

# **Risk Management Policy of JSC IDGC Holding**

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# 1. General Provisions

The Risk Management Policy of JSC IDGC Holding (hereinafter the "Policy") defines the fundamental principles of organization, implementation and control of risk management processes of JSC IDGC Holding (hereinafter the "Company"). The Policy is formulated pursuant to the Concept of Developing and Improving the Internal Control and Audit System and the Risk Management System of JSC IDGC Holding, describing top-priority actions for building the risk management system. The terms used in this document correspond to the definitions set forth in the Concept.

This document covers the following areas:

- Risk management strategy
  - Goals and objectives of the Risk Management System;
  - Principles and requirements for the Risk Management System;
  - Risk appetite;
  - Top-Priority Risk Areas of the Company (classification).
- Principal risk management processes:
  - Risk identification and assessment;
  - Development and implementation of risk management activities;
  - Risk monitoring.
- Architecture of the Risk Management System:
  - Risk management levels;
  - Organizational structure of risk management functions;
  - Roles and responsibilities of participants in the Risk Management System;
  - IT Support for the Risk Management System.
- Risk Reporting:
  - Regulatory documents and standards;
  - Communications, protocols and reports;
  - Assessment of risk management efficiency.

The policy is based on global best risk management practices in the energy sector and considers the provisions of the conceptual fundamentals of COSO ERM risk management, ISO/IEC Guide 73:2002 standard and other internationally recognized documents in the field of risk management.

This document is intended for the managers and employees at all levels of management of the Company, its functions, subsidiaries and dependent companies and other participants in risk management processes and stakeholders.

## 2. Risk Management Strategy

The risk management strategy shall include goals, objectives and principles, priorities in the area of risk management and the approach to risk appetite selection.

### 2.1. Goals and Objectives of Risk Management

The goals and objectives of risk management are provided in Table 2.1.

**Table 2.1. Goals and objectives of RMS**

Goals	Objectives
Ensure reasonable guarantee of the achievement of strategic goals	<ul style="list-style-type: none"> <li>• Identification and assessment of the material nature of events affecting the achievement of strategic goals;</li> <li>• Ensure preventive measures for minimizing the likelihood and adverse effects of risks on goals;</li> <li>• Risk-adjusted strategic planning;</li> <li>• Inform top management and stakeholders of any existing threats and opportunities in a timely manner;</li> <li>• Monitoring of risk control activities.</li> </ul>
Keep assets and maintain business efficiency	<ul style="list-style-type: none"> <li>• Identification, assessment and management of risks associated with business processes;</li> <li>• Provision of information about risks in managerial decision-making;</li> <li>• Formation of risk control matrixes;</li> <li>• Creation and management of the system of Key Risk Indicators (KRI);</li> <li>• Fraud prevention.</li> </ul>
Ensure uninterrupted electricity transmission	<ul style="list-style-type: none"> <li>• Formation of programs for responding to risk situations;</li> <li>• Regulation of the processes for identifying the consequences of risk events;</li> <li>• Coordinate, ensure and assess the efficiency of timely emergency response.</li> </ul>

### 2.2. Principles and Requirements for Functioning of Risk Management System

The risk management system shall be based on the following principles:

- Systemic approach. All types of risks shall be managed in all key areas of activity, at all levels of the Company management.
- Responsibility for risk management. Each employee of the Company shall view risk management under his/her authority, knowledge and available information as one of his/her tasks.
- Cross-functional interaction. The process of managing cross-functional risks shall be based on collegial decisions adopted collectively based on the information available to various functions.
- Integrated information channel. IT Support for Risk Management System shall give the opportunity to inform decision-makers of risks in a timely manner and in full.
- Division of decision-making levels. Decisions on risk minimization shall be adopted at various levels of management depending on the significance of risks. The boundaries for determining decision-making levels shall be established based on the risk appetite of the Company.
- Linkage to goals. Risks shall be managed based on the goals set at the Company Strategy level and the goals of specific processes.
- Bottom-up and top-down risk flow. Information about risks for decision-making purposes shall flow from lower to higher levels of management. Decisions on risk minimization and control of risk management shall spread from higher to lower levels of management.
- Cost efficiency of risk management. The risk management system shall ensure the cost efficiency of risk management activities. Risks shall be minimized based on the economic feasibility.
- Control of risk management efficiency. The efficiency of risk management shall be controlled through the monitoring of Key Risk Indicators (KRIs) developed for each top-priority area of risk management.

### **2.3. Risk Appetite Formation Approach**

Risk appetite is a risk value which, in the opinion of the Management (Management Board), is deemed acceptable to the Company or its functional unit. It means that Risk Appetite corresponds to the Company's resources which the Management is ready to sacrifice in case of risk event. Based on risk appetite the Management shall decide whether to accept a particular risk or work on its mitigation.

Generally, risk appetite shall be linked to the ability of the Company and its SDCs to perform their obligations. This shall be affected by the linkage to the company's financial indicators such as EBITDA, net profit, etc. In addition to risk indicators, risk appetite may be linked to the indicators of quality of electricity transmission services being provided, for example power outage frequency and average power outage duration indexes, repeated outage index, etc.

According to the principle of division of decision-making levels, risk appetite shall vary from level to level.

Under exceptional circumstances, when risk appetite level is exceeded, risk may be accepted if risk mitigation activities are cost efficient or carry higher risks. In addition, failure to achieve risk appetite level bottom-up shall not imply the lack of need for risk mitigation if it is cost efficient or may produce a positive effect.

Risk appetite shall be approved for key risks by the resolution of the Management Board.

## **2.4. Top-Priority Risk Areas**

Key grounds for classifying the risks taken by the Company and its SDCs shall be their areas of activity. To simplify risk identification, the Company's Risk Classifier approved by the Management Board shall be used.

All risks shall be classified into the following top-priority areas:

- Risks associated with commercial activities;
- Risks associated with financing activities;
- Risks associated with production and business activities;
- Risks associated with operating activities;
- Risks associated with uninterruptible and reliable supply;
- Tariff-setting risks;
- Corporate governance and property management risks;
- Risks associated with law enforcement activities;
- Risks associated with investing activities;
- Organizational development and personnel management risks;
- IT risks;
- Security management risks.

## **3. Risk Management Process**

### **3.1. Risk Identification and Assessment**

#### **3.1.1. Risk Identification**

Risks shall be identified across all levels of the Company management in accordance with the Risk Classifier approved by the Management Board of the Company.

In risk identification, the following information shall be determined:

- Risk name;
- Risk description;

- Risk sources;
- Risk owner and the individual providing risk information;
- Function and SDC;
- Key Risk Indicators.

### 3.1.1. Risk Assessment

Risk assessment shall be a combination of risk likelihood and materiality. Risk shall be assessed in the 1-year forecast horizon.

**Risk likelihood** shall be an expert metric determined using a scale from 1 to 5 (see Table 3.1).

**Table 3.1. Scale for Determining Risk Likelihood**

Score Assessment	Value in %	Interpretation
1 (Very Low)	1-7%	The event is likely to occur not more than once every <b>15 years</b> .
2 (Low)	7-20%	The event is likely to occur not more than once every <b>5 to 15 years</b> .
3 (Medium)	20-50%	The event is likely to occur not more than once every <b>2 to 5 years</b> .
4 (High)	50-70%	The event is likely to occur <b>in the next year or two</b> .
5 (Very High)	>70%	The event is likely to occur <b>in the next year</b> .

Risk **materiality** shall have two scales: financial and reputational.

Materiality shall be determined based on case analysis. At least three non-compatible cases (worst, best and base cases), i.e. unable to occur simultaneously, shall be built for each risk. Each case shall be weighed by the conditional probability as a percentage (the likelihood of this particular case if risk materializes). Subject to the non-compatibility condition, the sum of all conditional probabilities of a specific risk shall be 100%. Ruble-denominated materiality and its effects on reputation using a scale from 1 to 5 shall be determined for each case (see Table 3.2).

**Table 3.2. Reputational Scale for Risk Materiality Assessment**

Score Assessment	Interpretation
1	Risk occurrence shall have virtually no effect on reputation.
2	Risk occurrence shall cause deterioration in the situation and insignificant customer loss.
3	Risk occurrence shall significantly affect reputation and cause moderate customer loss.
4	Risk occurrence shall considerably affect reputation, thus reducing investment rating and share price by 5-15%.
5	Risk occurrence shall considerably reduce investment rating and bring share price down by more than 15%.

Risk materiality shall have two metrics:

- Average damage calculated as the expectation of loss distribution (in financial and reputational indicators) according to three or more cases;
- Value-at-Risk meaning damage (in financial and reputational indicators) unlikely to be exceeded (probability of 95%).

Consequently, risk has one like likelihood assessment and 4 materiality assessments: average damage and VaR using two scales (financial and reputational).

### **3.2. Development and Implementation of Risk Management Activities**

Risk management activities can be divided into 3 categories:

- Risk optimization meaning procedures affecting the likelihood of materiality of risk. For example, implementation of control procedures reducing the likelihood of risk event.
- Risk assignment meaning transfer of risk, in whole or in part, under an agreement by one party to the other. For example, the execution of insurance agreement or process outsourcing.
- Risk aversion meaning termination (or replacement) of processes which carry risk, for example the replacement of fire-hazardous types of work with fire-safe ones.

Risk management activities shall be supplemented with the following information:

- Person and function accountable for performing an activity;
- Time limits for performing an activity;
- Regularity in performing an activity;
- Additional budget for performing an activity;
- Progress in the performance of an activity;
- Actual period in which the activity is performed;
- Reference to the documents proving the actual performance of activities;
- Residual risk after the performance of a set of activities.

### **3.3. Risk Monitoring**

Risk monitoring means control of risk level. This shall be achieved by updating at least on a semi-annual basis risk information, risk management activities, progress in the performance of an activity and by tracking the values of key risk indicators developed earlier during the phase of risk identification and assessment.

The key risk indicators of all functions of the Company involved in risk monitoring and management shall be monitored by the Internal Audit and Risk Management Department on a regular basis depending on the significance of risks and the level of risk decision-making.



## 4. Architecture of Risk Management System

### 4.1. Risk Management Levels

Risks shall be managed by the Company on a multi-level basis.

Multi-level nature of risk management shall be divided into two categories:

- **Multiplicity of levels of management** shall correspond to the corporate structure of the Company. There shall be three levels of management within the Company:
  - Executive arm of the Company;
  - SDCs of the Company;
  - Branches of SDCs.
- **Multiplicity of sub-levels of management** shall correspond to the goals of operations management and shall be divided into 2 levels:
  - Level of the Management Board (decisions on risks shall be adopted at the level of the Management Board or Director General);
  - Level of linear management (decisions on risks shall be adopted by the heads of functions).

Each level of the Risk Management System shall be subject to **decision-making threshold**, being threshold risk value; if such value is exceeded, decision on risk shall be assigned to a higher level according to the following principles:

- For the level of linear management, the adoption of decision shall be assigned to the level of the Management Board (Director General);
- For the level of the Director General of a branch, the adoption of decision shall be assigned to the level of Director General of a higher level of management.

The chart of escalation (delegation of responsibility) in decision-making is shown on Figure 4.1.

**Figure 4.1. Escalation of Decision-Making if Decision-Making Threshold for This Level Is Exceeded**



Исполнительный аппарат	Executive arm
ДЗО	SDCs
Филиалы ДЗО	Branches of SDCs
Уровень Правления	Level of the Management Board
Уровень линейного менеджмента	Level of linear management
Уровень Генерального директора	Level of the Director General
Эскалация принятия решения при превышении порога принятия решения для данного уровня	Escalation of decision-making if decision-making threshold for this level is exceeded

## 4.2. Organizational Structure of Risk Management

The organizational structure of risk management shall correspond to the levels of management within the Company.

- At the level of EA (executive arm), the Unit for Risk Management and Internal Control Organization of the Internal Audit and Risk Management Department shall be established.
- In each SDC, the functions of coordination of risk management processes, information gathering, advising of risk owners on risk management methodology shall be performed by risk coordinators within the Internal Audit divisions.
- Risk coordinators responsible for risk information gathering shall be appointed for the branches of SDCs.

The risk coordinators of branches and SDCs shall perform their activities based on common standards and guidelines. For the purpose of effective risk management at all levels level of management, interaction between risk coordinators shall be governed by the common standard of interaction between risk coordinators.

Risk coordinators shall functionally report to the Company's risk coordinators of a higher level of management. This shall allow promptly exchanging information for adopting decisions on risk mitigation at all levels of management.

Managers or employees performing the function of risk management on a part-time basis shall be appointed risk coordinators for the branches of SDCs.

At the level of SDCs, decisions on risk management shall be adopted by the Director General (Management Board).

Figure 4.2 shows the organizational structure and risk information flows.

**Figure 4.2. Organizational Structure of the Risk Management System**



### 4.3. Roles and Responsibilities of Participants in Risk Management System

Roles and responsibilities shall be divided in accordance with the following principles:

- Responsibility for effective risk management and the approval of budget for risk management activities within the Company shall be assumed by the **Director General (Management Board)** of the Company. Responsibility for effective risk management at lower Company management levels shall be assumed by the **Directors General (Management Boards)** of the entities concerned (SDCs, Branches).
- Responsibility for the accomplishment of cross-functional risk management objectives (delivered by several functions at a time) and the development of budgets for risk management activities shall be assumed by the **Director General (Management Boards)**.
- Responsibility for the timely identification and assessment of risks, the development and implementation of activities and risk monitoring shall be assumed by **the heads of divisions** at all levels of management. The heads of divisions whose goals are directly affected by a specific risk shall be appointed risk owners.
- Responsibility for methodology support and coordination (timely information gathering) of all risk management processes as well as the timely provision of full risk information to all stakeholders (including the Management Board) shall be assumed by the coordinators of the risk management function (**risk coordinators**) at all levels of management.

The risk management efficiency shall be supervised by the **Audit Committees** at all levels of management.

Table 4.3 summarizes the segregation of roles and responsibilities among RMS participants.

**Table 4.3. Roles and Responsibilities of RMS Participants**

<b>Participant</b>	<b>Role</b>	<b>Functions and Responsibilities</b>
<b>Audit Committees of BD</b>	Controller	<ul style="list-style-type: none"> <li>Monitoring of the risk management efficiency.</li> </ul>
<b>Directors General (Management Boards)</b>	Guarantor	<ul style="list-style-type: none"> <li>Organization of efficient risk management within their function.</li> <li>Approval of budgets for activities.</li> <li>Approval of the risk register at the Management Board level.</li> <li>Approval of the risk register.</li> <li>Preparation of budgets for activities.</li> <li>Settlement of controversial situations</li> </ul>
<b>Divisions</b>	Responsible employees, risk owners	<ul style="list-style-type: none"> <li>Identification and assessment of risks.</li> <li>Development and implementation of activities.</li> <li>Timely communication of information about risks and activities to risk coordinators.</li> <li>Documenting and delivery of information about materialized risks.</li> </ul>
<b>Risk coordinators (IAD)</b>	Methodology coordinator	<ul style="list-style-type: none"> <li>Coordination of risk management processes.</li> <li>Training and advising on the methodology of risk management processes.</li> <li>Support for and development of RMS methodological and regulatory framework.</li> <li>IT support for Risk Committees.</li> <li>Communication of risk information to all stakeholders.</li> </ul>

#### **4.4. IT Support for Risk Management System**

Risk information shall be used in decision-making process. This principle means that the information about risks, their value, current and possible risk management activities shall be available and may be provided on demand (if the use of such information is justified) to any manager or employee under his/her authority.

Risk information shall be contained in the form of a database implemented on any IT platform (including MS Office). Risk database shall be a full range of inter-related information, which may take the form of risk register and the passport of each risk.

A decision on the degree and depth of the risk management automation process shall be adopted at the sole discretion of the Director General (Management Board) of the function.

## 5. Risk Reporting

### 5.1. Regulatory Documents and Standards

RMS regulatory framework shall be based on the provisions hereof and shall be aligned and compatible with this Policy.

RMS regulatory framework shall be formed for each of the two levels of management: the Company's executive arm and regional SDCs.

Table 5.1 provides **mandatory**<sup>1</sup> list of RMS documentation and its purpose.

**Table 5.1. Mandatory List of RMS Regulatory Framework**

<b>Document</b>	<b>Document Purpose</b>
<b>Risk management policy</b>	Fundamental principles of organization, implementation and control of risk management processes.
<b>Risk classifier</b>	Description of risk areas which may be considered later in greater detail through the provision of detailed information about objects taking these risks, entities and individuals affected by risks, time limits, regulations, projects, counterparts and other relevant information giving full understanding of the risk area concerned.
<b>Regulations for Risk Appetite and Decision-Making Thresholds</b>	Formalization of risk appetite and the thresholds for segregating risk decision-making levels.
<b>Risk Management Guidelines</b>	Description of approaches to and methods for carrying out risk identification and assessment procedures, developing risk management activities.
<b>Risk Management Regulations</b>	Description of the procedure, time limits, persons accountable for carrying out procedures as part of the Risk Management System.
<b>Risk Management Reporting Forms</b>	Forms for the provision of risk information by divisions and risk reporting forms for stakeholders.

### 5.2. Protocols and Reports

RMS reporting shall ensure the accomplishment of risk management objectives and shall be intended for full and transparent exchange of risk information and the provision of brief information to decision-makers.

Table 5.2 provides a basic list of reporting documents and their purposes.

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<sup>1</sup> The list of RMS regulatory documents may be supplemented with other documents as needed.

**Table 5.2. RMS Reporting Documents**

<b>Reporting Document</b>	<b>To Be Completed by</b>	<b>Document Purpose</b>
<b>Risk Register</b>	Risk coordinators	The list of risks with key information about them.
<b>Risk Passport</b>	Divisions in cooperation with the risk coordinator (as needed)	Document describing all relevant risk information and consisting of the following principal sections: <ul style="list-style-type: none"> <li>• Risk information;</li> <li>• Risk management activities;</li> <li>• Materialized risks;</li> <li>• Risk event response procedures;</li> <li>• Key Risk Indicators.</li> </ul>
<b>Risk Map</b>	Risk coordinator	Graphic representation of the risk significance level. This is a graph whose abscissa corresponds to risk likelihood; ordinate, to its integral materiality metric.
<b>Presentations for the Management Board, Audit Committee, etc</b>	Risk coordinator	Presentation materials in MS PowerPoint format containing principal information about risks and the status of the risk management process, current and forthcoming objectives in the field of risk management.

### **5.3. Assessment of Risk Management Efficiency and Key Risk Indicators**

The Company's risk management efficiency shall be assessed based on:

- Analysis of changes in risk assessment;
- Analysis of integrity and completeness of risk mitigation activities;
- Changes in Key Risk Indicators (KRI).

KRI is an indicator characterizing risk factor (source) and not assessing it (generally).

KRI shall be developed by the divisions from among risk owners and approved by the Director General or Management Board of a structural unit.

For the purposes of assigning responsibility for the achievement of KRI targets, they may be established as Key Performance Indicators for managers and divisions.

The correctness of KRI calculation shall be controlled by the Internal Audit divisions.