

PUBLIC JOINT STOCK COMPANY OF  
POWER INDUSTRY AND ELECTRIFICATION OF KUBAN  
KUBANENERGO PJSC

Approved by

the resolution of the Board of Directors of  
Kubanenergo PJSC (minutes of meeting  
No.233/2016 dated 18.03.2016)

**Risk Management Policy of  
Kubanenergo PJSC  
(restated)**

Krasnodar 2016

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## 1. General provisions

1.1. The Risk Management Policy of Kubanenergo PJSC (hereinafter – the Policy) is an internal document of Kubanenergo PJSC (hereinafter - the Company) that determines its relation to risks, establishing general principles of construction of a risk management system (hereinafter – the Risk Management System), its purposes and tasks, general approaches to organization, distribution of responsibility between participants of the Risk Management System and the pattern of their interaction.

The Policy is established for development and with a view of implementation of the provisions of the Strategy of development of the electric grid complex of the Russian Federation approved by Order of the Government of the Russian Federation #511-r from 03.04.2013.

### 1.2. The purposes of the Risk Management Policy

This Policy is developed to achieve the goals of the Company’s activity by means of introduction and maintenance of functioning of an effective risk management policy of the Company, corresponding to the conventional practices and activity standards in the noted area.

### 1.3. Area of application of the Risk Management Policy

This Policy applies to all participants of the risk management process, specified in section 4 of this Policy. The Policy is obligatory to application by all structural divisions and branches of the Company.

### 1.4. Terms and definitions

In the course of preparation of internal documents of the Company and information materials concerning questions of management of risks, it is necessary to use the terms and definitions specified in the Appendix to this Policy.

### 1.5. Procedure of preparation and approval of the Risk Management Policy

The Policy is approved by the Board of Directors of the Company with preliminary consideration by a committee under the Company’s Board of Directors which competence includes its preliminary consideration.

1.6. The list of documents, statutory acts and generally accepted standards according to which the Policy is developed and which are applied at implementation of the risk management process in the Company:

- Federal law #208-FZ from 26.12.199 “On joint stock companies”
- Federal law #402 from 06.12.2011 “Concerning Accounting”
- Federal law # 273 from 25.12.2008 “Concerning corruption counteraction”
- The code of corporate governance of the Russian Federation recommended by the Letter of the Bank of Russia #06-52/2463 from 10.04.2014 “Concerning the Code of corporate governance”
- Order of the Federal Commission for Securities Market of Russia # 13-62/pz-n from 30.07.2013 “Concerning the procedure of admission of securities to organized trades”
- Recommendations of the Ministry of Finance of Russia #PZ-11/2013 “Organization and realization by an economic subject of internal control of facts of economic activity, conducting the accounting and drawing up accounting (financial) statements” (Letter of the Ministry of Finance of the Russian Federation #07-04-15/57289 from 26.12.2013);
- Order of Rosimushchestvo (the Federal Agency for State Property Management) #357 from 21.11.2013 “Concerning the approval of Methodical recommendations for organization of work of the Board of Directors in a joint stock company”;
- Order of Rosimushchestvo (the Federal Agency for State Property Management) #86 from

20.03.2014 “Concerning the approval of Methodical recommendations for organization of work of Audit Committees of the Board of Directors in a joint stock company with participation of the Russian Federation”;

- Order of Rosimushchestvo (the Federal Agency for State Property Management) #350 from 16.09.2014 “Concerning the approval of Methodical recommendations for preparing the Regulations for the Audit Commission of a joint stock company with participation of the Russian Federation” Order of Rosimushchestvo (the Federal Agency for State Property Management) #249 from 04.07.2014 “Concerning the approval of Methodical recommendations for organization of work of internal audit in joint stock companies with participation of the Russian Federation”;
- Methodical instructions of Rosimushchestvo (the Federal Agency for State Property Management) on preparation of a regulations for risk
- management system, approved by Order of the Government of the Russian Federation from 24.06.2015 #ISH-P13-4148;
- Concept COSO “Enterprise Risk Management – Integrated Framework” (2004);
- The national standard GOST R ISO 73:2009 “Risk management. Terms and definitions”;
- The national standard GOST R ISO 31000:2010 “Risk management. Principles and guidelines” (Order of the Federal Agency on Technical Regulating and Metrology from 21.12.2010 #883-st);
- The national standard of GOST R ISO 31010:2011 “Risk management. Methods of estimation of risk” (Order of Federal Agency on Technical Regulating and Metrology from 1 December2011 #680-st);
- Concept COSO “Guidance on Monitoring Internal Control Systems” (2009);
- Concept COSO “Internal Control – Integrated Framework” (2013);
- The international bases of professional practice of internal auditors, accepted by the international Institute of Internal Auditors (including the International professional standards of internal audit).

This Policy is developed with consideration of provisions of the following documents of the Company:

- the Charter of Kubanenergo PJSC
- the Regulations for the Audit Commission of Kubanenergo PJSC
- the Regulations for the Board of Directors of Kubanenergo PJSC;
- the Regulations for the Audit Committee of the Board of Directors of Kubanenergo PJSC;
- the Regulations for the Management Board of Kubanenergo PJSC.

1.7. The Policy is a basis for development of internal methodological and administrative documents regulating the process of organization of the Risk Management System, providing procedures of revealing, estimation and management of separate types of risks, including the description of a technique of estimation of operational risks and tools for management of risks of the Company.

The regulation and methodological support of the risk management process is performed in the Company by means of development and approval of:

- internal documents of the Company that determine the order of application of the Policy and interaction of structural divisions of the Company in the risk management process;
- methodological documents for preparation, approval and update of risks registers and their

estimation;

- formats of reporting, working forms and instructions on their application and filling.

## **2. Definition, the goals and tasks of the risk management system**

### **2.1. Definition of the risk management policy**

The risk management system is a set of organizational measures, techniques and procedures created and used for effective management of risks.

Management of risks is a process performed by the Board of Directors of the Company, collegiate and individual executive powers of the Company, heads and employees at all levels of management of the Company, including revealing (identification) and estimation of risks, their ranging and influence on risks for provision of a reasonable guarantee of achievement of the goals of the Company.

### **2.2. The goals of the risk management system**

The purpose of the risk management system in the Company is provision of reasonable confidence of achievement of the goals set to the Company, specified by the Strategy of development of the electric grid complex of the Russian Federation, program documents of development and the Charter of the Company and provision of growth of cost of the Company together with observance of the balance of interests of all interested parties.

The goals of the Risk Management System include:

- strategic targets are the purposes of high level correlated with mission of the Company;
- operational purposes are set for provision of efficiency of financial and economic activity and economic use of resources and provision of safety of the Company's assets;
- purposes in the field of reporting preparation are set for provision of completeness and reliability of accounting (financial), statistical, administrative and other reporting;
- goals in the field of legislation observance are set for compliance with the applicable in the Company requirements of the legislation and local regulations of the Company.

### **2.3. Tasks of the risk management system are:**

- development of risk-focused corporate culture, distribution by executive bodies and management of the Company of knowledge and skills in the field of management of risks and use of possibility of effective information exchange within the limits of the risk management system;
- enhancement of decision-making process and choice of a method of reaction to arising risks in interests of provision of cost efficiency of events for management of risks and economic feasibility;
- reduction of a number of unforeseen events and losses in economic activities by means of expansion of ways of revealing of potential events and accepting of adequate measures (reaction to risk);
- determination and management of the whole set of risks in economic activities in interests of more effective reaction to various influences with use, including, of an integrated approach concerning their set.

2.4. The purposes and tasks of the risk management system of the Company can be specified with regard of the factors of its development and enhancement of the risk management process.

2.5. Activity of the Company in the field of management of risks and efficiency of achieving the purposes of the Risk Management System is influenced by the following restrictions:

- risks related to future that possesses characteristics that are hard to predict and are rather uncertain from the point of view of development;
- external environment restrictions: management is performed concerning a certain set of risks, a

part of which is out of limits of the control from the Company's management bodies and executive powers. Besides, there are risks, which are hard to manage, when the Company cannot influence sources and risk factors, and, hence, cannot influence probability and consequences of their occurrence;

- restrictions of internal environment including:

a) absence of adequate statistical data for estimation of risks with a degree of accuracy demanded for the Company;

b) absence of sufficient conditions and mechanisms for an effective information exchange;

c) availability of the human factor in the risk management process;

d) restrictions of resources (forces and means) and the necessity connected with it to consider costs and benefits at decision-making on influence (reaction) to a risk.

### **3. Principles of functioning of the Risk Management System**

3.1. The risk management system of the Company is based on the following principles:

- Creation and protection of values of the Company. The risk management system promotes achievement of the purposes and productivity improvement, provision of health and safety of the person, safety of all types of activity of the Company, observance of legal and standard requirements, preservation of the environment, improvement of quality of services, efficiency of operations, management and reputation.

- Management of risks is an integral part of all organizational processes. Management of risks is not an isolated activity which is separated from the core activity and processes in the organization. Management of risks is a part of obligations of the management and an integral part of all organizational processes, including strategic planning and all processes to manage projects and changes.

- Management of risks is a part of the decision-making process. Planning and decision-making processes are performed taking into account an all-round estimation of risks of their realization. Risks are linked to the purposes of the Company and SDCs.

- Management of risks is regular, structured and timely. Management of risks represents a constantly functioning cyclic process. Regular, systematic and structured management of all types of risks is performed on all key spheres of activity, at all levels of the Company's management. Thus the information on the revealed risks should be given in due time to the persons, authorized to make corresponding decisions.

- Management of risks is based on the best available information. The risk management system is based on the information of such sources as historical data, experience, feedback of interested persons, observations, forecasts and expert estimations. Nevertheless, decision making bodies should inform each other on whether it is necessary to take into consideration any restrictions of data, whether modelling is used and whether origin of a discrepancy of opinions between experts is possible.

- Management of risks is adaptable. The Company should provide conditions for constant development of the Risk Management System taking into account necessity of solution of new tasks as a result of change of internal and external operating conditions of the Company.

- Management of risks is transparent and considers interests of interested parties. Appropriate and timely participation of interested parties and, in particular, of persons, making decisions at all levels of the Company, warrants that the Risk Management System remains at an appropriate level and meets modern requirements.

- Management of risks is dynamical, iterative (repeating) and reacting to changes. Management of risks continuously distinguishes changes and reacts to them. As soon as there is an external or

internal event, a situation or knowledge changes, monitoring and revision of risks, inclusion of new risks, change or exclusion of existing risks are performed.

- Management of risks promotes constant improvement of the organization. The Company develops and applies strategy of enhancement of risk management simultaneously with enhancement of other processes. The Company aspires to increase of the level of maturity of the Risk Management System along with an increase of effectiveness of the internal control and risk management system.

- Responsibility for management of risks. All participants of the Risk Management System bear responsibility for revealing, estimation, analysis and continuous monitoring of risks within the limits of their activity, development and implementation of necessary events for management of risks, continuous monitoring of efficiency of events for management of risks.

- The principle of optimality. The ratio of costs for implementation of events for management of risks and effect from realization of these events, including conformity between the level of complexity of the Risk Management System and the level of complexity and degree of importance of the object subject to the analysis from the point of view of risks, is analyzed. The volume and complexity of measures on management of risks should be necessary and sufficient for accomplishment of tasks and achievement of the purposes of functioning of the Risk Management System. Decrease in adverse consequences and (or) probabilities of realization of a risk first of all is produced concerning the risks which realization occurs to the greatest probability and entails the greatest losses.

- The unity of methodological base. Management of risks (revealing, analysis, estimation and monitoring of risks, development and monitoring of efficiency of events for management of risks) is performed on the basis of approaches and standards, uniform for all structural units of the Company.

3.2. In the course of organization, functioning and development of the risk management policy the Company strives to follow the main principles and approaches reflected in the Concept COSO “Enterprise Risk Management –Integrated Framework” (2004) and the International standard of GOST R ISO 31000:2010 “Risk management. Principles and guidelines” (Order of the Federal Agency on Technical Regulating and Metrology #883-st from 21.12.2010).

#### **4. Participants of the risk management process, their functions and cooperation procedures**

4.1. The main participants of the risk management process are:

- Board of Directors
- Strategy and Development Committee of the Board of Directors
- Audit Commission
- Executive bodies (Management Board, General Director)
- Owners of risks
- Division on management of risks
- Performers of events for management of risks
- Internal audit division

4.2. The Company’s Board of Directors shall:

- approve internal documents of the Company to determine the organization and functioning of a risk management policy of the Company;
- approve the Risk Management Policy of the Company;
- annually consider reports of executive bodies of the Company on the organization, functioning and effectiveness of the risk management system and also
- estimate functioning of the specified system and develop recommendations for its

improvement;

- annually consider reports of the internal audit division on effectiveness of the risk management system;

- consider results of an external independent estimation of effectiveness of the risk management system.

4.3. The Strategy and Development Committee of the Board of Directors performs:

- control over efficiency of procedures of management of risks;

- estimation of efficiency of events for management of risks and enhancement of the Risk Management System;

- preliminary consideration of reports of executive bodies on organization and functioning of the risk management policy before their submission to the Board of Directors;

- analysis of offers on enhancement of the risk management policy, including questions of identification of risks and adjustment of parameters of risks;

- preliminary consideration, before the approval by the Board of Directors, of internal documents of the Company to determine the organization and functioning of the risk management policy of the Company, the Risk Management Policy and subsequent changes to them;

- preliminary consideration, before the approval by the Board of Directors, and preparation of the conclusion concerning the text of section of the annual report of the Company, concerning the risk management system.

4.4. The Audit Committee of the Board of Directors performs preliminary consideration of results of estimation of effectiveness of the risk management system and observance of provisions of this Policy according to the report of the internal auditor on the mentioned questions before their representation to the Board of Directors.

4.5. The Audit Commission of the Company by results of auditing check prepares offers/recommendations on enhancement of the risk management policy.

4.6. Executive bodies (the Company's Management Board, General Director) perform the following functions in the field of management of risks:

4.6.1. The Company's executive bodies shall:

- provide establishment and maintenance of functioning of the effective Risk Management System on the basis of uniform approaches and standards developed and confirmed for the Group of Companies of Rosseti;

- be responsible for accomplishment of decisions of the Board of Directors in the field of the organization and functioning the Risk Management System.

4.6.2. The Company's Management Board/General Director shall:

- establish requirements to a format and completeness of the information on risks of the Company;
- form directions and plans for development and enhancement of the Risk Management System;

- conduct analysis of a portfolio of risks and develops measures on strategy of reaction and redistribution of resources concerning management of corresponding risks;

- annually prepare a report on the organization, functioning and effectiveness of the risk management system of the Company and an offer on development and enhancement of the Risk Management System for consideration by the Board of Directors;

- consider, at least once half a year, a report of the division on management of risks about results of management of risks and estimation of efficiency of the Risk Management System;

- consider results of internal estimation of efficiency of the Risk Management System, develops measures on development and enhancement of the Risk Management System;



- provide efficient management of risks within the limits of current activity of the Company;
- confirm regulating and methodological documents of the Company concerning the organization and functioning of the Risk Management System except for documents which approval is within the competence of the Board of Directors of the Company;
- annually submit for consideration of the Board of Directors a report on the organization, functioning and effectiveness of the risk management system of the Company and an offer on development and enhancement of the Risk Management System.

4.7. Owners of risks are responsible for:

- timely revealing and estimation of risks
- choice of a method of reaction to risks
- timely development and organization of accomplishment of events for management of risks
- regular monitoring of risks
- provision of timely informing of executive bodies of the Company about results of work on management of risks;
- provision of effective interaction with the division on management of risks regarding documents and reporting formed within the limits of activity on management by risks.

4.8. Performers of events for management of risks are responsible for:

- timely revealing and/or minimization of risks according to job duties and established regulating documents;
- accomplishment of events directed on management of risks, in due time and in full.

4.9. The division on management of risks performs the functions of:

- general coordination of processes to manage risks, including interaction of all participants of the Risk Management System;
- introduction in the Company of methodological documents in the field of provision of the risk management process and functioning of the Risk Management System;
- organization of training of employees of the Company in the field of the Risk Management System;
- timely aggregating of the information on all revealed risks and preparation of offers on update of the register of risks;
- provision of monitoring of the process to manage risks of the Company if necessary and when due hereunder of organizations under its control;
- preparation, at least once half a year, of a report and informing of executive powers of the Company on results of management of risks and estimations of efficiency of the Risk Management System;
- forming of the annual report on organization, functioning and effectiveness of the risk management system of the Company, and also on other questions provided by this Policy.
- The division on management of risks is structurally differentiated from activity of the structural divisions exercising management of risks within the limits of their operational activity, and also from activity of the internal audit division.

4.10. The internal audit division performs:

- internal independent estimation of effectiveness of the risk management system and issue of recommendations to the division on management of risks, the directed on increase of efficiency and productivity of the risk management system;
- informing of executive powers and the Board of Directors (the authorized committee of the

Board of Directors) of the Company about a status of the risk management system.

4.11. Interaction of participants of the Risk Management System within the limits of its functioning, including with external ones, is performed in an order provided by the legislation of the Russian Federation, and also taking into account the rates fixed in this Policy and in internal documents of the Company, regulating an order of interaction of structural divisions of the Company in the risk management process.

## **5. Stages of the risk management process**

Management of risks is a continuous and cyclic process of general control system of the Company that includes the following basic stages:

### **5.1. Definition of goals**

5.1.1. Management of risks is based on a system of accurate, clear and measurable purposes of the Company set by shareholders, management bodies and the management of the Company.

5.1.2. Nature of events and degree of their influence on the Company's goals depend on influence of an external and internal situation (environment). By means of determination of a situation the Company establishes parameters of internal and external environment, which should be taken into consideration at management of risks and preparation of offers on enhancement of the risk management system, the area of application of the Risk Management System and specification of criteria of risks.

5.1.3. To estimate the importance of risks, the Company determines criteria of risks. Criteria of risks reflect the established purposes, perception of risks and the Company's resources. The procedure of establishment of criteria of risks is fixed by a special methodological document.

### **5.2. Identification of risks**

5.2.1. Identification of risks is a revealing (detection) of risks, their recognition/analysis and description. Timely identification of risks is one of key factors for provision of achievement by the Company of targets and tasks in view. For each purpose the complete spectrum of risks, which realization can affect its achievement, is identified, whenever possible.

5.2.2. The Risk Management System first of all focuses on revealing of potential risks before their origin, or at an early stage of their origin.

5.2.3. The tool for recording of the information on the identified risk is the certificate of risk filled according to the methodological document on application and filling of the certificate of risk, confirmed in the order established in the Company.

5.2.4. Revealed risks are subject to classification (ordering and grouping). Criteria of ordering and grouping are determined by a regulating document in the order of application of the Risk Management Policy of the Company. The information on the revealed risks is consolidated in the register of risks.

5.2.5. The procedure of shaping, approval and update of the qualifier and registers of risks is determined by a special methodological document approved in an order established in the Company.

### **5.3. Risk estimation**

5.3.1. Estimation of risks is determination (measurement) of probability and consequences of risks, comparison of measurements to criteria of risks for the purpose of decision-making on necessity of influence on risk and establishment of a priority of influence on risk.

5.3.2. The risk estimation can be of qualitative or quantitative nature. The Company strives to develop and apply mainly quantitative methods of estimation of risks, constantly to accumulate and improve modern techniques of a quantitative estimation of risks. Various methods of

estimation of risks depending on specificity of risks and applicability of those or other methods of estimation are applied.

5.3.3. The horizon of estimation of parameters of risk corresponds to the horizon of achievement of the purpose of the Company.

5.3.4. The estimation of risks is conducted according to the methodological document for estimation of risks, confirmed in the order established in the Company.

5.3.5. On the basis of results of estimation ranging (priority setting) of risks is produced. Graphical display of ranging of risks is the Card of risks. By results of ranging of risks priority setting is performed for efforts on their management and implementation of necessary control procedures.

5.3.6. Results of estimation of risks are regularly reviewed.

#### 5.4. Reaction to risks

5.4.1. On the basis of results of estimation of risks, the relation to risks is determined and decisions on methods of reaction to risks are made. Timely reaction to risks is one of key factors for provision of achievement by the Company of targets and tasks in view.

5.4.2. The Company applies the following basic methods of reaction to risks:

- refusal (evasion) of risk is refusal to perform an activity which is accompanied with an unacceptable (above the set size) risk level;
- transfer (redistribution) of risk is division of risk with another party (including contracts and risk financing);
- influence on risk (management of risk) includes actions on reducing (minimization) of risk by decrease in probability and/or consequences of risk and/ or by elimination of a source (factor) of risk;
- risk accepting is a grounded decision not to undertake any actions on management of risk, refusal of it, or transfer of risk. At the given method of reaction, the Company accepts losses from risk realization.

To respond to a specific risk, one or several of these methods can be used.

5.4.3. When choosing a method of reaction to risks one should consider:

- estimation of a ratio of costs and benefits from potential reaction to risk,
- influence estimation on risk probability and consequences.

5.4.4. After the method of reaction to risk has been chosen, the plan of measures on management of risk is developed. The plans of measures on management of risks should be included in business processes of the Company and previously be discussed with all interested parties.

5.4.5. Events for management of risks can be:

- preventive, it means they are aimed at elimination of a source (factor) of the risk, influencing sources (factors), decrease in risk probability and/or consequences;
- extreme, it means they are aimed at elimination of consequences of the implemented risks.

5.4.6. The Company acknowledges availability of residual risk in view of ineradicable uncertainty concerning the future, resource and other restrictions inherent in activity of the Company as a whole.

5.4.7. Having specified methods of reaction to risk, the Company determines means of control necessary for provision of appropriate and timely reaction to risks.

#### 5.5. Monitoring of risks

5.5.1. Monitoring of risks includes constant check, supervision, critical observation, inspection and determination of a condition of risks, managements of risks and the risk management system to reveal changes concerning a required or expected level.

5.5.2. Monitoring of risks covers all aspects of the risk management process.

5.5.3. Monitoring is performed:

- during current activity (current monitoring);
- by carrying out of periodic checks.

5.5.4. Current monitoring is performed during usual administrative activity, including by control over dynamics of risks, tracing of values of key indicators of risks.

5.5.5. Periodic checks for the purpose of estimation and determination of a condition of risks and management of risks are performed by both carrying out of self-estimation by the management, owners of risks, the division on management of risks, and carrying out of separate checks by the internal audit division of the Company.

5.5.6. Results of monitoring can be a basis for revision of composition of risks, their estimation, methods of reaction to risks, events for management of risks, and also organizational measures, techniques and procedures created and used for effective realization of management by risks.

5.6. The internal control is a component of the risk management process and is performed at all its stages.

5.7. Activity of the Company in the field of management of risks is registered/documented (is traced). Registration in the risk management process provides a basis for improvement of methods and tools, and also the entire process.

5.8. The Company gathers the information on revealed risks, keeps account the implemented risks and analyzes the reasons, promoting their realization, informs interested parties on functioning of the risk management policy. Reporting of the Risk Management System is intended for complete and transparent exchange of the consolidated information on risks.

6. Estimation of efficiency of the Risk Management System

6.1. The Company performs a regular estimation of efficiency of current condition of the risk management system.

6.2. Types of estimation of efficiency of the Risk Management System:

- self-estimation
- internal independent estimation
- external independent estimation

6.3. The self-estimation of effectiveness of the risk management system is performed:

- quarterly by owners of risks (including by filling in certificates of risks for submission to the division on management of risks), with bringing results of the estimation for consideration of a higher level management;
- at least once half a year by the division on management of risks, with submitting a report on results of the estimation for consideration of the Management Board of the Company.

Executive bodies of the Company at least once a year report to the Board of Directors (with preliminary consideration by the Authorized committee of the Company's Board of Directors) on the organization, functioning and effectiveness of the risk management system.

6.4. The internal independent estimation of effectiveness of the risk management system is performed annually by the internal audit division. The report

of the internal auditor on effectiveness of the risk management system is submitted to the Board of Directors of the Company (with preliminary consideration by the Audit Committee of the Board of Directors).

6.5. The external independent estimation of effectiveness of the risk management system is performed by the external independent adviser at least once every three years depending on accepted risks, changes in organizational activity and a general level of development, reliability and efficiency of the Risk Management System. The decision on necessity of carrying out of an external independent estimation is accepted by the Board of Directors. The report on results of the external independent estimation is given to the division on management of risks and internal audit division.

The division on management of risks provides bringing results of the external independent estimation of efficiency of the Risk Management System for consideration by the Company's Management Board and the Company's Board of Directors (with preliminary consideration by the Audit Committee of the Company's Board of Directors).

### **Terms and definitions**

**Risk** is a consequence of influence of uncertainty on purposes: a potentially possible action or event, capable to affect achievement of the purposes of the Company or particular processes (lines of activity). At this stage of development of the Risk Management System of the Company a negative consequence of influence of uncertainty on achievement of targets in view is recognized as a risk. The risk is characterized by probability and importance of consequences and expressed in the form of a combination of consequences of an event and probability connected with it or possibility of approach.

**Influence** is a deviation from what is expected.

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

**Event** is an origin or change of a number of certain circumstances. An event can have one or several origins, can have some reasons and can be certain or uncertain. An event can consist in that some phenomenon did not take place. An event can be named by the terms “incident”, “dangerous event” or “accident”.

**Risk management system, the Risk Management System** is a set of organizational measures, techniques and procedures created and used for effective implementation of management of risks.

**Management of risks** is a process performed by the Board of Directors of the Company, collegiate and individual executive bodies of the Company, heads and employees at all levels of management of the Company, including revealing (identification) and estimation of risks, their ranging and influence on risks for provision of a reasonable guarantee in achieving the purposes of the Company.

**Information exchange and consultation** is continuous iterative (repeating) processes which are carried out by the Company for provision, distribution or receipt of information and participation in dialogue with interested parties, concerning management of risks.

**Determination of a situation (environment)** - establishment of external and internal factors which should be considered at management of risk, establishment of an area of application of criteria of risk and coordinated actions on management and control of the Company taking into account risks. External environment - external conditions in which the Company works and achieves the purposes, connected with cultural, social, political, legislative, regulating, economic, natural, competitive and other spheres at the international, national, regional or local level, key criteria and tendencies which can influence achievement of the purposes of the Company, and also with mutual relations with external interested parties, their perception of risk and importance for the Company of these external interested persons. Internal environment - internal conditions in which the Company works and achieves the purposes, including management, organizational structure, obligations and accountability, key policies, goals and tasks, and also strategy of their achievement, resource possibilities of the Company and knowledge, information processes, information flows and decision- making processes, mutual relations with internal interested parties, their perception of risk and importance for the Company of these internal interested persons, culture of the organization, standards, administering principles and other documents regulating activity of the Company on various aspects.

**Criterion of risk** is a set of factors used for estimation of the importance of risks. Criteria of risks are based on the established purposes of the Company, an external and internal situation.

**Interested party** is a person or an entity which can influence or which can be influenced or which consider that they are influenced by a decision or activity.

**Division on management of risks** is a division of the Company whose function is coordination and methodological provision of activity on management of risks.

**Perception of risk** is representation of interested parties about a risk. The perception of a risk reflects requirements, problems, knowledge, trust and values of interested parties.

**Identification of risks** is revealing (detection) of risks, recognition/analysis of risks and description of risks.

**Risk analysis** is a process of studying of the nature and character of risk (analysis of reasons, sources and a place of origin of risks), includes establishment of the cause-and-effect relationship of a dangerous event with its sources and consequences.

**Risk description** is a structured conclusion about a risk, containing description of sources of risk, events and consequences.

**Source of risk (risk factor)** is an object or activity which independently or in a combination with others possess possibility to cause risk/increase of risk. The risk source can be material and non-material.

**The risk certificate** is a document containing the description of risk, its estimation and events for its management, in the established format.

**The map of risks** is graphical representation of position (ranging) of risks taking into account results of their estimation.

**Consequence** is a result of an event influencing the purposes. At this stage of development of the Risk Management System of the Company a risk consequence is a degree of negative influence of risk or the size of a potential damage which the risk realization can lead to.

**Owner of risk** is a management body or the head of a unit/structural subdivision of the Company, responsible for all aspects of management of a certain risk, including decrease in probability of realization of risk and/or decrease in possible influence of consequences from risk realization. Owners of risks are management bodies or heads supervising lines of activity on whose goals the given risk makes direct impact.

**Probability (possibility) of risk** is a chance that something can occur, irrespective of, whether it is established, measured or specified objectively or subjectively, qualitatively or quantitatively, and whether it is described by means of general concepts or mathematically. The determined size of probability (possibility) of risk reflects degree of confidence of risk approach.

**Estimation of risks** is determination (measurement) of probability and consequences of risks, comparison of measurements to criteria of risks for the purpose of decision- making on necessity of influence on risk and establishment of a priority of influence on risk.

**Relation to risk** is relation to an estimation of risk and, thus, to availability of risk, risk persistence, decisions on its accepting, change and risk elimination.

**Residual risk** is the risk remaining after reaction to risk.

**Risk aversion** is the relation to risk, expressed in unacceptability of presence of risk.

**Reaction to risks** is a process of selecting a method of reaction to risks, forming of a plan of measures on management of risks and its implementation.

**Refusal (evasion) of risk** is refusal of the activity accompanied by an unacceptable (above the set size) risk level.

**Transfer (redistribution) of risk** is division of risk with another party (including contracts and risk financing).

**Influence on risk (management of risk)** means actions on reducing (minimization) of risk by

decrease in probability and/or consequences of risk and/ or by elimination of a source (factor) of risk.

**Risk accepting** is a grounded decision not to undertake any actions on management of risk, refusal of it, or risk transfer. At the given method of reaction, the Company accepts losses from risk realization.

**Monitoring of risks** is a constant check, supervision, critical observance, inspection and determination of a condition of risks, managements of risks and the risk management system to reveal changes concerning required or expected level.

**Key risk indicators (KRI)** are quantitative or qualitative indicators of sources (factors) of risks, having a unit of measure and capability to change in time, used for monitoring and estimation of a risk.

**Reporting about risks** - the form of information exchange established in the Company about risks, providing informing of external and internal interested parties on a current condition of risks and management of the Company taking into account risks.

**Register of risks** is an established in the Company form of recording data on the revealed risks.

**Portfolio of risks** is reasonably complete, structured, retrospective information on all spectrum of risks revealed by the Company.

**Plan of activities on management of risks** is a documented list of measures for implementation of the chosen method of reaction to the risk developed by owners of risks, containing accurate determination of a circle of tasks, volume of the required resources, responsible persons and dates of performance.