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Regulation on the Aeroflot Group Risk Management System

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1. General Provisions

Regulation on the Aeroflot Group Risk Management System (hereinafter - the REGULATION) establishes:

- aims;
- objectives;
- principles of organization and functioning;
- approaches and principles to the distribution of the rights, obligations and liability of participants;
- risk management systems of PJSC “Aeroflot”, as well as subsidiary organizations of PJSC “Aeroflot”.

The aim of the REGULATION is to define the goals, objectives and main components of the corporate risk management system (hereinafter - the CRMS), as well as the principles and approaches used in the implementation and operation of the CRMS, which contributes to the achievement of the objectives of the Aeroflot Group and complies with recognized international standards in the field of corporate risk management.

The REGULATION is open for joining by all companies of the Aeroflot Group. The resolution to join the REGULATION shall be adopted by the Board of the Directors of the Aeroflot Group company in the manner prescribed by law and the internal regulatory acts of such company. Unless otherwise specified in the accession clause, after joining, the REGULATION, as well as any its subsequent editions, shall become mandatory for execution for the joined company and its employees as if it were an internal regulatory act of such a company.

The REGULATION is mandatory for execution by employees of:

PJSC "Aeroflot";

the joined controlled entities of PJSC "Aeroflot".

Organizational and regulatory documents of PJSC "Aeroflot" and the joined controlled entities of PJSC "Aeroflot" shall not contradict this REGULATION.

In pursuance of the REGULATIONS of the controlled entities of PJSC "Aeroflot" on the basis of this REGULATION can be developed and then approved by the Regulations on the risk management system that are implemented through the corporate procedures of the governing bodies of the respective entities.

The REGULATION is a local regulatory document of permanent operation.

The REGULATION is developed in accordance with:

The Civil Code of the Russian Federation;

Federal Law No. 208-ФЗ dated December 26, 1995 “On Joint-Stock Companies”;

Federal Law No. 39-ФЗ dated April 22, 1996 "On the Securities Market";

Federal Law No. 402-ФЗ dated December 06, 2011 “On Accounting”;

Federal Law No. 273-ФЗ dated December 25, 2008 “On Combating Corruption”;

The Articles of Association of PJSC "Aeroflot";

Corporate Governance Code (letter of the Bank of Russia dated No. 06-52/2463 dated April 10, 2014 “On the Code of Corporate Governance”);

Recommendations of the Ministry of Finance of Russia No. ПЗ-11/2013 "Organization and implementation by the economic entity of internal control of the committed facts of economic life, book-keeping and accounting (financial) reporting" (letter of the Ministry of Finance of Russia No. 07-04-15/57289 dated December 26, 2013);

Decree of the Government of the Russian Federation No. 696 dated September 23, 2002 "On approval of federal rules (standards) of auditing activities";

Order of the Federal Property Management Agency No. 86 dated March 20, 2014 "On the Approval of Methodological Recommendations for Organizing the Work of the Audit Committees of the Board of Directors in a joint-stock company with the participation of the Russian Federation";

Order of the Federal Property Management Agency No. 249 dated July 04, 2014 "On the Approval of the Methodological Recommendations for Organizing the Work of Internal Audit in Joint-Stock Companies with the participation of the Russian Federation";

Order of the Federal Property Management Agency No. 80 dated March 02, 2016 "On the Approval of Methodological Recommendations on the Organization of Risk Management and Internal Control in the Field of Preventing and Combating Corruption";

Methodical instructions on the preparation of a regulation on the risk management system (developed by the Ministry of Economic Development of Russia and approved by the Government of the Russian Federation on June 24, 2015 (ИИИ- П13 - 4148));

Air Code of the Russian Federation;

Decree No. 1215 of the Government of the Russian Federation dated November 18, 2014 "On the Procedure for the Development and Application of Safety Management Systems for Aircrafts, as well as the Collection and Analysis of Data on Hazards and Risks that Threaten the Flights Safety of Civil Aircrafts, Storage and Exchange of these Data";

Federal Aviation Regulations "Preparing and performing flights in civil aviation of the Russian Federation", approved by Order of the Ministry of Transport of Russia of July 31, 2009 No. 128 (FAP-128);

IATA's Safety Audit for Ground Operations (ISAGO)

IATA Operational Safety Audit (IOSA)

COSO "Organizational Risk Management. Integrated Model" (2004);

COSO "Integrated concept of internal control" (2013);

COSO Guidelines for Monitoring the Internal Control System (2009);

The Risk Management Standard of the Federation of European Risk Management Associations (FERMA);

GOST R ISO 31000-2010 "Risk management. Principles and guidelines" (order of Rosstandart (the Federal Agency on Technical Regulating and Metrology) No. 883-cr dated December 21, 2010);

GOST R 51897-2011 / ISO 73 Guide: 2009 "Risk Management. Terms and definitions.

GOST R ISO/IEC 31010-2011 "Risk Management. Risk assessment methods" (order of Rosstandart No. 680-cr dated December 01, 2011);

International foundations of the professional practice of internal audit adopted by the international institute of internal auditors (including the International Professional Standards of Internal Auditing).

2. Terms, definitions and abbreviations

- 1) **IT risks** - the risks of losses associated with the use of information technology by the company;
- 2) **unit** - an integral part of the aircraft, having an overhaul resource installed directly for this part and for which a separate passport or form issued;
- 3) **business risks** - the risks of losses, in which the decision objects are demand, cost, quality and price of services provided, as well as resource provision and consequences of the impact of environmental uncertainty on the Aeroflot Group;
- 4) **currency risk** - the risk of losses due to possible adverse changes in exchange rates;
- 5) **risk owner** - a role in accordance with which the participant of the CRMS has authority and is liable for risk management;
- 6) **Aircraft (AC)** - an aerial vehicle being held in the atmosphere by interaction with air, other than interacting with air reflected from the surface of earth or water;
- 7) **opportunities** – events that have a favorable consequences for the organization;
- 8) **time horizon** - the future period taken into account when making decisions, for example, determining the risk appetite for a time horizon of 1 year;
- 9) **guarantor** - the role in accordance with which the participant of the CRMS is liable for the organization of risk management processes;
- 10) **DG** - Director General of PJSC "Aeroflot"
- 11) **death of the AC, spare parts, unit** - complete or constructive death of the AC, spare parts, unit. Complete destruction means complete destruction of the Armed AC, spare parts, unit, when no units and everything as a whole can be used in the future for their intended purpose. By constructive death, we mean the technical impossibility or economic inexpediency of restoring an aircraft, spare parts, unit, and the impossibility of using them for their intended purpose;
- 12) **Aeroflot Group** - PJSC "Aeroflot" and controlled entities of PJSC "Aeroflot";
- 13) **IAD** - Internal Audit Department of PJSC "Aeroflot" (a structural unit engaged in providing independent and objective guarantees and consultations to the management bodies of PJSC Aeroflot to improve the activities of PJSC "Aeroflot" and the Aeroflot Group companies by using systematic and consistent approach to assessing and improving the efficiency of risk management, internal control and corporate governance processes.);
- 14) **decomposition** - the division of the whole into parts, i.e., it is a method in which the object (system, task, indicator, etc.) is divided into its constituent parts, as a result, each of the parts obtained can be considered as a separate object;
- 15) **CFD** - Corporate Finance Department of PJSC "Aeroflot"(structural subdivision implementing the function of financial hedging);
- 16) **RD** - Risk Management Department of PJSC "Aeroflot" (a structural unit that coordinates the work of the CRMS and reports to the Director General of Aeroflot PJSC regarding the provision of quarterly reporting on its functioning);
- 17) **PMD** - Property Management Department of PJSC "Aeroflot";
- 18) **spare parts** - individual parts, sets of parts, electronic components, units, as well as equipment intended for installation on aircraft as additional equipment or replacement for

various reasons of similar parts, electronic components, assemblies and equipment of aircraft, as well as dismantled from aircraft and replaced sets of parts, electronic components, components and equipment;

19) DDG - Deputy Director General of PJSC "Aeroflot";

20) SP- spare parts;

21) risk initiator - the role that the participant of the CRMS receives, who declared the intention to carry out any activity and possessing sufficient resources;

22) performer - the role in accordance with which the participant of the CRMS performs:

risk identification and analysis;

development and implementation of risk impact measures;

execution of control procedures;

monitoring.

23) risk source - a circumstance (state of the internal and/or external environment) that carries the possibility of the occurrence of a risk event;

24) personnel risks - a group of risks, the source or object of which is the organization's personnel (or an individual employee), including the absence of the required / appropriate number of personnel determined by the current and prospective business plans as well as business processes being implemented. Personnel risks can be considered as any actions or omission by the personnel (human resource);

25) risk map - a graphical representation of the identified risks, containing an assessment of the materiality and probability of each of the risks. Most often the risk map has the format of a rectangular table, one "axis" (for example, columns) of which indicates the impact or significance of the risk, and the other - probability or frequency of its occurrence;

26) AC BD- Audit Committee of the Board of Directors of PJSC "Aeroflot";

27) key risk indicator (KRI) - an indicator characterizing the source of risk;

28) committees (subordinate to the general director or board of PJSC "Aeroflot") - permanently or temporarily operating collegial bodies that are non-executive bodies of PJSC "Aeroflot";

29) compliance risks - risks of losses arising from the application of legal sanctions, regulatory sanctions, loss of reputation as a result of non-compliance or incorrect application of laws, regulations, rules, standards, codes of conduct, ethical business conduct;

30) controller - the role, in accordance with which the participant of the CRMS exercises control over any objects. Control is understood as a system for monitoring and verifying the process of functioning and the actual state of the controlled object. Control ensures that the object achieves its goals by comparing actual results with the desired ones and implementing management decisions (impacts) based on them;

31) controlling person - a person who is entitled, directly or indirectly (through persons controlled by him/her), to dispose of by virtue of participation in the controlled entity and (or) on the basis of property trust management agreements, and (or) simple partnership, and (or) instructions, and (or) shareholder agreement, and (or) another agreement, the subject of which is exercising the rights certified by shares (stakes) of the controlled entity, with more than 50 percent of the votes in the supreme

management body of the controlled entity or the right to appoint (elect) the sole executive body and (or) more than 50 percent of the collegiate governing body of the controlled entity;

32) corporate risk management system (CRMS) - a set of methodology, business processes, participants and individual functions aimed at effective organization risk management;

33) corruption risks - the possibility of employees committing corruption offenses;

34) credit risk - the risk of losses arising from the non-performance by the counterparty - debtor of its financial obligations in relation to the companies of the Aeroflot Group;

35) coordinating methodologist - the role whereby the participant of the CRMS performs the functions of methodical maintenance of the operation of the CRMS, as well as those of coordinating the actions of other participants of the CRMS in the framework of risk management activity;

36) mission of the organization - the overall goal of the organization, expressed in qualitative categories, determining the meaning of its existence and scope;

37) fraud - the theft of money or other property, or the acquisition of the right to another's property by deception, breach of trust, submission of knowingly false and (or) false information or intentionally distorting data in information resources;

38) tax risks - the risks of losses associated with the possibility of misinterpretation of legislation in relation to operations on financial and economic activities and leading to uncertainty of the financial consequences of these operations after taxes;

39) independent expert - a role in accordance with which the subject of the external environment of the Aeroflot Group, that, according to the participants of the CRMS, is independent of the Aeroflot Group and has specific knowledge in any subject area, provides assessment and consulting services.

40) uncertainty - the state of complete or partial lack of information necessary to understand the event, its consequences and probabilities.

41) operational risks are the risks of losses resulting from inadequate or erroneous internal processes, actions of employees and the functioning of systems and hardware or external events (including emergency situations, equipment failures, etc.);

42) other employees - all employees of the organization with the exception of the Director General, members of the board, deputy Directors General by directions, heads of structural divisions;

43) residual risk - the risk of losses remaining after the implementation of risk management measures;

44) industry risks - risks of losses associated with changes in the passenger and cargo air transportation industry;

45) risk passport - a set of risk data that contains:

detailed risk description;

detailed risk analysis, including information on the results of qualitative and quantitative analyzes;

detailed description of risk management opportunities;

detailed description of the risk response method used;

description of the current state of risk.

- 46) **CE** - controlled entities of PJSC "Aeroflot";
- 47) **damage to the AC, spare parts, unit**— violation of the integrity of the structure or destruction of components (AC, spare parts, unit) as a result of accidental external impact on those, which required emergency repairs;
- 48) **controlled entity** - a legal entity that is under the direct or indirect control of the regulatory entity;
- 49) **political and economic risk** - the possibility of losses arising from public policy or changes in macroeconomic parameters;
- 50) **legal risks** - risks of losses arising in case of non-observance of the legislation, inconsistency of internal local regulatory documents with legislation, untimely adjustment of local regulatory documents to compliance with legislation, violation of contracts, as well as due to inconsistency or uncertainty of legislative regulation, changes in legislation that may adversely affect on the financial and economic activities of the Aeroflot Group;
- 51) **inherent risk** - the risk of loss for the organization in the absence of actions to change in the probability of occurrence or degree of influence of this risk;
- 52) **interest rate risk** - the risk of loss due to possible adverse changes in interest rates;
- 53) **regulatory risks** - the risks of losses arising as a result of direct or indirect opportunities to uses of restrictive effects, as stipulated by law or other regulatory legal enactment, by the regulatory authorities to the Aeroflot Group;
- 54) **risk register** - a set of data on all identified risks, ordered and structured in a certain way, allowing visualizing and comparing them as well as using them effectively in the risk management process. The risk register consists of a set of passports of all identified risks;
- 55) **relevance** - informative and/or formal compliance of the “answer” with the requirements and expectations of the “question”. If information is used (relevant and important) when resolving on an issue, it is considered relevant, i.e., related to the issue;
- 56) **reputational risks (risks of loss of business reputation)** - risks of a loss for an organization due to a decrease in brand value or adverse perception of the organization’s image by customers, contractors, shareholders (participants), business partners, regulatory bodies, etc.;
- 57) **risk** - a consequence of the influence of uncertainty on the achievement of objectives. Consequence of uncertainty is understood as the deviation from the expected result or event. Objectives may vary in content and purpose. Risk can be characterized by describing a possible event and its consequences, or a combination thereof. Risk can be presented in the form of the consequences of a possible event (including changes in circumstances) and the corresponding probability;
- 58) **aviation security risks** - the risks of losses due to acts of unlawful interference in the field of aviation;
- 59) **risk appetite (preferred risk)** - a measure of risk that the participant (participants) of the CRMS is ready to accept (considers acceptable, justified, tolerable) when implementing financial and economic activities within the competence;
- 60) **occupational safety risks** - risks of losses associated with the factors of financial and economic activities of the company that can harm the health or life of a person in the workplace;
- 61) **flight operating safety risk** - the projected probability and severity of the

consequences of the manifestation of one or several hazards;

62) risks of budget planning and forecasting - the risks of losses due to erroneous decisions and low quality forecasts made in the process of budget planning and forecasting;

63) risks of exposure to external (uncontrolled) factors - risks of losses that have external (independent of the enterprise) reasons and are characterized by the fact that the consequences of their realization affect the goals of individual subjects or groups of subjects of the CRMS, however, do not have a significant impact on a large number of third parties;

64) risk of capital availability - the risk of losses associated with the lack of opportunities for the company to raise capital for the implementation of financial and economic activities on a reasonable terms and conditions;

65) risk communication - the exchange of information about risk or sharing this information between the decision maker and other parties concerned;

66) quality risk - the risk of losses due to possible failure of consumers from the purchase of goods and services of the company, the cause of which is the discrepancy between the products and services offered by the company to the consumers' requirements for quality;

67) liquidity risk - the risk of losses due to the inability of the organization to ensure the timely and full fulfillment of its obligations;

68) fraud risk - the risk of losses resulting from fraud;

69) risk of non-compliance with internal requirements - the risk of losses due to non-compliance with internal regulatory documents;

70) risk of imperfect processes, technologies, models - the risks of losses associated with inadequacy or errors in internal processes, technologies or models;

71) risk of damage/death of the AC, spare parts, unit - the risk of losses in connection with the death or damage of the AC, spare parts, unit;

72) risk of damage/destruction of other property - the risk of losses due to the death or damage of property that is not the AC, spare parts, unit;

73) risk of loss of a credit rating - the risk of losses due to a decrease in credit rating;

74) risks of supporting activities - risks of losses associated with the operation of the airline;

75) risks of production activities - the risks of losses associated with the implementation of air transportation of passengers, baggage, cargo, mail;

76) quality risks of the purchased AC, spare parts, units, and materials - risks of losses due to the quality and authenticity (authenticity) of spare parts and units bought by the Aeroflot Group as well as the components and materials supporting the main activities;

77) risk event - an event that can adversely affect the results of financial, operating or investment activities of the organization;

78) risk of terrorism, military conflicts - the risks of losses associated with military conflicts, terrorist acts or the threat of their occurrence;

79) outsourcing risks - risks of losses arising due to the inconsistency of outsourced tasks and functions to the specified requirements;

80) risk factor - a factor affecting the final financial and economic indicators of the

company;

81) risks of economic and information security - risks of losses associated with changes in the internal and external environment of the organization, which may lead to the loss of the economic value of the security object;

82) risks of epidemics, man-made disasters, natural disasters - the risks of losses having external (independent of the enterprise) causes and caused by epidemics, natural disasters, man-made disasters;

83) role - the type, nature and degree of participation of the CRMS participant in the activities risk management;

84) market risk - the risk of adverse deviations in achieving the aims of the company (financial, operational, strategic, etc.) due to changes in market risk factors;

85) BD - Board of Directors of PJSC "Aeroflot";

86) QMS - quality management system;

87) STO DSM - an accepted standard of organization developed and approved by the organization independently and obligatory for application in this organization, which establishes the principles, norms (rules, regulations) governing various aspects of work with documents and document support of management technology;

88) strategic risk - the risk of incurring losses as a result of errors (shortcomings) made in decisions that determine the strategy of the organization's activities and development;

89) commodity price risk - the risk of losses due to possible adverse changes in the prices of goods purchased;

90) losses - real damage and lost profits;

91) risk management - a process carried out by the Board of Directors, managers and other employees, that begins with the development of a strategy and affects all the activities of the organization. It's aim is to identify events that may affect the organization, and to manage the risk associated with these events, as well as to ensure that the organization's risk appetite is not exceeded providing a reasonable guarantee for achieving the goals of the organization;

92) flight operating safety risk management - the process of identifying hazards, assessing and reducing safety risks;

93) CRMS participants - the employees, structural units and management bodies of PJSC "Aeroflot", as well as the controlled entities of PJSC "Aeroflot" and their employees, structural units and management bodies that implement risk management functions;

94) financial risks - risks of losses associated with the financial activities of the Aeroflot Group;

95) financial hedging - operations with derivative financial instruments to compensate for the negative impact of external risk factors to achieve the goals of the company;

96) function - duty, the range of activities of the participant of the CRMS or its role as part of risk management activities;

97) environmental risks - the likelihood of adverse changes in the natural environment or long-term adverse effects of these changes caused by anthropogenic impact;

98) legal risks of executive bodies of the company management - the risks of losses associated with the possible involvement of individuals performing the

functions of sole executive bodies or members of collegial executive bodies to civil or administrative responsibility for actions or omissions committed by them in the performance of management of the company.

3. System of Amendments and Changes

3.1. The risk management department of PJSC "Aeroflot" is responsible for the development, adjustment and maintenance of the Regulation on the risk management system of the Aeroflot Group.

3.2. The original holder of the Regulation on the risk management system of Aeroflot Group is the Office of the Board of Directors of PJSC "Aeroflot".

3.3. The initiators of the revision (audit) of the Regulation on the risk management system of the Aeroflot Group can be:

the Board of the Directors of PJSC "Aeroflot";
Audit Committee of the Board of Directors of PJSC "Aeroflot";
Director General of PJSC "Aeroflot"
Administration of PJSC "Aeroflot";
management (Deputy Directors General for directions);
heads of departments;
IAD;
RD;

3.4. Regulation on the risk management system of the Aeroflot Group and amendments thereto it shall be approved by the decision of the Board of Directors of PJSC "Aeroflot", enter into force upon approval by the Board of Directors of PJSC "Aeroflot" and put into effect by the order of the Director General of PJSC "Aeroflot".

4. Aims and objectives of the corporate risk management system

4.1. The aim of the CRMS is to help improve the risk management efficiency of the Aeroflot Group when achieving aims:

Strategic. It is necessary to ensure the fulfillment of the mission.

Operating. It is necessary to ensure efficient and rational use of resources, the safety of assets, the achievement of planned operational and financial results.

For the preparation of reporting. It is necessary to ensure:

relevance;
accuracy;
reliability;
timeliness;
fullness;
safe transmission

of reporting - both external and internal, both financial and non-financial.

For the compliance with applicable laws and regulations, as well as terms and conditions of contracts.

4.2. Updating the aim of the CRMS in accordance with the current level of development, the needs of the Aeroflot Group and the best risk management practices by the Board of Directors as necessary, however, at least every 5 years.

4.3. The objectives of the CRMS include:

risk identification;
risk assessment;
implementation and control of risk management measures;
risk monitoring;
risk communication.

4.4. Solving problems within the framework of the CRMS is carried out through:

risk management planning;
risk management organizations;
monitoring risk management activities;
risk management reporting.

4.5. Updating of the aims of the CRMS as well as the assessment of their compliance with the current level of development and the needs of the Aeroflot Group shall be carried out by the Board of Directors at least every 5 years.

5. Principles of the corporate risk management system

5.1. The basis of the functioning of the CRMS is the following principles:

Continuity. The CRMS operates on an ongoing basis in the process of carrying out financial and business activities and performing managerial functions.

Integration. The CRMS is an integral part of the system of corporate governance and financial and economic activities.

The unity of the methodological base. Processes in the CRMS are carried out based on approaches and standards common to all companies of the Aeroflot Group.

In order to manage the risks of flight safety and aviation safety, the regulatory framework applies in accordance with the requirements of the legislation of the Russian Federation.

Snap to goals. Risk management is based on the aims of the Aeroflot Group.

Optimality. The following conditions shall be simultaneously met:

the effect of functioning of the CRMS or a separate component of the CRMS exceeds the costs of implementing and operating the system or the component under consideration;

at a given level of costs for the implementation and operation of the CRMS or a separate component of the CRMS, its maximum possible efficiency is achieved, or given the performance parameters of the operation of the CRMS or a separate component of the CRMS, the minimum possible costs for the implementation and operation of the system or component are used;

Reasonable approach to formalization and documentation. The level of formalization and documentation meets the requirements of existing in the Aeroflot Group of QMS and STO DSM standards and ensures the effective functioning of the CRMS.

Distribution of rights and obligations. Rights and obligations are distributed among the participants of the CRMS in such a way that:

first, to minimize the possibility of the participants of the CRMS to make a mistake or illegal (including criminal) actions (inaction) and to hide this fact;

secondly, to ensure compliance with the principles of functioning of the CRMS.

Priority. Risk treatment is performed based on their level of significance.

Transparency. The relevance and adequacy of the CRMS is guaranteed by the appropriate and timely participation of stakeholders, in particular, decision makers at all levels of management.

Use the best available information. In the process of CRMS any available information can be used, including verbal and written, confirmed and unconfirmed, financial and non-financial, received from any sources, both internal and external. CRMS participants shall be aware of all relevant properties and characteristics of the information used.

Adaptability and development. The CRMS shall constantly evolve and improve in the light of changes in the external and internal environment of the Aeroflot Group.

Reasonable confidence. Assessments, conclusions, decisions and recommendations in the process of CRMS shall be based on the necessary and sufficient amount and the quality of evidence to be considered relevant, accurate, reliable, timely, and complete

5.2. The participants of the CRMS shall be guided by the specified principles.

6. Participants, their functions, responsibility and interaction as part of a corporate risk management system

6.1. Participants (subjects) of the corporate risk management system:

General Meeting of Shareholders;

Board of Directors;

Board Audit Committee;

executive bodies:

Management Board;

Director General;

management (Deputy Directors General for directions);

committees (subordinate to the Director General or the Board of PJSC "Aeroflot");

heads of departments;

IAD;

revision commission;

the RD;

CFD;

other employees of PJSC "Aeroflot";

controlled entities, represented by

Directors General;

Board;

management (deputy directors generals for directions);

heads of departments and units;

other employees.

6.2. Distribution of functions and roles of participants in the corporate risk management system

6.2.1. The roles of the CRMS participants :

risk owner;
risk initiator;
performer;
controller;
methodological coordinator;
independent expert;
guarantor.

6.2.2. The roles and functions of the participants of the CRMS shall be distributed in accordance with the following principles:

Liability for effective risk management in PJSC "Aeroflot" shall be borne by the Director General of PJSC "Aeroflot";

Responsibility for effective risk management in the controlled entities of PJSC "Aeroflot" shall be borne by the Directors General of the respective entities;

if the risk management functions of the subsidiary organization of PJSC "Aeroflot" are transferred to the structural division(-s) of PJSC "Aeroflot" (fully or partially), then the responsibility for the effective management of this risk is on the Director General of PJSC "Aeroflot";

responsibility for organizing risk management activities in the Aeroflot Group shall be borne by the Director General of PJSC "Aeroflot";

to solve individual issues, including preparation and preliminary consideration of issues related to the competence of the Board and/or the Director General, by decision of the Board and/or the Director General of PJSC "Aeroflot", issues (subordinate to the Director General or the Board of PJSC "Aeroflot") may be delegated to issues related to the competence of the Board and/or the Director General of PJSC "Aeroflot";

liability for timely identification, risk assessment, development and implementation of measures and/or control procedures (action plan) to prevent and/or reduce risks shall be borne by risk owners;

the owners of risks are the heads of those divisions whose achievement is directly affected by the risk under consideration;

an independent assessment of the effectiveness of the CRMS shall be carried out by the internal audit department;

oversight of the effectiveness of risk management shall be carried out by the Committee on Audit of the Board of Directors, the Board of Directors of PJSC "Aeroflot";

The DR shall carry out:

- overall coordination of risk management processes;
- development of methodological documents in the field of risk management process;
- organization of employee training in risk management;
- analysis of the risk portfolio and development of proposals for a response strategy and reallocation of resources in relation to the management of relevant risks;
- maintaining risk registers of structural units;
- preparation of consolidated risk reporting;
- monitoring the risk management processes of the structural units of PJSC "Aeroflot" and the controlled entities;

preparation and submission of information to the authorities of PJSC "Aeroflot" on the effectiveness of the CRMS, as well as on other issues related to the operation of the CRMS.

The CFD shall develop and implement financial hedging arrangements;

When managing risks of the controlled entities, the role of the performer can be performed by:

- the RD;
- specialized functional unit of PJSC "Aeroflot";
- controlled entities or specialized functional division of the controlled entities.

6.3. Liability of participants and their interaction within the corporate risk management system

6.3.1. The CRMS has 4 levels of liability:

The level of the General Meeting of Shareholders at which resolutions are adopted that fall within its competence.

The level of the Board of Directors at which the following issues are approved:

- goals and objectives of the CRMS;
- principles of functioning of the CRMS;
- architecture of the CRMS;
- level of risk appetite;
- aims and principles of financial hedging;
- financial hedging premium limits for the considered time horizon within the framework of approval of the budget of expenses of PJSC "Aeroflot" and/or the Aeroflot Group;
- approaches to assessing the effectiveness of financial hedging arrangements;
- the content and procedure for submitting reports on the implementation of financial hedging;

and the following resolutions shall be adopted:

on risk management, referred to the competence of the participants of the CRMS level of the Board of Directors;

on providing the participants of the CRMS with the necessary resources,

and the functioning of the CRMS shall be supervised, under which at least 1 time per year the following actions shall be performed, including:

- performance evaluation of the CRMS;
- approval of the risk register and risk maps.

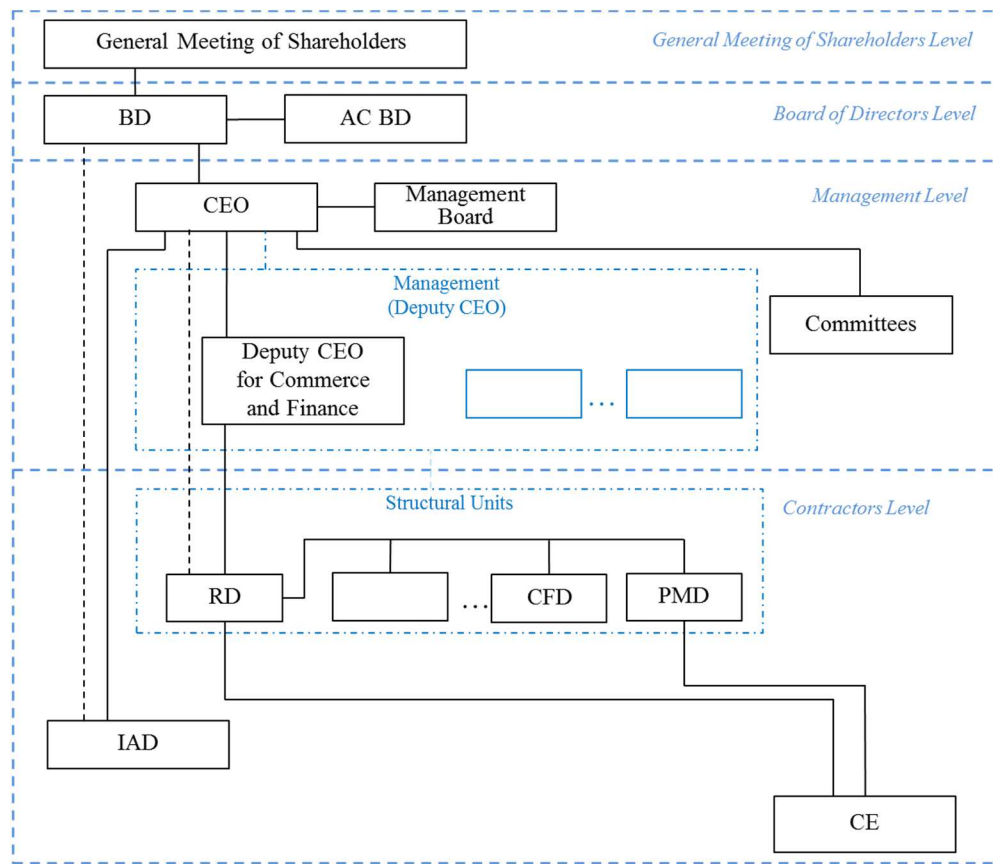


Figure 1 Organizational structure of the CRMS

The level of management which forms the CRMS, performs the operational control and monitors the CRMS functioning. The risk management decisions are made that fall within the competence of the participants of the CRMS level of management, and on the allocation of resources among the participants of the CRMS.

As part of financial hedging at the management level, resolutions shall be adopted with respect to:

- instruments used and the structure of financial hedging transactions;
- individual parameters of financial hedging transactions;
- the procedure for selecting counterparties for financial hedging transactions;
- functions, responsibility and order of interaction of participants in the process of financial hedging of the level of management and performers.

The participants of the management level CRMS are:

- Director General;
- Management Board;
- management (Deputy Directors General for directions);
- committees (subordinate to the Director General or the Board of PJSC "Aeroflot").

The level of performers at which actions for executing procedures shall be performed within the framework of the CRMS, their continuous improvement and monitoring of efficiency, as well as resolutions shall be adopted on risk management, assigned to the competence of the participants of the CRMS level performers.

Participants of the CRMS level performers are:

heads of departments;
revision commission;
the RD;
CFD;
other employees of PJSC "Aeroflot";
controlled entities.

For each level of responsibility and the participant of the CRMS there is a threshold for adopting resolutions, characterized by the maximum risk value, above which the resolution is passed to a higher level according to the following principles:

for the executive level, adoption of resolutions shall be transferred to the management level;
for the management level, adoption of resolutions shall be transferred to the level of the Board of Directors;
for the level of the Board of Directors, adoption of resolutions in cases stipulated by applicable law shall be transferred to the level of the General Meeting of Shareholders.

6.3.2. The types, nature and order of interaction of the participants of the CRMS at all levels of liability with external parties concerned, including:

federal, regional and local government bodies (regulatory authorities);
counterparties of the Aeroflot Group;
consumers of the Aeroflot Group's services;
investors.

shall contribute to the achievement of the aims of the Aeroflot Group, the aims of the CRMS, and also comply with the principles of the CRMS and the requirements of applicable laws and regulations and the terms and conditions of contracts.

7. Risk appetite

7.1. Risk appetite - a measure of risk that the participant (participants) of the CRMS is ready to accept (considers itself acceptable, justified, tolerable) in the implementation of functions within its competence in the implementation of financial and economic activities.

7.2. The size of the risk appetite of the Aeroflot Group shall be approved by the Board of the Directors of PJSC "Aeroflot" upon the proposal of the Board of PJSC "Aeroflot".

7.3. Risk appetite can be established:

in the whole Aeroflot Group;
separately for each (several) Aeroflot Group companies and/or subdivisions of Aeroflot Group companies;
for the considered time horizon;
for the type (group of types) of activity under consideration;
for the project under consideration (group of projects);
for the transaction in question (group of transactions);
for the considered risk (risk group).

7.4. Risk appetite can be expressed by both quantitative and qualitative indicators.

7.5. Information about the relevant risk appetite shall be used by the CRMS participants when adopting resolutions.

7.6. When implementing a financial hedge, the information about quantitative indicator of risk appetite shall be used, established for the hedged risk, type of activity, project, transaction (risk groups, activities, projects, transactions), as well as for the whole Aeroflot Group and separately for each (several) Aeroflot Group companies.

7.7. Risk appetite shall not be established for financial hedging transactions since Aeroflot uses financial hedging only to reduce risks.

7.8. Cash payment (loss) limits and/or premium payment limits for financial hedging transactions for the considered time horizon, it can be established both for the entire portfolio of financial hedging instruments and by risk, as well as for each individual transaction (group of transactions) of financial hedging.

8. Stages of the risk management process

The main stages of the risk management process are:

8.1. Identification

8.1.1. Risk identification is the process of identifying and describing the elements of risk, including:

- sources of risk;
- events;
- causes of risk;
- consequences of risk.

8.1.2. The ultimate goal of risk identification is proper awareness of the CRMS participants about all the risks inherent to the company.

8.1.3. All identified risks shall be included in the risk register.

8.1.4. Risk identification shall be carried out by the participants of the CRMS as part of their functional areas.

8.2. Assessment

8.2.1. Risk assessment is a process of analyzing risk, its consequences and methods of influence in terms of influence on the achievement of the aims of the Aeroflot Group.

8.2.2. When assessing risks, both usual (close to average) and extreme values of the parameters of the external and internal environment shall be considered.

8.2.3. Risk assessment shall be carried out by the participants of the CRMS within their functional areas.

8.2.4. When implementing a financial hedge, a risk assessment is made for the whole Aeroflot Group and (or) separately for each (several) Aeroflot Group companies, taking into account the financial hedging transaction(s), and also, if applicable, for the relevant financial hedging item.

8.3. Development, implementation and control of risk management measures.

8.3.1. Risk management measures are actions taken by the participants of the CRMS in order to ensure:

- achieving the aims of the Aeroflot Group;
- achieving the aim of CRMS;

risk compliance with applicable levels of risk appetite.

8.3.2. Development, implementation and control of risk management measures shall be carried out by relevant participants of the CRMS within their functional areas, taking into account the existing powers.

8.3.3. The development and implementation of financial hedging arrangements shall be carried out on the basis of the aim and principles of financial hedging approved by the Board of Directors of PJSC "Aeroflot".

8.3.4. A resolution on the implementation of financial hedging shall be adopted by the participants of the CRMS taking into account the possibility of implementing other risk management measures within the considered time horizon.

8.4. Monitoring

8.4.1. Monitoring is a process of supervision of the identification, assessment, implementation and control of risk management measures, providing participants of the CRMS with information on their functioning and efficiency.

8.4.2. The principles of functioning of the CRMS shall be observed at all stages of risk management.

9. Components of a corporate risk management system

The CRMS is a combination of the following interrelated components:

- control environment;
- goal setting;
- identifying potential events;
- risk assessment;
- risk response;
- means of control;
- information and communications;
- monitoring.

9.1. **Control environment.** The control environment is the relation of the Board of Directors, executive bodies and management with the need for CRMS in Aeroflot Group and actions taken in this regard. The control environment provides the necessary structure and prerequisites for achieving the goals of the CRMS. The control environment affects the consciousness of Aeroflot Group employees. The main components of the control environment are:

9.1.1. Ethical values. The principles and norms of doing business that form the management style correspond to the mission and corporate values, and also contribute to achieving the goals of the Aeroflot Group.

9.1.2. Philosophy and management style. Attitude of the Board of Directors, executive bodies and management to all types of risks, including by defining and approving risk appetite, their understanding of the role of the CRMS at all levels of management of Aeroflot Group companies, as well as actions on the organization of the functioning of the CRMS contribute to the achievement of the objectives of the Aeroflot Group. The goals and actions of the participants of the CRMS shall not contradict the strategy and objectives of the Aeroflot Group.

9.1.3. Organizational structure and distribution of powers. The logical relationship between management levels and functional areas, as well as information channels within the Aeroflot Group, shall be organized in such a way as to contribute to the achievement of the goals of the Aeroflot Group. Board of Directors shall be independent from the executive and management and implements control over the development, development and effectiveness of the CRMS. Internal audit shall be consistent with the principles of independence and objectivity. Management distributes authority and accountability so as to achieve the objectives of the Aeroflot Group. Internal and external communications and reporting shall be organized in such a way as to ensure the required level of accuracy, reliability, timeliness, completeness and security of the transmission of relevant information.

9.1.4. Competence and personnel management policy. Specific requirements for the qualifications and experience of the Aeroflot Group employees necessary for the performance of their duties shall be defined. A regular assessment of the qualifications, experience, motivation and performance of employees shall be carried out. The personnel management policy is aimed at attracting and retaining qualified employees, as well as their professional development.

9.2. **Goal setting.** The strategic goals of the Aeroflot Group shall be formed by the executive bodies and management, approved by the Board of Directors, then decomposed to the level of the aims of other participants of the CRMS. The aims of the participants of the CRMS management levels and performers (operational, reporting, to comply with applicable laws and regulations, as well as the terms of the contracts) must comply with the Aeroflot Group's mission and the level of approved risk appetite. The aims of the participants of the CRMS shall be specific, measurable, achievable, time-bound and available resources.

9.3. **Identify potential events.** Identifying potential events is the determination of actual or possible events in the external and the internal environment of the Aeroflot Group that have or may have an impact on the achievement of the goals of the Aeroflot Group. Potential events identified:

- are classified into risks and opportunities;
- are assessed;
- are used in decision making at appropriate governing levels.

9.4. **Risk assessment**

9.4.1. Risk assessment can be both qualitative and quantitative.

Recommended risk classification:

Business risks are the risks of losses, within which the decision objects are the demand, cost, quality and price of the services provided, as well as the resource provision and the consequences of environmental uncertainty on the Aeroflot Group:

- strategic risks;
- political and economic risks;
- risk of terrorism and military conflicts;
- risk of epidemics, man-made disasters, natural disasters;
- industry risks;
- reputational risks;
- quality risk;

outsourcing risks;
environmental risks;
other business risks.

Operational risks are the risks of losses resulting from inadequate or erroneous internal processes, actions of employees and the functioning of systems and hardware or external events (including emergency situations, equipment failures, etc.);

production risks:

flight operation safety risks;
aviation security risks;
the risk of damage / destruction of the SC, spare parts, unit;
risk of damage / destruction of other property;
risks of exposure to external (uncontrolled) factors;

risks of supporting activities:

risks of imperfect processes, technologies, models;
occupational safety risks;
personnel risks;
risks of economic and information security;
IT risks;

quality risks of purchased spare parts, units, components and materials;

other operational risks.

Financial risks - losses risks associated with the financial activities of the Aeroflot Group:

market risks;
currency risk;
commodity price risk;
interest risk;
credit risk;
risk of loss of credit rating;
liquidity risk;
capital availability risk;
risks of budget planning and forecasting;
other financial risks.

Compliance risks - risks of losses arising from the application of legal sanctions, regulatory sanctions, loss of reputation as a result of non-compliance or incorrect application of laws, instructions, rules, standards, codes of conduct, ethical business conduct:

legal risks;
legal risks of executive bodies of the company management;
corruption risks;
risk of non-compliance with internal requirements;
regulatory risks;

tax risks;
other compliance risks.

9.4.2. Risk assessment shall include:

Probability. Parameter with a scale from 0 (low probability of an event) to 1 (high probability of an event);

Materiality. Quantitative and/or qualitative parameter(-s) characterizing losses.

9.4.3. Risks shall be assessed in terms of inherent and residual risk.

9.4.4. When assessing risks, the following shall be taken into account:

the possibility of illegal (including criminal) actions (inaction);

the impact of possible changes in the CRMS.

9.5. Risk response

9.5.1. The following risk response strategies shall apply:

Evasion. Refusal to perform actions that may result in the implementation of the event that is the cause of the considered risk;

Transfer. The transfer of consequences from the implementation of negative events to a third party, in part or in full;

Reduction Taking actions to reduce the likelihood of a negative event and/or its consequences to an acceptable level;

Acceptance. Risk shall be accepted if other response strategies are either not applicable or impractical.

9.5.2. The risk response strategy shall comply with:

the goals of the Aeroflot Group;

risk appetite;

the principle of optimality;

requirements of applicable laws and regulations and the terms and conditions of contracts.

9.6. Means of control

9.6.1. Means of control are a system of policies and procedures the purpose of which is to provide reasonable confidence that risk management in the Aeroflot Group at all levels, when performing all functions, is carried out efficiently and in a timely manner.

9.6.2. Policies and procedures shall be regularly reviewed and updated in order to reflect changes in the internal and external environment of the Aeroflot Group.

9.6.3. The Aeroflot Group uses the following types of the means of control:

distribution of rights and obligations;

delineation of:

liability;

rights of access to material, financial and information resources;

authorization (confirmation of rights for approval, signing, coordination of documents and implementation of operations (actions with material, financial and information resources);

documenting and storing information about operations;

physical verification;
self-esteem;
independent evaluation;
etc.

9.6.4. Means of control can be:

Prescribing. The goal is to ensure the occurrence of the desired event and/or to stimulate the required behavior.

Warning. The goal is to avoid the occurrence of an undesirable event (behavior) or to reduce its likelihood.

Investigative. The goal is to study an undesirable event (behavior) that has already occurred, in order to reduce the impact of its consequences on the Aeroflot Group and to develop measures to prevent its recurrence.

Corrective. The goal is to reduce the consequences of the undesired event (behavior).

Compensating. The goal is to compensate for the existing and possible shortcomings of the CRMS, as well as to reduce the consequences of possible undesirable events (behaviors) that cannot be eliminated and/or reduced by using other means of control.

9.6.5. Means of control, including automated ones, shall contribute to the achievement of the aims of the Aeroflot Group:

strategic;
operating;
for the preparation of reporting;
for the compliance with applicable laws, regulations and terms and conditions of contracts.

Means of control shall comply with the principles of functioning of the CRMS.

9.7. Information and communications

9.7.1. Efficient, timely and secure exchange of relevant information of the required level of accuracy, reliability, timeliness and completeness shall be carried out:

in the internal environment of the Aeroflot Group:

vertically - within the corporate management system;
horizontally - in the implementation of financial and economic activities;
with the subjects of the external environment of the Aeroflot Group, including with:
federal, regional and local government bodies (regulatory authorities);
counterparties of the Aeroflot Group;
consumers of the Aeroflot Group's services;
investors.

Information and communications are sufficient for the participants of the CRMS to perform their functions effectively and in a timely manner.

9.7.2. Information about the risks of the Aeroflot Group includes:

risk map - a graphical representation of the identified risks, containing an assessment of the materiality and probability of each of the risks.

risk register - a set of data on all identified risks, ordered and structured in a certain way, allowing visualizing and comparing them as well as using them effectively in the risk management process.

risk passport (for each risk) - a set of risk data containing a description, analysis, assessment and possible management strategies.

9.7.3. Information on the functioning of the CRMS in the Aeroflot Group shall be quarterly submitted for consideration by the Director General of PJSC "Aeroflot".

9.8. Monitoring

9.8.1. CRMS monitoring activities provide reasonable certainty in the fact that the participants of the CRMS timely and in full comply with the established rules and procedures for risk management, for which:

- the effectiveness of the CRMS shall be assessed;
- the compliance with the principle of continuity shall be monitored.

9.8.2. CRMS monitoring activities shall be carried out at all levels of liability, both in the framework of current activities and through special studies and inspections. Information about identified and potential deficiencies of the CRMS shall be brought to the attention of interested participants of the CRMS, and can also be provided to the subjects of the external environment of the Aeroflot Group.

10. Assessment of the effectiveness of the corporate risk management system

10.1. Assessment of the effectiveness of the functioning of the CRMS is performed based on information about:

- the degree of achievement of the objectives and accomplishment of the CRMS objectives;
- adherence to the principles of the functioning of the CRMS;
- integrity and completeness of the CRMS components;
- values and dynamics of key risk indicators (KRI).

10.2. Assessment of the effectiveness of the functioning of the CRMS and/or its individual components shall be carried out both in the framework of current activities and through special studies and inspections and can be:

internal self-assessment to be performed at least once a year:

- The owner of the risk or the Contractor in the framework of current activities;
- RD as needed.

internal independent assessment to be performed by the internal audit department in accordance with an approved risk-based plan;

external independent assessment to be performed by a third-party independent expert at the request of any of the following participants in the CRMS:

- Board of directors;
- Board Audit Committee;
- Director General;
- Board;
- IAD;

RD;

11. Flight operation safety and aviation security risk management

11.1. Flight operation safety and aviation security risks shall be managed in accordance with the current regulatory documents developed in accordance with the requirements of the legislation of the Russian Federation, standards and recommendations of international organizations in the field of civil aviation.

11.2. Flight operation safety risk management is an element of the safety management system the requirements of which are specified in the manual on safety management, approved by order of the Director General.

11.3. Flight operation safety risk management shall be carried out in accordance with the procedure for managing risks from acts of unlawful interference with a company.

11.4. Flight operation safety and aviation security risk management is an integral part of the CRMS.

11.5. The integration of the flight operation safety and aviation security into the system, described by this Regulation, shall be carried out based on work instructions, procedures and processes that are required to represent all types of risks in the company and are also an integral part of the documentation of the CRMS.

12. Corruption Risk Management

12.1. Corruption risk management shall be carried out in accordance with the international agreements concluded by the Russian Federation, the legislation of the Russian Federation and other regulatory legal acts applicable to the Aeroflot Group, the Methodological recommendations on the organization of risk management and internal control in the field of prevention and countering corruption in joint stock companies with the participation of the Russian Federation, approved by Order No. 80 of the Federal Property Management Agency dated March 02, 2016, as well as the internal documents of the Aeroflot Group.

12.2. Corruption risk management is an integral part of the CRMS.

12.3. Corruption risk management is based on the Aeroflot Group Anti-Corruption Policy.

12.4. All corruption risks shall be deemed critical for the Aeroflot Group.

12.5. Within the framework of corruption risk management, corruption risks are identified, assessed and re-evaluated and measures on their elimination/minimization shall be taken. General approach to identifying, assessing and reevaluating corruption risks shall be organized in such a way as to ensure the timely and complete identification, assessment and reassessment of corruption risks. Liability for identifying, assessing and re-evaluating corruption risks, and taking measures for their elimination/minimization is entrusted to executive bodies, management, heads of structural divisions and structural units of divisions of Aeroflot Group companies and their deputies.

13. Limitations of a corporate risk management system

13.1. Activities under the CRMS are limited to:

the activities of the Aeroflot Group in the main functional areas;

requirements of the Board of Directors of PJSC "Aeroflot";

requirements of the subjects of the external environment of the Aeroflot Group.

13.2. It is permitted to decrease the efficiency of the CRMS functioning due to:
the subjectivity of judgments of the participants of the CRMS;
the impossibility of completely eliminating the risk of imperfect processes, technologies, models;
possible non-optimal solutions within the framework of the CRMS, the reasons for which may be:

- in the absence of the required amount of information of the required quality;
- in the asymmetry of information;
- in unconditional incomparability of the factors and/or decisions considered;
- in the existence of sources of risk for which it is impossible and/or impractical use of strategies other than risk taking, etc.;

possible ambiguity in interpreting the requirements of legislation, local regulatory documents, terms of and conditions of contracts;
erroneous and/or illegal (including criminal) actions (omission) of the participants of the CRMS.

Deputy Director General
for Commerce and Finance

SH.R. Kurmashov

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