

Long-Term Development Programme and KPIs

Long-Term Development Programme

Aeroflot Group's Long-Term Development Programme (the LDP) was designed in accordance with Instruction of the President of the Russian Federation No. Pr-3086 dated 27 December 2013, and approved by PJSC Aeroflot's Board of Directors on 2 December 2014 (Minutes No. 8). PJSC Aeroflot's Board of Directors in its resolution dated 13 December 2018 (Minutes No. 10) gave a general approval to the main provisions of Aeroflot Group's LDP for 2019–2023, updated to reflect Aeroflot Group's new Development Strategy 2023. This involved a review of the Programme's activities. PJSC Aeroflot's Board of Directors in its resolution dated 8 May 2019 (Minutes No. 18) approved Aeroflot Group's LDP for 2019–2023 updated to reflect key parameters of LLC Pobeda Airlines' Development Strategy, Aeroflot Group's KPI targets for 2019–2023, as well as parameters incentivising the use of Russian aircraft and the development of domestic traffic, new regional bases and the international hub.

The LDP's key goals are to ensure the Group's long-term sustainable development, strengthen its competitive position, create and develop a competitive edge, and improve performance and financial stability.

The LDP's key objectives are:

- Develop a list of Programme activities that support the achievement of the Group's strategic development goals

- Identify areas and initiatives to improve the Group's competitive edge and performance
- Analyse risks to, and opportunities for, achieving the strategic goals and implementing the LDP activities.

The LDP details strategic areas for the Group's development and includes a list of key initiatives and Programme activities aimed at implementation of the Strategy in the medium term. The LDP complements and expands the key strategic initiatives set out in Aeroflot Group's Development Strategy 2023.

Key activities to support the LDP implementation in 2019:

- Develop within Aeroflot Group's multi-brand platform
- Expand the route network and aircraft fleet
- Enhance operating capacity
- Implement Aeroflot Group's Innovative Development Programme
- Implement the investment programme
- Ensure an adequate talent pipeline
- Increase labour productivity.

In 2019, the LDP was updated in respect of Aeroflot Group's investment programme, the multi-brand platform, corporate governance and risk management system. There were updates to the targets on route network development, Aeroflot Group's fleet and operating capacity, and flat fare flights between Moscow and Far Eastern Federal District destinations.

The labour productivity measures and PJSC Aeroflot's talent pipeline were also reviewed. There were also updates to Aeroflot Group's procurement optimisation plan, the Group's energy efficiency and reducing environmental footprint plan, as well as supplies from small and medium-sized businesses plan.

According to the "Letter on the findings of the audit of Aeroflot Group's Long-Term Development Programme and KPI performance" (No. 4735/20 dated 10 April 2020) by the independent auditor, LLC PANACEA Research and Audit Centre:

- The audit of Aeroflot Group's progress against its LDP in 2019 supports the opinion that KPI actuals are fair, KPI targets have been achieved, programme activities have been undertaken as reported, and budgeted funds have been put to intended and efficient use
- The information on 2019 KPI actuals for PJSC Aeroflot and its subsidiaries, and on the degree to which KPI targets have been met is fair in all material aspects, and calculations have been made in accordance with the criteria established by PJSC Aeroflot's internal documents and Aeroflot Group's LDP approved by PJSC Aeroflot's Board of Directors on 8 May 2019
- Target levels of key KPIs have been achieved.

KPI system

The list, weights and targets of KPIs for PJSC Aeroflot's CEO for 2019, which reflect the corporate KPI system, were approved by the Board of Directors of PJSC Aeroflot on 7 February 2019 (Minutes No. 12).

From 2015 onward, the CEO's KPI list (including weights and targets) is fully aligned with the KPIs of our Long-Term Development Programme and extends to all members of PJSC Aeroflot's Management Board to provide incentives for the management to pursue Group-wide corporate objectives. The list now also includes individual KPIs for Deputy CEOs and other members of the Management Board. The KPIs for other employees of PJSC Aeroflot were approved by the CEO's Order No. 266 dated 22 July 2019 (as amended by the CEO's Order No. 376 dated 17 October 2019).

Pursuant to the Russian Government directives, PJSC Aeroflot's KPI system embraces financial, economic and industry-specific indicators, including:

- Overall Productivity KPI (for Aeroflot Group) – in line with Russian Government Directive No. 6362p-P13 dated 24 October 2013

- Share of Supplies from Small and Medium-Sized Businesses, Efficient Energy Use, and Reducing Environmental Footprint KPIs were incorporated into PJSC Aeroflot's KPI system and KPI lists for relevant department heads – in line with Russian Government Directive No. 6362p-P13 dated 24 October 2013
- Integrated Innovation Key Performance Indicator (IIKPI) (for Aeroflot Group) – in line with Letter of the Deputy Russian Minister of Economic Development No. 3142-OF/D06 dated 24 February 2012 and Russian Government Directive No. 1472p-P13 dated 3 March 2016
- Investment Programme Efficiency KPI (for Aeroflot Group) – in line with Directive of the Federal Agency for State Property Management No. PF-11/35029 dated 14 August 2014
- CASK (for Aeroflot Group) KPI. PJSC Aeroflot's Board of Directors in its resolution dated 20 April 2017 (Minutes No. 14) recognised that the Company had achieved the CASK reduction target in line with Russian Government Directives No. 2303p-P13 dated 16 April 2015 and

No. 4750p-P13 dated 4 July 2016. Therefore, since 2017 the Company's objective has been to maintain the achieved cost level

- Share of State-Subsidised Funding in Total Funding Secured KPI – in line with Paragraph 2 of Instruction of the Russian Prime Minister Dmitry Medvedev No. AD-P36-4617 dated 11 July 2015 on including the indicator showing investment raised in the private capital market.

As per the resolution of PJSC Aeroflot's Board of Directors dated 20 April 2017 (Minutes No. 14), Aviation Accident with Fatalities (Plane Crash) was set as the disqualification indicator (cancelling the bonus) in the KPI system.

2019 KPI targets and actual performance by PJSC Aeroflot's CEO

	Unit	Weight, %	2018			2019			Reasons for variance (2019 actual vs plan)	
			Plan	Actual	Performance to plan, %	Weight, %	Plan	Actual		Performance to plan, %
Total Shareholder Return (TSR)	%	10	20	-18	0.00	—	—	—	—	
ROIC	%	20	12.9	12.0	93.02	—	—	—	—	
Long-Term Debt/EBITDAR	—	5	0.75	0.80	93.33	—	—	—	—	
Revenue per Available Seat-Kilometre (RASK)	RUB per ASK	—	—	—	—	20	3.76	3.55	94.47	Main reason of underperformance on the RASK was lower actual foreign exchange rate vs plan, as international revenue and airline agreement revenue have a significant foreign exchange component: RUB/USD exchange rate below plan by 7% (plan – 69.6, actual – 64.7), RUB/EUR exchange rate below plan by 10% (plan – 80.7, actual – 72.5).
Integrated Innovation Key Performance Indicator (IIKPI)	%	10	100	100	100.00	10	100	100	100.00	—
Investment Programme Efficiency	—	5	10.91	20.11	184.33	5	16.32	21.44	131.37	Savings on Aeroflot Group's investment programme from deferring projects into 2020.
CASK*	cent per ASK	5	4.9	5.45	88.78	10	3.3	3.5	95.45	Main reason of underperformance on the CASK (denominated in US cent) was the RUB/USD exchange rate lower by 7% vs plan, which means that rouble-denominated costs (staff costs, depreciation and amortisation, domestic aircraft servicing, etc.) were remeasured at lower rates and their USD equivalent turned out to be higher.
Share of State-Subsidised Funding in Total Funding Secured	%	5	0	0	100.00	5	0	0	100.00	—
Punctuality	%	5	87.0	89.9	103.33	10	87.0	94.8	108.97	Joint initiatives of PJSC Aeroflot, its business units and third-party companies to improve punctuality of arrivals and departures to and from base/non-base airports, and related standing measures. Other reasons: using three runways; fewer runway closures for snow clearing due to weather.
PJSC Aeroflot's Flight Safety	%	15	99.957	99.974	103.95	20	99.957	98.932	0.00	Performance failed due to the 5 May 2019 aviation accident.
Passenger Load Factor	%	10	82.0	82.7	100.85	10	82.4	81.9	99.39	Variance not material.
Overall Productivity	mn ASK per emp.	10	4.489	4.551	101.38	10	4.739	4.907	103.55	Higher productivity levels across Aeroflot Group supported by budget-controlled increase in work loads and headcount growth optimisation.

Note. KPIs are calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety KPI.

* Target calculation excludes fuel costs.



01

02

STRATEGIC REPORT

03

04

Most of the Long-Term Development Programme/PJSC Aeroflot's CEO KPIs were met in 2019, the variances are explained in the table above.

Aeroflot Group's Development Strategy 2023 envisages accelerated development. Implementation of the Strategy, including development of regional traffic and investment in the new regional hub and regional bases, will put pressure on Aeroflot Group's business and margins, and the effect will be front-loaded. Additional pressure could come from volatility of aviation fuel costs and foreign exchange rates, including from potential sanctions risks.

With that in mind, certain financial and economic KPIs, such as TSR, ROIC and Long-Term Debt/EBITDAR, that had been part of the Long-Term Development Programme and the incentive system for PJSC Aeroflot's CEO but are not in line with Aeroflot Group's updated strategic development priorities, were replaced with RASK, while higher weights were assigned to CASK, Punctuality and PJSC Aeroflot's Flight Safety.

To ensure short-term alignment between the management incentive system and Aeroflot Group's strategic priorities, PJSC Aeroflot's Board of Directors approved the 2020 KPIs for PJSC Aeroflot's CEO set forth below (Minutes No. 6 dated 28 November 2019, as amended by Minutes No. 9 dated 20 February 2020). KPI performance is assessed on the basis of the Regulations on Bonus Payments to the Managers and Specialists of PJSC Aeroflot.

2020 KPI targets for PJSC Aeroflot's CEO

	Unit	Weight, %	Plan
Revenue per Available Seat-Kilometre (RASK)	RUB per ASK	20	3.64
CASK*	cent per ASK	10	3.53
Integrated Innovation Key Performance Indicator (IIKPI)**	%	10	100
Investment Programme Efficiency	—	5	19.08
Share of State-Subsidised Funding in Total Funding Secured	%	5	0
Punctuality	%	10	87
PJSC Aeroflot's Flight Safety	%	20	99.957
Passenger Load Factor	%	10	81.9
Functional Labour Productivity***	mn ASK per emp.	8	4.928
National Labour Productivity Growth Rate	%	2	5

Note. KPIs are calculated for Aeroflot Group, except for PJSC Aeroflot's Flight Safety KPI.

* Calculations exclude fuel prices.

** According to Minutes No. 1 dated 27 February 2018 of a meeting of Inter-Agency Working Group on Supporting Innovative Development Priorities, the IIKPI bonus can be paid in full if the variance between the KPI target and actual performance does not exceed 10%.

*** The target is based on the 2020 budget.

01

02

STRATEGIC REPORT

03

04