in Russia, million PAX (including foreign carriers)

Sources: Transport Clearing House, Federal Air Transport Agency



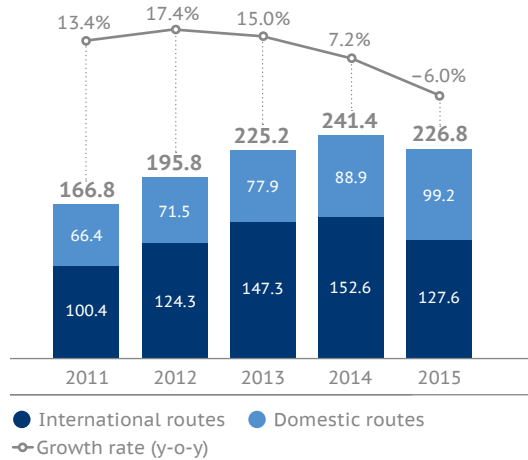
### Passenger traffic in Russia, million PAX (excluding foreign carriers)

Source: Federal Air Transport Agency



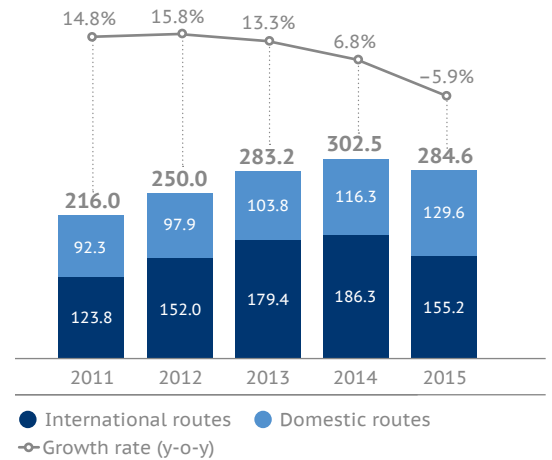
### Passenger turnover in Russia, billion RPK (excluding foreign carriers)

Source: Federal Air Transport Agency



### Available seat-kilometres in Russia, billion ASK (excluding foreign carriers)

Source: Federal Air Transport Agency

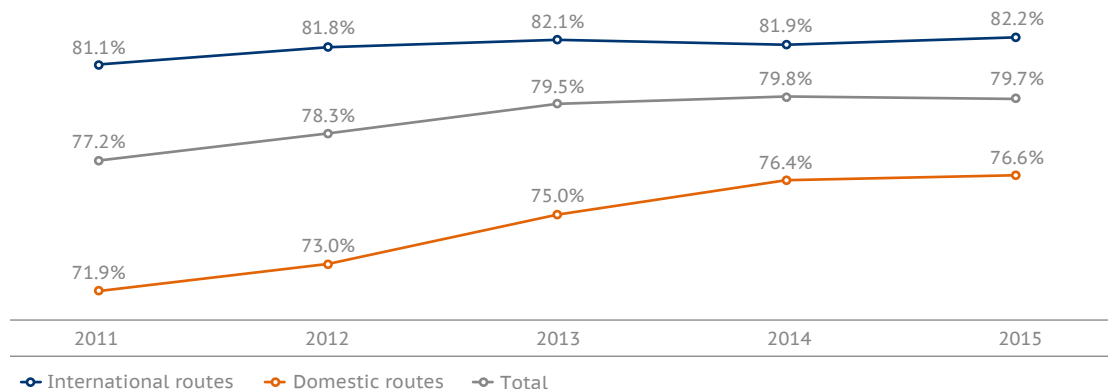


## 226.8 billion RPK

passenger turnover of Russian airlines

### Passenger load factor in Russia, % (excluding foreign carriers)

Sources: Federal Air Transport Agency



## 79.7%

passenger load factor for Russian airlines

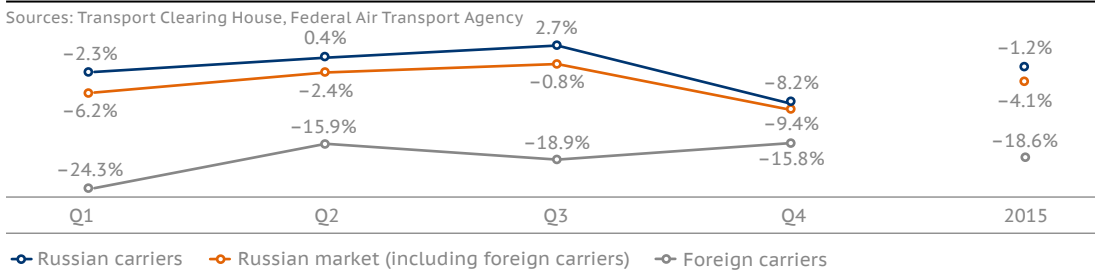
Note: immaterial deviation in numbers in the charts and tables subtotals of the annual report are due to rounding.

Throughout 2015, the Russian air travel market showed mixed trends. Operating performance came under pressure as foreign airlines carried fewer passengers because of the currency structure of their costs and subsequent decrease in the market's profitability for foreign carriers. In response to shrinking demand, foreign carriers started cutting their operations to Russian destinations. In 2015, foreign carriers' passenger traffic decreased by 18.6%. The tourism and charter segments were materially influenced by outbound travel restrictions for certain types of employees, along with restrictions on-flights to Turkey and Egypt. At the same time, the depreciation of the ruble boosted the competitive advantage of inbound travel

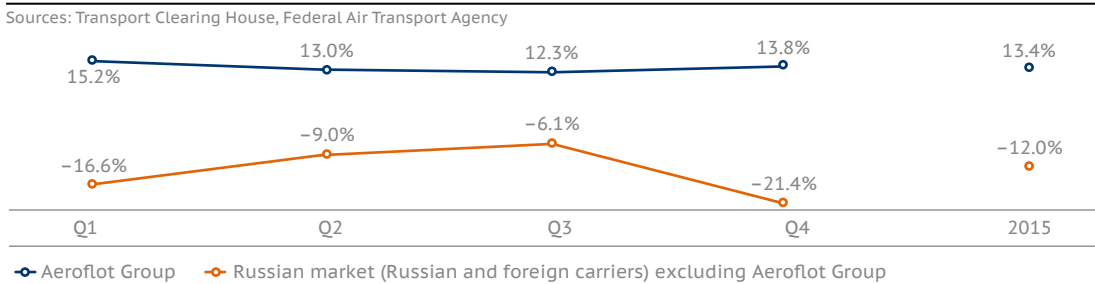
services in Russia. Domestic tourism also grew rapidly. As a result, Russian airlines saw their passenger traffic declined only by 1.2%. Under the influence of the above factors, the total Russian passenger traffic was down 4.1% y-o-y.

In 2015 Aeroflot Group acted as a key contributor to the market dynamics ensuring air transport connection between cities. Excluding Aeroflot Group's rise in passenger traffic, the market demonstrated a 12.0% decline (20.2% decrease in the number of international passengers and marginal growth of 2.0% in the domestic segment).

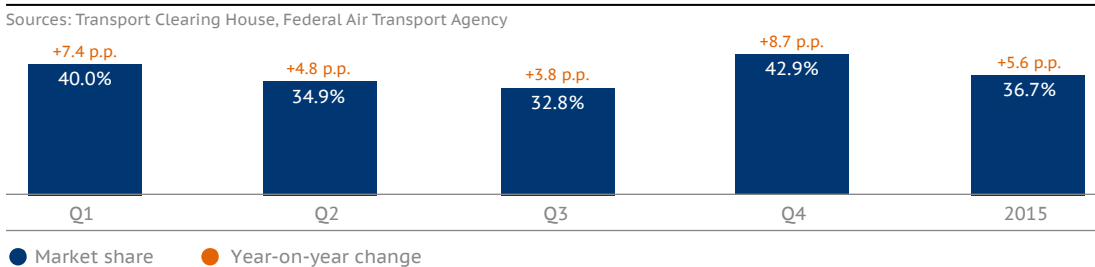
### Passenger traffic growth in 2015: Russian vs. foreign carriers\*



### Passenger traffic growth in 2015: Aeroflot Group vs. Russian market\*



### Aeroflot Group's market share evolution by Russian passenger traffic in 2015 (including foreign carriers)



\* Note: quarterly and annual figures are presented on y-o-y basis.



**36.7%**

Aeroflot Group's market share

The Russian air transportation industry is highly consolidated with five largest players accounting for 69.2% of the total passenger traffic. Aeroflot Group's leadership in the market remains undisputed. In 2015, Aeroflot Group had 36.7% of the total passenger traffic in Russia (including foreign carriers) as compared to 31.1% in 2014. Aeroflot Group's market share grew throughout 2015, with the biggest gains posted in Q1 and Q4, while a moderate slowdown in Q2 and Q3 was due to the traditional surge in activity of regional and charter carriers during the high season.

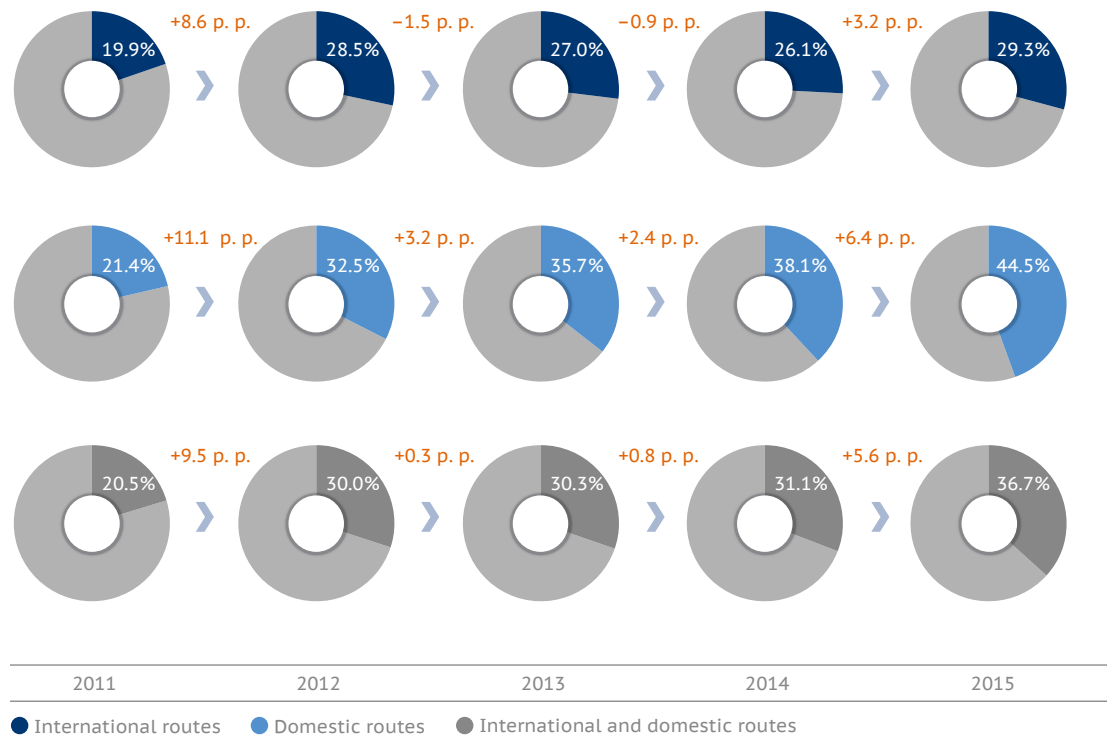
Aeroflot Group's market share growth was supported by its effective business model and strategy, which helped the Group build resilience to external economic and market

factors that prompted other Russian carriers to optimise fleet and capacity. In addition, the Group's share grew as foreign carriers reduced the number of flights to Russian destinations or suspended flights on some routes. The growth of the Group's low-cost carrier Pobeda also contributed to increased market share, along with enhanced international transit operations, primarily between Europe and Asia, to compensate for the reduction in point-to-point passenger traffic.

Aeroflot Group's closest competitors are S7 Group (9.9%), UTair Group (7.0%), and foreign carriers (aggregate share 14.1%). Transaero, which had a 10.5% market share in the reporting year, ceased operations in October 2015.

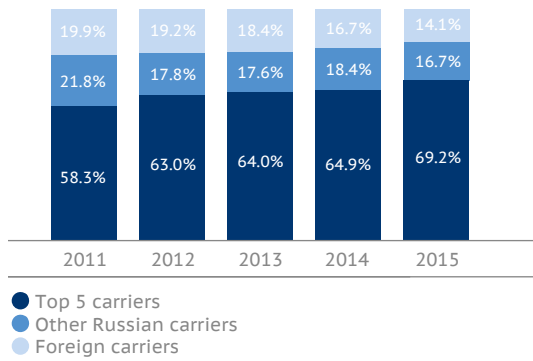
**Aeroflot Group's market share evolution by Russian passenger traffic (including foreign carriers)**

Sources: Transport Clearing House, Federal Air Transport Agency



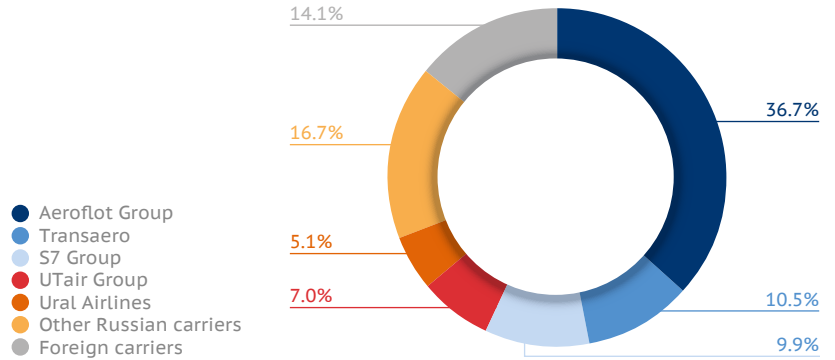
### Evolution of the Russian passenger air transportation market

Sources: Transport Clearing House, Federal Air Transport Agency



### Russian air transportation market by total passenger traffic

Sources: Transport Clearing House, Federal Air Transport Agency



## AIR CARGO MARKET

According to IATA, in 2015 the global air cargo market volume was estimated at 51.3 million tonnes (up 1.7% y-o-y). Global cargo turnover increased by 1.9% y-o-y. The industry’s revenue fell by 16.0% to USD 52.2 billion. The decrease in aviation fuel prices enabled a reduction in fares without compromising profitability.

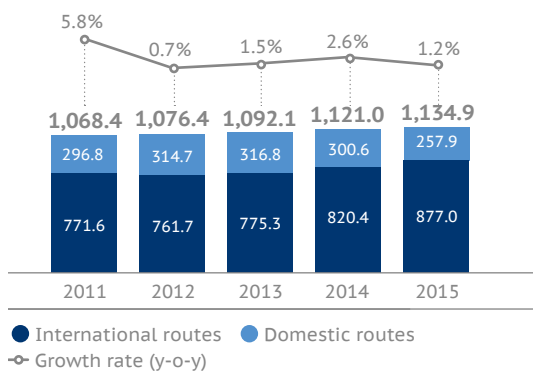
In 2015, the Russian air cargo market (including foreign carriers) grew by 1.2% y-o-y to 1.1 million tonnes. International cargo traffic increased by 6.9% y-o-y to 877.0 thousand

tonnes, which is about 77.0% of the total cargo traffic in the Russian market. Domestic cargo traffic was down 14.2% to 257.9 thousand tonnes.

As at year-end, Volga-Dnepr Group remained the undisputed market leader by cargo traffic in Russia (57.3%). Aeroflot Group came second with 13.8%. The four largest players account for 79.0% of total cargo traffic.

### Russian air cargo market volume, thousand tonnes (including foreign carriers)

Sources: Transport Clearing House, Federal Air Transport Agency



### Russian air cargo market breakdown by volume

Sources: Transport Clearing House, Federal Air Transport Agency

