



Appendix No.3  
to Minutes of session of the Board of  
Directors of  
IDGC of the North-West, PJSC  
dated 31.03.2016 No 200/15

APPROVED  
by the Board of Directors of  
IDGC of the North-West, PJSC  
on 31.03.16 (Minutes No. 200/15)

Quality Management System

**Risk Management policy of  
IDGC of the North-West, PJSC  
(restated)**

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## **1 Purpose and application scope**

1.1 The Risk Management Policy of IDGC of the North-West, PJSC (hereinafter - the "Policy") is the in-house document of IDGC of the North-West, PJSC (hereinafter - the "Company") determining their attitude to risks, establishing general principles for building the risk management system (hereinafter - "RMS"), its goals and objectives, general approaches to organization, distribution of responsibility between the RMS participants and the character of their interaction.

The Policy has been elaborated for development and for the purposes of implementation of the provisions of the Strategy for development of the electric power grid complex of the Russian Federation as approved by Ordinance No. 511-r of the Government of the Russian Federation dated 03.04.2013;

### **1.2 Goals of the Risk Management Policy**

This Policy has been elaborated in the interests of achievement of the Company's activities goals by way of ensuring adoption and support of functioning of an efficient RMS within the Company corresponding to the universally recognized practices and standards of activities in the identified field.

### **1.3 Field of the Risk Management Policy application**

This Policy covers all the participants of the risks management process as listed in Section 5 hereof, "Participants of the risk management process, their functions and organization of interaction". The Policy is binding on all the structural subdivisions and branches of the Company.

### **1.4 Risk Management Policy preparation and approval procedure**

The Policy is approved by the Board of Directors of the Company upon preliminary consideration by the Committee under the Board of Directors of the Company to the competence whereof preliminary consideration of the Policy is referred (Authorized Committee).

1.5 List of documents, regulatory instruments and universally recognized standards in accordance wherewith the Policy has been elaborated and that are applied during implementation of the risks management process within the Company:

- Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26.12.1995;
- Federal Law No. 402 "On Accounting" dated 06.12.11;
- Federal Law No. 273 "On fighting corruption" dated 25.12.2008;
- Corporate Governance Code of the Russian Federation recommended by Letter No. 06-52/2463 of the Bank of Russia "On the Corporate Governance Code" dated 10.04.2014;
- Order No. 13-62/pz-n of the FFMS of Russia "On the procedure of securities admission to organized trading" dated 30.07.2013;
- Recommendations No. PZ-11/2013 of the Ministry of Finance of Russia "Economic actor organizing and carrying out internal control of facts of economic life as may be executed, maintaining accounting records and drawing accounting (financial) statements"(Letter No. 07-04-15/57289 of the Ministry of Finance of the Russian Federation dated 26.12.2013);
- Order No. 357 of the Federal Agency for State Property Management "On approval of the methodological recommendations on organization of work of the Board of Directors within a joint-stock company" dated 21.11.2013;
- Order No. 86 of the Federal Agency for State Property Management "On approval of the methodological recommendations on organization of work of Audit Committees under the Board of Directors within a joint-stock company with participation of the Russian Federation" dated 20.03.2014;
- Order No. 350 of the Federal Agency for State Property Management "On approval of the methodological recommendations on generation of Regulations on the Auditing Commission of a joint-stock company with participation of the Russian Federation" dated 16.09.2014;
- Order No. 249 of the Federal Agency for State Property Management "On approval of the methodological recommendations on organization of internal audit work within joint-stock

companies with participation of the Russian Federation” dated 04.07.2014;

- Methodological guidelines of the Federal Agency for State Property Management on preparation of Regulations on a risk management system endorsed by Instruction No. ISh-P13-4148 of the Government dated 24.06.2015;

- COSO concept “Enterprise risk management - Integrated framework” (2004);

- COSO concept “Guidance on monitoring internal control systems” (2009);

- COSO concept “Internal control - integrated framework” (2013);

- GOST R ISO 73 – 2009 “Risk Management. Terms and Definitions”;

- GOST R ISO 31000 – 2010 “Risk Management. Principles and regulations”;

- GOST R ISO 31010 – 2011 “Risk Management. Risk evaluation methods”;

- International fundamentals of the professional practices of internal auditors adopted by the international Institute of Internal Auditors (inclusive of the International Professional Standards of Internal Audit).

This policy has been elaborated with account for the provisions of the following documents of the Company:

- Charter of IDGC of the North-West, PJSC;

- Regulations on the Auditing Commission of IDGC of the North-West, PJSC;

- Regulations on the Board of Directors of IDGC of the North-West, PJSC;

- Regulations on the Audit Committee under the Board of Directors of IDGC of the North-West, PJSC;

- Regulations on the Management Board of IDGC of the North-West, PJSC.

1.6 The Policy forms the basis for elaboration of in-house methodological and administrative documents regulating the process of RMS organization, envisaging the procedures of detection, evaluation and management of separate types of risks inclusive of describing of methods of evaluation of operational risks and tools for management of risks of the Company.

Procedural regulation and methodological support of the risk management process within the Company are carried out through elaboration and approval of:

- in-house documents determining the procedure of the Policy application as well as interaction of structural subdivisions of the Company in the process of risk management;

- methodological documents on formation, approval and actualization of risk registers, risk evaluation;

- formats of reporting, operational forms and instructions for their application and completion.

1.7 The risk management subdivision of the Company is responsible for elaboration and actualization of this Policy.

## 2 Terms and Definitions

The following terms are used herein, defined as follows:

***The Risk Analysis*** is the process of studying the nature and character of the risk (analysis of causes, sources and location of risk occurrence) which involves establishment of the cause-effect links of a hazardous event with its sources and effects.

***Probability (possibility) of risk*** - the chance that anything may take place no matter whether it has been established, measured or determined, objectively or subjectively, qualitatively or quantitatively and whether it is described with the help of common concepts or mathematically. The determinable value of the probability (possibility) of risk reflects the degree of assuredness in the risk occurrence.

***Risk owner*** – management body or chief of a unit/structural subdivision of the Company responsible for all the aspects of management of the specified risk, in particular, reduction of the probability of the risk actualization and/or reduction of the possible effect of the risk actualization

consequences. The risk owners are the management bodies or managers supervising the branch of activities the goals whereof are directly affected by such risk.

**Effect** – deviation from that what is expected.

**External Environment** - external conditions wherein the Company operates and achieves their goals, related to the cultural, social, political, legislative, regulating, economic, natural, competitive and other spheres at the international, national, regional or local level, key criteria and trends that may affect achievement of the Company's goals as well as to the relationships with external stakeholders, their perception of the risk and significance of such external stakeholders for the Company.

**Internal Environment** - internal conditions wherein the Company operates and achieves their goals inclusive of the management, organizational structure, responsibilities and accountability. key policies, goals and objectives as well as their achievement strategy, the resource capacities and knowledge of the Company, informational processes, information flows and decision taking processes, relationships with internal stakeholders, their perception of the risk and significance of such internal stakeholders for the Company, the organization culture, standards, guiding principles and other documents regulating the activities of the Company in different aspects.

**Impact on risk (risk management)** – actions for reduction (minimization) of the risk by way or reduction of the probability and/or consequences of the risk and/or by way of elimination of the source (factor) of risk.

**Risk perception** – stakeholders' idea of the risk. Risk perception reflects the needs, problems, knowledge, trust and values of stakeholders.

**Stakeholder** - individual or organization that may affect or be affected by any decision or activity or that believe that they are thus affected.

**Risk identification** – risk revealing (detecting), recognition/analysis and description of risks.

**Risk source (risk factor)** – object or activity that, independently or in combination with others, has the capability to cause risk/risk increase. The risk source may be tangible and intangible.

**Risk map** – graphical representation of risk assessment (scoring) with account for the results of risk evaluation.

**Key Risk Indicators (KRI)** – qualitative or quantitative indices of risk sources (factors) having a measurement unit and capability to vary with time and used for risk monitoring and evaluation.

**Risk criterion** – totality of factors in comparison wherewith the risk significance is evaluated. The risk criterion is based on the Company's set goals, internal and external situation.

**Risk monitoring** - constant review, supervision, critical observation, examination and determination of the condition of risks, risk management and the risk management system (RMS) with the aim of detecting changes as compared the required and expected level.

**Uncertainty** – condition consisting in insufficiency (even partial) of information, understanding or value in relation to an event, its consequences or its possibility.

**Risk aversion** – relation to risk expressed in the risk unacceptability.

**Information exchange and consulting** – continuous (recurrent) processes performed by the Company for provision, distribution or obtainment of information and participation in the dialogue with stakeholders with regard to risk management.

**Risk description** – structured conclusion on a risk which contains the risk sources, events and consequences description.

**Situation (environment) determination** – establishment of the external and internal factors that shall be taken into consideration during risk management, establishment of the sphere of the risk criterion application and coordinated actions for governance and management of the Company with account for the risks.

**Residual risk** – risk having remained after responding to the risk.

**Refusal (decline) of the risk** - refusal to carry out the activities accompanied by an unacceptable (above the set point) level of risk.

**Attitude to risk** - attitude to the risk evaluation and therefore to the risk occurrence, risk preservation, decision of its acceptance, the risk modification and elimination.

**Reporting on risks** – the form of exchange of information on risks which is established within the Company and envisages informing external and internal stakeholders of the current condition of risks and management of the Company with account for the risks.

**Risk evaluation** – determination (measurement) of the probability and consequences of risks, comparison of the measurements with the risk criteria to take decision on the necessity to address the risk and establish a priority of risk addressing.

**Risk passport** – document containing a description of the risk, its evaluation and measures for the risk management within the established framework.

**Risk transfer (redistribution)** – sharing the risk with another part (inclusive of contracts and risk funding).

**Plan of measures for risk management** – documented list of measures for implementation of the chosen method of responding to the risk elaborated by the risk owners, containing clear determination of the scope of duties, the volume of the needed resources, the persons responsible and the terms of execution.

**Risk Management Subdivision** - subdivision of the Company charged with the coordination and methodological support function in risk management activities.

**Risk portfolio** – rationally complete, structured, retrospective information on all the spectrum of risks revealed by the Company.

**Consequence** – event result that affects the goals. At the current stage of development of RMS of the Company, the risk consequence is the degree of negative effect of the risk or amount of potential detriment whereto the risk actualization may lead.

**Risk assumption** – conscious decision not to take any actions for the risk management, refuse or transfer. With this response method the Company assumes losses from the risk actualization.

**Responding to risks** – process of choosing a method for responding to the risks, generation of a plan of measures for risk management and such plan implementation.

**Risk register** – form of recording information on revealed risks which is established within the Company.

**Risk** – consequence of the effect of uncertainty on goals: potentially possible action or event capable to affect achievement of the goals of the Company or individual processes (lines of activities). At the current stage of development of RMS of the Company, the risk is qualified as a negative consequence of the effect of uncertainty on the set goals achievement. A risk is characterized by the probability and significance of consequences and is expressed in the form of a combination of event consequences and the probability or possibility of occurrence related whereto.

**Risk Management System (RMS)** - totality of organizational measures, methodologies and procedures created and used for risk management to be efficiently carried out.

**Event** – occurrence of or change in a number of specific circumstances. An event may have one or several origins, may have several causes and may be definite or indefinite. An event may consist in the fact that some phenomenon has taken place. An event may be termed as an “incident”, “harmful event” or “accident”.

**Risk management** – process performed by the Board of Directors of the Company, the collegial and the Sole Executive Bodies of the Company, managers and workers at all the levels of management of the Company including detection (identification) and evaluation of risks, their rating as well as effect on risks for provision for reasonable assurance of achievement of the goals of the Company.

### **3 Goals and objectives of the risk management system**

3.1. RMS goal within the Company is provision for reasonable certainty in achievement of the set goals of the Company determined by the Strategy for development of the electric power grid complex of the Russian Federation, the program documents and the Charter of the Company as well as provision for the Company's value growth with respect to the balance of interests of all the stakeholders.

#### **3.2 RMS goals involve:**

- strategic goals – high level goals related to the mission of the Company;
- operational goals – provision for efficiency of financial and economic activities and economical use of resources as well as provision for preservation of the assets of the Company;
- aims in the field of statements preparation – ensuring completeness and consistency of the accounting (Financial), statistical, managerial and other statements;
- goals in the field of compliance with the legislation – compliance with the legislation requirements applicable to the Company and local regulatory instruments of the Company.

#### **3.3 RMS objectives are the following:**

- development of a risk-oriented corporate culture, spread of knowledge and skills in the field of risk management by the Executive Bodies and the Management of the Company as well as usage of the opportunity for efficient exchange of information within the framework of RMS;
- process of taking decisions and choice of the method for responding to the risks having originated in the interests of provision for economic efficiency of risk management measures and economic feasibility;
- decrease of a number of unforeseen events and losses in economic activities by way of expansion of the possibility of detection of potential events and taking corresponding measures (responding to the risk);
- determination and management of all the totality of risks in economic activities in the interests of more efficient responding to various effects with use of, in particular, an integrated approach in relation to their variety.

3.4 The goals and objectives of RMS of the Company may be defined with account for the factors of its development and improvement of the risk management process.

3.5 The following restrictions affect the activities of the Company in the field of risk management and efficiency of achievement of RMS goals:

- 1) risks related to a future possessing hardly foreseeable and rather indefinite properties in terms of development;
- 2) restrictions of the external environment: management is performed in relation to a specific set of risks part whereof are beyond the control of the Management and Executive Bodies of the Company. Additionally, there are risks that are hardly to be managed when the Company can not influence the risk sources and factors and, consequently, can not influence the probability and consequence of their actualization;
- 3) internal environment restrictions involving:
  - a) absence of sufficient statistic data for conductance of risk evaluation with the degree of accuracy required for the Company;
  - b) absence of sufficient conditions and mechanisms for efficient information exchange;
  - c) human factor in place in the risk management process;
  - d) restrictions of resources (powers and means) and the related necessity to account for expenditures and advantages in the process of taking decisions on influencing (responding) (to) the risk.

#### **4 Risk management system functioning principles**

4.2 RMS of the Company is built on the following principles:

1) Creation and protection of the Company's values. RMS promotes the goals achievement and improvement of performance, health support and human safety, security of all kinds of the Company's activities, compliance with statutory and regulatory requirements, environmental protection, enhancement of service quality, efficiency of operations, management and reputation;

2) Risk management is an integral part of all the organizational processes. Risk management is no a separate activity that is separated from the basic activities and processes within the organization. Risk management is part of the management's obligation and an integral part of all the organizational processes including strategic planning and all the processes of project and change management;

3) Risk management is a part of the decision taking process. The processes of planning and decision-taking are performed with account for comprehensive evaluation of risks and their actualization. Risks are correlated with the goals of the Company and SDCs;

4) Risk management is systematic, structured and well-timed. Risk management is represented by a constantly functioning cyclic process. Systematic, regular and structured management of all the types of risks is performed for all the key branches of activities at all the levels of management of the Company. Information on detected risks shall be in a timely manner provided to persons authorized to take corresponding decisions;

5) Risk management is based on the best available information. RMS is based on information from sources such as historic data, experience, feedback of stakeholders, observations, forecasts and expert estimates. Nevertheless, decision-taking bodies shall inform each other on whether one should take into consideration any restrictions of data, whether modelling is used and whether occurrence of discordance of opinions among experts is possible;

6) Risk management is adaptable. The Company shall provide for conditions for constant development of RMS with account for the necessity of completing new objectives appearing as a result of changes in the internal and external conditions of the Company functioning;

7) Risk management is transparent and respects the interests of stakeholders. Proper and well-timed participation of stakeholders and, in particular, decision-takers at all the levels of the Company guarantees that RMS remains at the appropriate level and meets the modern requirements;

8) Risk management is dynamic, iterative (repetitive) and responds to changes. Risk management constantly recognizes changes and is responsive to them. As soon as an external or internal event takes place or changes occur in the situation or knowledge, risk monitoring and reconsideration, new risks inclusion, measurement or exclusion of existing risks are performed;

9) Risk management promotes constant improvement of the organization. The Company elaborates and applies strategies for improvement of risk management simultaneously with improvement of other processes. The Company strives at enhancement of the level of RMS maturity along with enhancement of efficiency of the internal control system and risk management;

10) Responsibility for risk management. All RMS participants bear responsibility for detection, evaluation, analysis and continuous monitoring of risks within the framework of their activities, elaboration and adoption of the required risk management measures, continuous monitoring of efficiency of risk management measures;

11) Optimality principle. One analyses the ratio of expenditures for adoption of measures for risk management and effect from such measures implementation, in particular, correlation between the level of RMS complicacy and the level of complicacy and the level of criticality of the object being subjected to analysis in terms of risks. The volume and complicacy of risk management measures shall be necessary and sufficient for implementation of the objectives and achievement of the goals of RMS functioning. Decrease of unfavorable consequences and (or)



probability of risk actualization is performed first of all in relation to the risks actualization whereof occurs with the greatest probability and entails the greatest losses;

12) Methodological framework unification. Risk management (detection, analysis, evaluation and monitoring of risks, elaboration and monitoring of efficiency of risk management measures) is performed on the basis of approaches and standards unified for all the structural units of the Company.

4.3 In the process of organization, functioning and development of RMS the Company strives to follow the basic principles and approaches reflected in the COSO concept "Organization risk management. Integrated framework" (2004) and International Standard GOST R ISO 31000 – 2010 "Risk Management. Principles and regulations".

## **5 Risk management process participants, their functions and organization of interaction**

5.2 The core participants of the risk management process are:

- the Board of Directors of the Company;
- authorized Committee under the Board of Directors of the Company;
- Auditing Commission of the Company;
- executive bodies (Management Board of the Company, General Director of the Company);
- risk owners;
- risk management subdivision;
- executors of risk management measures;
- internal audit subdivision.

5.3 The Board of Directors of the Company:

- approves of the Company's in-house documents determining organizations and functioning of RMS of the Company;
- approves of the Risk Management Policy of IDGC of the North-West, PJSC;
- annually considers reports of the executive bodies of the Company on organization, functioning and efficiency of RMS as well as evaluates the said system functioning and elaborates recommendations for its improvement;
- annually considers the reports of the Internal Audit Subdivision on efficiency of RMS;
- considers the results of an external independent evaluation of RMS.

5.4 The Authorized Committee under the Board of Directors of the Company performs:

- control over efficiency of risk management procedures;
- evaluation of efficiency of risk management measures and RMS improvement;
- preliminary consideration of reports of the executive bodies on organization and functioning of RMS prior to their provision to the Board of Directors of the Company;
- analysis of proposals on RMS improvement, in particular, identification of risks and correction of risk parameters;
- preliminary (prior to approval by the Board of Directors of the Company) consideration of the Company's in-house documents determining organization and functioning of RMS of the Company, Risk Management Policy of IDGC of the North-West, PJSC and further amendments thereto;
- preliminary (prior to approval by the Board of Directors of the Company) consideration and preparation of a conclusion in relation to the text of the section of the Annual Report of the Company with regard to RMS.

5.5 The Audit Committee under the Board of Directors of the Company performs preliminary consideration of the results of evaluation of RMS efficiency and compliance with the provisions hereof with regard to the data of the report of the internal auditor in terms of the said issues prior to their provision to the Board of Directors of the Company.

5.6 The Auditing Commission of the Company prepares proposals/recommendations for RMS improvement following the results of an auditory review.

5.7 The executive bodies (Management Board of the Company, General Director of the Company) discharge the following functions in the field of risk management:

1) The Company's Executive Bodies:

- ensure creation and support of efficient RMS functioning on the basis of unified approaches and standards elaborated and approved for Rosseti Group of Companies;
- bear responsibility for execution of decisions of the Board of Directors to the extent of organization and functioning of RMS.

2) The Management Board of the Company/General Director of the Company:

- sets requirements on the format and completeness of information on risks of the Company;
- shapes the directions and plans for development and improvement of RMS;
- performs analysis of risk portfolio and elaborates measures for a response strategy and redistribution of resources in relation to management of the corresponding risks;

- annually prepares a report on organization, functioning and efficiency of RMS of the Company and proposals on development and improvement of RMS to be considered by the Board of Directors of the Company;

- considers (at least semiannually) the report of the subdivision responsible for implementation of the functions for risk management on the results of risk management and evaluation of RMS efficiency;

- considers the results of an internal evaluation of RMS efficiency and develops measures for RMS development and improvement.

- ensures efficient risk management within the framework of the current activities of the Company;

- approves of regulatory and methodological documents of the Company related to the issues of RMS organization and functioning except for documents approval whereof is referred to the competence of the Board of Directors of the Company;

- annually submits for consideration to the Board of Directors of the Company a report on organization, functioning and efficiency of RMS of the Company and proposals on RMS development and improvement.

5.8 The risk owners are responsible for:

- timely detection and evaluation of risks;

- choice of the method for responding to risks;

- timely elaboration and organization of risk management measures;

- regular monitoring of risks;

- ensuring that the Executive Bodies is timely informed of the Company on the results of operation with regard to risk management;

- ensuring efficient interaction with the risk management subdivision to the extent of the documents and statements generated within the framework of risk management activities.

5.9 The executors of risk management measures are responsible for:

- timely detection and/or minimization of risks in accordance with position description and the set regulatory documents;

- performance of measures aimed at risk management in a timely manner and in full.

5.10 The risk management subdivision discharges the functions of:

- overall coordination of risk management processes, in particular, interaction of all the participants of RMS;

- adoption of methodological documents in the field of ensuring the risk management process and RMS functioning within the Company;

- organization of employees education in the field of RMS;

- timely aggregation of information on all detected risks and preparation of proposals on update of Risk Registers;

- ensuring monitoring of the process of risk management within the Company;

- preparation (at least semiannually) of the report and informing the executive bodies of the Company on the results of risk management and RMS efficiency evaluation;

- generation of an annual report on organization, functioning and efficiency of RMS of the Company as well as on other issues envisaged hereby.

The risk management subdivision is structurally separated from the activities of the control-and-auditing subdivision and the internal audit subdivision.

5.11 The internal audit subdivision carries out:

- internal independent evaluation of RMS efficiency and issue of recommendations to the subdivision responsible for discharge of the risk management functions which are aimed at enhancement of efficiency and effectiveness of RMS;

- informing the executive bodies and the Board of Directors (Authorized Committee under the Board of Directors) of the Company of the condition of RMS.

5.12 RMS participants interaction within the framework of such system functioning, in particular - that with external participants is performed following the procedure envisaged by the legislation of the Russian Federation as well as with account for the norms set forth herein and in the Company's in-house documents regulating the procedure of interaction of structured subdivisions of the Company in the process of risk management.

## **6 Risk management process stages**

Risk management is a continuous cyclic process forming part of the Company's overall management system including the following core stages:

### **6.1. Determination of goals**

6.1.1 Risk management is based on a system of accurate, clear and measurable goals of the Company set by the shareholders, management bodies and management of the Company.

6.1.2 The character of events and the degree of their impact on goals of the Company depend on the impact of the internal and external situation (environment). By way of the situation determination the Company sets parameters of the internal and external environment that one should take into consideration in the process of risk management and preparation of proposals on RMS improvement, the scope of RMS application and specification of risk criteria.

6.1.3 For risk significance evaluation the Company determines risk criteria. The risk criteria reflect the set goals, risk perception and resources of the Company. The risk criteria setting procedure is consolidated in a separate methodological document.

### **6.2 Identification of risks**

6.2.1 Timely identification of risks is one of the key factors of ensuring achievement of the goals and objectives set by the Company. For every goal, as far as possible, the full spectrum of risks is detected; actualization of such risks may impact the goal achievement.

6.2.2 First of all, RMS is oriented at detection of potential risks prior to their occurrence or at an early stage of their occurrence.

6.2.3 The instrument for documenting information on the identified risk is the risk data sheet completed in accordance with the methodological document on application and completion of the risk passport that is approved of following the procedure established within the Company.

6.2.4 The detected risks are subject to classification (systematization and grouping). The systematization and grouping criteria are determined by the regulatory document in accordance with the procedure of application hereof. Information on detected risks is consolidated in Risk Registers.

6.2.5 The procedure of generation, approval and update of the classifier and the Risk Registers is determined by a separate methodological document approved following the procedure established within the Company.

### **6.3 Evaluation of risks:**

6.3.1 Risk evaluation may be qualitative or quantitative. The Company strives mainly to elaborate and apply quantitative methods for risk evaluation, constantly accumulate and improve modern methodologies of quantitative evaluation of risks. One applies various methods for risk

evaluation depending on the risk specificity and applicability of some or other evaluation methods.

6.3.2 The risk parameter evaluation horizon corresponds to the horizon of achievement of the corresponding goal of the Company.

6.3.3 Risk evaluation is performed in accordance with the methodological document on risk evaluation which is approved following the procedure established within the Company.

6.3.4 On the basis of evaluation results one performs risk rating (prioritization). The graphic display of risk rating is represented by the Risk Map. Following the risk rating results one performs prioritization of efforts with regard to risk management and the required control procedure adoption.

6.3.5 The risk evaluation results are regularly reconsidered.

#### 6.4 Response to risks

6.4.1 On the basis of risk evaluation results one determines the attitude to risks and takes decisions on methods for response to the risks. Timely response to risks is one of the key factors of ensuring achievement of the goals and objectives set by the Company.

6.4.2 The company applies the following core methods for response to risks:

- refusal (decline) of the risk;
- risk transfer (redistribution);
- impact on risk (risk management);
- risk assumption.

For response to a specific risk one or several listed method (s) may be used.

6.4.3 In the process of choosing the method for response to risks one should take into consideration the following points:

- evaluation of the ratio of expenditures and advantages from the potential response to risk,
- evaluation of impact on the risk probability and consequences.

6.4.4 After choosing the method for response to the risk, a plan of measures for risk management is elaborated. Plans of measures for risk management should be included into the business processes of the Company and preliminarily discussed with all the stakeholders.

6.4.5 Measures for risk management may be:

- preventive, aimed at elimination of the risk source (factor), affecting the sources(factors) for reduction of the risk probability and/or consequences;
- extraordinary, aimed at elimination of the consequences of risks having become actualized.

6.4.6 The Company recognizes existence of a residual risk due to the inherent uncertainty with regard to the future, resource and other restrictions intrinsic to the Company activities in general.

6.4.7 After determination of the methods for response to the risk, the Company determines the control means required for ensuring proper and timely response to the risks.

#### 6.5 Risk monitoring

6.5.1 Risk monitoring encompasses all the aspects of the risk management process.

6.5.2 Monitoring is performed:

- in the course of current activities (current monitoring);
- by way of periodical reviews conductance.

6.5.3 Current monitoring is performed in the course of regular management activities, in particular, by way of risk dynamics control, tracking values of key indicators of risks.

6.5.4 Periodical reviews to evaluate and determine the condition of risks and risk management are performed both by way of conductance of self-evaluation by the management, risk owners, the risk management subdivision as well as by way of separate reviews conductance by the internal audit subdivision of the Company.

6.5.5 Monitoring results may be the grounds for reconsideration of the risk composition and evaluation, methods for response to risks, risk management measures as well as organizational

measures, methodologies and procedures created and used for risk management to be efficiently carried out.

#### 6.6 Control, documenting and accounting

6.6.1 Internal control is an integral part of the risk management process and is performed at all its stages.

6.6.2 The Company's activities in the field of risk management are registered /documented (trackable). Registration in the process of risk management ensures the foundation for improvement of methods and instruments as well as the whole process.

6.6.3 The Company consolidates information on detected risks, accounts for actualized risks and analyzes the causes having promoted their actualization and informs the stakeholders of RMS functioning. RMS statements are intended for complete and transparent exchange of consolidated information on risks.

### **7 Evaluation of the risk management system efficiency**

7.1 The Company performs periodical evaluation of efficiency of the current condition of RMS.

7.2 RMS efficiency evaluation forms:

- self evaluation;
- internal independent evaluation;
- external independent evaluation.

7.3 Self evaluation of RMS efficiency is performed by:

- the risk owners – on a quarterly basis (in particular - by way of completion of risk data sheets provided to the risk management subdivision) with submittal of the evaluation results for consideration the higher level management;
- the risk management subdivision – at least semiannually with submittal of a report on evaluation results for consideration to the Management Board of the Company.

The executive bodies of the Company at least annually report to the Board of Directors of the Company on RMS organization, functioning and efficiency (with preliminary consideration of the report by the authorized Committee under the Board of Directors of the Company) .

7.4 Internal independent evaluation of RMS efficiency is carried out on an annual basis by the internal audit subdivision. The report of the internal auditor on efficiency of RMS is communicated to the Board of Directors of the Company (with preliminary consideration by the Audit Committee under the Board of Directors of the Company).

7.5 External independent evaluation of efficiency of RMS is carried out by an independent consultant at least every three years depending on the assumed risks, changes in the organizational activities and on the overall level of development, reliability and efficiency of RMS. Decision on the necessity of external independent evaluation conductance is taken by the Board of Directors of the Company. The report on the results of external independent evaluation is provided to the risk management subdivision and the internal audit subdivision.

The risk management subdivision ensures submittal of the results of external independent evaluation of efficiency of RMS for consideration to the Management Board of the Company and to the Board of Directors of the Company (with preliminary consideration by the Audit Committee under the Board of Directors of the Company).