

# Strategic Development

## Mission

We work to ensure that our customers can **quickly and comfortably travel great distances**, and thus be mobile, meet more often, work successfully and see the world in all its diversity.

We give our customers a **choice** through an extensive route network and different carriers operating within Aeroflot Group, from low-cost to premium class airlines.

Aeroflot Group's new Strategy 2023 was approved by the Board of Directors of PJSC Aeroflot in 2018, as the key goals of the previous strategy, Aeroflot Group's Strategy 2025, had been achieved ahead of schedule. The Strategy aims to further strengthen Aeroflot Group's position in the global air transportation market and to improve mobility and accessibility of the Russian regions.

In line with the Strategy and pursuant to the directives of the Russian Government, Aeroflot Group has developed and updates annually its Long-Term Development Programme, which covers management-related activities, goals and KPIs.

The Group's consolidated IFRS budget and KPIs for the budget year are developed in line with the targets set forth in the Strategy and in line with the Long-Term Development Programme.

Aeroflot Group's 2019 performance, including passenger traffic and transfer traffic, is in line with the Strategy. As part of regional traffic and transfer development, active preparation for the launch of a new international hub in Krasnoyarsk was under way in 2019. PJSC Aeroflot is also making good progress with business process digitalisation.

The Strategy outlines the key growth areas for the Group, its operational and financial performance targets.

## Aeroflot Group's strategic goal

is to strengthen leadership in the global airline industry by seizing opportunities in the Russian and international air transportation markets.

### Key development areas and goals



## Key development areas and goals of Aeroflot Group

### Passenger traffic



**90–100** million passengers carry in 2023

**Aeroflot airline**, a premium carrier, will continue to grow, focusing on the transfer market and international operations.

**Pobeda airline** is a key growth driver because of its market stimulation effect. The company leverages its strong operational efficiency to offer the lowest fares.

**Rossiya airline** will continue to expand its regional flights and offer flat fares on socially important routes.

**Aurora airline**, the Group's carrier in the Russian Far East, will increase its volumes.

Passenger traffic targets by airline, million PAX



### Progress in 2019

**+9.0%**

from 55.7 million passengers in 2018 to 60.7 million passengers in 2019

### International transfer



**10–15** million passengers – international transfer traffic in 2023

**International transfer development is based on Aeroflot's competitive advantages:** shorter flight time between Europe and Asia (up to three hours vs competitors) while offering excellent customer experience at the lower end of the unit cost curve.

### Regional bases



Launch an **international hub in Krasnoyarsk** and three new regional bases in Sochi, Yekaterinburg and Novosibirsk

**Increase regional traffic** to 19 million passengers in 2023.

### Aircraft fleet



The Group intends to operate **200** Russian built aircraft (SSJ100 and MC-21) by 2026

The Group will have to operate a total of approximately **520 aircraft** to achieve its target passenger traffic by 2023.

### Digitalisation



Deliver a **leading-edge level of digitalisation** across the Group

Aeroflot will retain its focus on the **extensive integration of cutting-edge digital technology**, including artificial intelligence.

An agreement was signed in 2019 to create an Aeroflot Group hub in Krasnoyarsk, which will become the Group's second base airport.

**+13.0%**  
from 4.8 million passengers in 2018 to 5.5 million passengers in 2019

Aeroflot Group operated 49 SSJ100 aircraft as at the end of 2019. Implementation of the agreement for the delivery of further 100 SSJ100 aircraft began in December 2019.

Active implementation of IT projects was ongoing throughout 2019.

For more details see page [Information Technology and Innovation section](#).

According to the consulting company Bain & Company, for several years Aeroflot has been fourth among the digitalization leaders in the global aviation market.

## Aeroflot Group key initiatives and work streams

### Key development areas

- Develop Aeroflot Group's route network through entering new markets and increasing frequencies on operated routes
- Continuously upgrade the fleet
- Develop Aeroflot Group's operating capacity
- Improve employee performance and labour productivity
- Support innovative development of Aeroflot Group
- Increase ancillary revenue via development of existing and introduction of new services to passengers
- Contribute to regional development across Russia via expanding scheduled inter-regional passenger route network
- Drive digitalisation of Aeroflot Group companies

### Development segments

- Develop the premium passenger segment through improving customer experience and flight schedule and expanding the route network
- Develop the low-cost segment
- Promote transfer traffic, including international transfer traffic
- Support government-sponsored national and regional passenger service programmes

## Aeroflot's hub in Moscow Sheremetyevo airport: infrastructure upgrade

Sheremetyevo airport achieved significant progress in infrastructure development during the year: a third runway was opened and construction of the new Terminal C was completed. The modern airfield and terminal infrastructure at Sheremetyevo creates long-term development opportunities for Aeroflot Group.

### The launch of a third runway

In September 2019, a third runway was commissioned at Sheremetyevo airport. Thanks to the new independent runway (Runway 3), Sheremetyevo significantly increased its aircraft movement capacity and became the first airport in Russia with three runways. Runway-3 enables higher traffic from Aeroflot's hub and better operability of airfield infrastructure during scheduled reconstruction of Runway-1 in 2020 with no disruption to operations. The Runway-3 complex at Sheremetyevo airport has modern high-performance utility and surface wastewater treatment facilities compliant with regulatory requirements and environmental standards.

### New Terminal C construction

Construction of Sheremetyevo airport's new Terminal C was completed in 2019, whereas its design started back in 2017, and commercial operation was launched in January 2020. Terminal C, which has been built and equipped in accordance with the highest international standards, forms part of the Northern Terminal Complex (terminals B and C) and will service international flights. The terminal's capacity is 20 million passengers per year.

Terminal C forms a single space with Terminal B (operating domestic flights), enabling passengers to use the services and technical capabilities offered by both terminals, while allowing transfer passengers to move quickly between the terminals through the transit area. The state-of-the-arts terminal will increase the airport's capacity and contribute to greater passenger comfort.

## Terminal C highlights

**84** Check-in desks  
62 – public departure area,  
4 – customs area (the red channel),  
18 – transfer area

**132** Passport control booths  
60 – departure area\*, 60 – arrival area\*,  
4 – transfer area, 8 – for crew only

**20** Boarding bridges

**78** Digital media screens

\* Plus 10 automated booths to be added.



## Risks for Strategy

The key potential risks that may affect the Group's Strategy are risks related to changes in the external business environment, risks arising from infrastructure constraints and macroeconomic risks. Aeroflot Group's Strategy includes actions to mitigate these key risks.

### Aeroflot Group's Strategy and key risks

|   |  |   |
|---|--|---|
| <p>Efficient hub at Sheremetyevo airport (measured by frequency and connectivity) to promote international transfer traffic</p>                         | <p>Availability of different-capacity aircraft in the fleet and a reasonable balance between fleet diversification and standardisation to maximise operational flexibility</p> | <p>Planning, management and control of the aircraft fleet, route network, product segmentation for each Group company as part of the multi-brand platform to ensure efficient presence in all market segments</p> |
|  <p><b>RISKS OF CHANGES IN THE EXTERNAL BUSINESS ENVIRONMENT</b></p> |  <p><b>RISKS ARISING FROM INFRASTRUCTURE CONSTRAINTS</b></p>                                |  <p><b>MACROECONOMIC RISKS</b></p>   |
| <p>Aeroflot airline and Pobeda airline development in the most relevant market segments</p>   | <p>Monitoring the progress of infrastructure development and new facilities construction at Sheremetyevo airport</p>   | <p>Diversification of revenue streams by currency and geography</p>   |

## Key programmes supporting the Development Strategy

**The Investment Programme** for 2020 was approved by PJSC Aeroflot's Board of Directors on 28 November 2019 (Minutes No. 6). It is designed to address long-term strategic objectives, ensure and improve the operations of business units, and continues the Company's fast-paced investment development. The 2020 Investment Programme both builds on the established investment agenda such as property, plant and equipment, capital construction, and software, and introduces new development projects designed to:

- ensure maintenance operations
- develop the training platform
- upgrade of the aircraft
- construct new facilities
- develop the IT infrastructure
- ensure high-quality passenger experience
- provide software solutions
- invest in R&D projects under the Innovative Development Programme
- provide other types of investment in property, plant and equipment.

**Aeroflot Group's Innovative Development Programme 2025** was developed in line with the regulatory guidelines of federal executive authorities and adopted by PJSC Aeroflot's Board of Directors on 25 August 2016. The Programme was updated in 2019.

It covers the main innovation focus areas and activities at Aeroflot Group, including Aeroflot airline and its Rossiya and Aurora subsidiaries. The Programme contains key mid and long-term innovation KPIs to 2025.

For more details on Aeroflot Group's Innovative Development Programme see the [Information Technology and Innovation section](#).

### Cost cutting initiatives for 2019

The special cost optimisation and performance improvement task force continued its operation in 2019. The task force developed performance improvement measures that helped us almost double our financial performance in 2019 year-on-year, even though jet fuel prices in Russian Rubles had grown significantly in 2018 and remained high throughout 2019.

#### Key cost cutting initiatives:

- Reducing selling, general and administrative expenses
- Maintaining a prudent approach to marketing budget spend
- Negotiating discounts and special terms with service providers
- Focused efforts to develop ancillary revenue streams and launch new services enhancing customer experience
- Fare system development, including introduction of the new baggage-free fares

## Multi-brand platform

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Aeroflot Group's strategic approach is based on a multi-brand offering which helps maximise the coverage of all the key attractive market segments. Each of the Group's airlines targets a dedicated market segment, thereby minimising intra-Group competition.



### Aeroflot airline

focuses on addressing the needs of the premium passenger segment by offering best-in-class services, a high frequency route network with extensive flight geography, access to the route network of partners from the SkyTeam Alliance, a convenient flight schedule and convenient connecting flights for transfer passengers, and a young aircraft fleet.



### Rossiya airline

has three focal areas: scheduled flights from Saint Petersburg, scheduled flights from Moscow (mostly social flights with flat fares in economy cabin) and charter flights for tour operators. Rossiya's scheduled flights operation is under Aeroflot's commercial management, which means that tickets are sold via the same website and that the two airlines use code sharing, thus ensuring connectivity between their networks.



### Pobeda airline

targets the low-cost segment for both domestic and international destinations. Domestic flights make up the bulk of the airline's route network, building stronger ties between Russian regions.



### Aurora airline

focuses on local, regional and inter-regional flights in the Far Eastern Federal District, connecting large cities in the Russian Far East and offering flights between regional capitals and remote destinations.

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## Rossiya airline transformation

Rossiya has come a long way since 2016, when it was created on the base of three regional companies, Rossiya, Donavia and Orenair. The reorganised company had three key segments: scheduled regional flights from Saint Petersburg, scheduled flights from Moscow Vnukovo airport and charter flights in partnership with Biblio Globus tour operator.

In the fourth quarter of 2018 Rossiya's scheduled flights operated from Moscow were moved from Vnukovo to Sheremetyevo airport. Thus, its flights from Moscow were integrated with Aeroflot airline's network, improving flight connectivity between these companies. This change was particularly efficient for long-haul flights of Rossiya.

In 2019, Aeroflot Group made a decision to reduce flights by narrow-body aircraft from the fourth quarter of 2019 in preparation for intra-group redeployment of its Boeing 737-800 fleet. As a result of the changes made in 2018–2019, Rossiya emerged with a very streamlined value proposition: flights from Saint Petersburg, long-haul flights from Moscow Sheremetyevo airport (mostly flat fares) and charter flights.



### Before 2016 Fragmented organisational structure and product

- Based in Pulkovo (Saint Petersburg), Vnukovo (Moscow), Domodedovo (Moscow), regional airports
- Positioning in the mid-price segment
- Regional flights
- Charter flights

### 2016 Merger of regional companies

- Saint Petersburg: scheduled regional product
- Moscow (Vnukovo): scheduled long-haul and medium-haul domestic and international flights in the mid-price segment, no connectivity with Aeroflot's network
- Charter flights

### 2018 Scheduled flights moved from Vnukovo to Sheremetyevo to leverage revenue synergy

### 2019 Structured segmentation and offer for passenger

- Saint Petersburg: scheduled regional product
- Moscow (Sheremetyevo) – base for wide-body aircraft:
  - flights to the Russian Far East (flat fare programme)
  - select international destinations
- Charter flights



## Aeroflot Group's multi-brand platform



### Positioning

### Premium product

### Regional, social and charter products

### Low-cost product

### Regional product for the Russian Far East

### Type of flights

### Scheduled flights

### Scheduled and charter flights

### Scheduled flights

### Scheduled flights

### Business model

- Hub model
- High frequency of flights
- Best-in-class service
- Economy and business class

- Flights from Saint Petersburg and Moscow (connectivity with Aeroflot's network)
- Flat fares for flights to the Russian Far East
- Charter flights in partnership with a tour operator
- Economy and business class

- Point-to-point flights
- Flights between Russia's regions
- High passenger load factor and fleet utilisation
- Economy class only

- Passenger flights in the Russian Far East
- Local flights to remote destinations within the region
- Economy and business class

### Flight range

- Short-haul flights
- Medium-haul flights
- Long-haul flights

- Short-haul flights
- Medium-haul flights
- Long-haul flights

- Short-haul flights
- Medium-haul flights

- Short-haul flights
- Medium-haul flights

### Aircraft fleet

- Narrow-body aircraft
- Wide-body aircraft

- Narrow-body aircraft
- Wide-body aircraft

- Narrow-body aircraft

- Narrow-body aircraft, including regional turboprops

### Target customer group

- Business
- Visiting friends and relatives
- Leisure

- Visiting friends and relatives
- Leisure
- Business

- Leisure
- Visiting friends and relatives

- Visiting friends and relatives
- Business

### Base airport

- Moscow (Sheremetyevo)

- Moscow (Sheremetyevo, Vnukovo)
- Saint Petersburg (Pulkovo)

- Moscow (Vnukovo)
- Airports in Russia's regions

- Vladivostok
- Khabarovsk
- Yuzhno-Sakhalinsk

### Share of international passengers in the airline's traffic

