

JSC “Mangistau power distribution сompany”

Approved by the

Decision of the Board of Directors of

JSC “Mangistau power distribution сompany”

No. 55

Dated December 23-rd, 2014

*[Seal: \** *JSC “Mangistau power distribution company”\**

*\*Republic of Kazakhstan\*]*

**RISK**

**MANAGEMENT POLICY**

**JSC “MANGISTAU POWER DISTRIBUTION COMPANY’**

**IMS-011-2014**

Aktau

**APPROVAL SHEET**

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**RECORD OF REVISIONS AND AMENDMENTS**

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**1. Application**

1. Present risk management policy of JSC “Mangistau power distribution сompany” (hereinafter – the Policy) is developed in accordance with risk management policy of JSC “Samruk-Energy” and internal normative documents of JSC “Mangistau power distribution сompany” (hereinafter – the Company).

2. The Company acknowledges the importance of risk management as the key component in corporate management system, aimed at timely identification and measures for risk level reduction, which can negatively affect the Company’s value and reputation.

3. Risk management in the Company is carried out through the implementation of the Corporate Risk Management System (hereinafter - the CRMS). The CRMS is a set of interrelated components, that are combined in a single process, in which management and employees, each at their own level, participate in identifying potential events that may affect the Company's activities.

4. This document defines:

- assistance in adaptation and retention of young specialists in the Company;

- organizational structure of the CRMS of the Company;

- general approaches to the Company's risk classification;

- successive stages of the management process;

- mechanisms for monitoring the CRMS and certain aspects of the Company's activities in terms of risk management;

- elements connecting the CRMS of the Company with the processes of planning, budgeting and development;

- recommendations on the implementation of the Company's risk management system, as well as the criteria for the effectiveness of the Company's CRMS.

5. The Policy also includes the Appendix, which is an integral part of

- structure and requirements for the minimum content of the risk report (Appendix 1);

- submission time for the risk report (Appendix 2).

6. The Policy does not aim to cover all possible scenarios that may arise in the process of practical application of the CRMS, assuming that the risk management process, being a part of the daily management process, should provide the freedom to apply different management styles and creative approaches.

7. Implementation and improvement of CRMS is a prerequisite for achieving the strategic and operational goals of the Company and is one of the most important tasks in the short term.

**2. Definitions and acronyms**

1. This documents contains the following definitions and acronyms:

- **risk** is a potential future event (or circumstances), which, if realized, can have a significant negative impact on the achievement long-term and short-term objects by the Company;

**- risk appetite** is the degree of risk that the Company judges acceptable in the process of achieving its goals. The Company, within its risk appetite, determines acceptable risk appetite limits (for example, investment limits in one project, borrowing limits, etc.));

- **key risks** - risks that fall into the red and orange zone of the risk map;

- **Key risk indicator (KRI) -** are early indicators that provide early signals of changes in risk factors in various areas of activity. The KRI can detect potential risks and take early measures to avoid the occurrence of risk events or minimize their impact on the organization’s activities;

**- risk tolerance -** is an acceptable level of deviation in relation to the achievement of a specific objective. Risk tolerance allows for effective monitoring and prevention of excess risk appetite;

-  **risk owner -** is a person (employee/structural unit) responsible for all aspects of managing a certain risk, in particular, reducing the likelihood of risk realization and/or reducing the possible impact of the consequences of

realization on the Company;

- **Department of strategy and corporate development** – is a responsible structural unit of the Company for risk management;

- **risk manager** – is an employee of the structural unit responsible for risk management;

- **external persons** – persons who are not employees of the Company;

- **risk factor –** conditions or circumstances under which the causes of risk are manifested, leading to the realization of risk;

- **external risk factors** – are the risk factors arising outside the Company's operating activities and independent of the Company's activities;

- **internal risk factors –**are the risk factors related to internal processes, organizational structure, human resources, assets of the Company and arising within the framework of the Company's operating activities;

- **event –** an incident or event that has an internal or external source in relation to the organization, affecting the achievement of objectives.

**3. Scope**

1. This Policy applies to all activities of the company. The Policy is mandatory for familiarization and application by all structural units and employees of the Company. Employees are governed by the provisions stated in this Policy when implementing functional responsibilities and tasks.

**4. Responsibility**

1. Risk owners are responsible for providing timely, accurate, complete and adequate information used to generate a risk report, risk register, and action plan to minimize key risks of the Company.

2. The structural unit responsible for risk management of the Company is also responsible for the management of these Rules.

**5. Normative references and related documents**

1. This Policy is developed with consideration of the legislative requirements of the Republic of Kazakhstan, and the following internal normative documents of the Company (not limited to):

1) Charter of JSC “Mangistau power distribution company”;

2) risk management Policy of JSC " Samruk-Energy”.

**6. General provisions**

1. The main **objective** of the CRMS is to improve the management of threats and opportunities, which should contribute to the process of increasing capitalization. The CRMS also has the following **objectives**:

1) development and application of uniform and consistent approaches to the identification, assessment and management of risks in the Company, simplification of procedures for the exchange of information on risks vertically (management) and horizontally (exchange of experience);

2) formation of an opportunity for the Company to set and monitor the quality of risk management on the basis of clear and understandable criteria:

3) formation of information base for construction of assets accounting system, their market value and an assessment of the share capital;

4) rapid response to emerging risk events, tracking changes in the external and internal environment;

5) organization of targeted risk management activities in order to reduce them to an acceptable level or transfer them to third parties (insurance, hedging);

6) systematization and further accumulation of information about the company's risks, improving business manageability;

7) ultimately – increasing the capitalization of the Company by improving the efficiency of risk management optimization.

2. The main **objectives** of the Company's CRMS are:

1) preventing the occurrence of events that threaten the achievement of strategic and operational objectives;

2) reducing the impact of such events, if they occur, to an acceptable level;

3) effective response to and management of unexpected situations;

4) maintaining a systematic risk management process that is part of the overall process of ensuring an effective internal control environment;

5) providing reasonable assurance to stakeholders that the Company is effectively managing risks.

3. CRMS is a tool that supports the management decision-making process and daily operational activities of the Company. Therefore, the CRMS is intended to contribute to obtaining additional practical effect in the following areas of the Company's activities:

1) *strategic planning Process.* CRMS is a simple and practical tool for meeting the requirements of the Company's regulations on strategic planning in terms of identification, assessment and risk management.

2) *Budget process.* Management information on risks and plans may serve as a solid justification for the Company's and individual departments ' requests for resources, including financial ones.

3) *the System of development and performance evaluation.* Assessment of risk management effectiveness should serve as one of the criteria for assessing the performance of the Company, its divisions and individual employees.

4) interfunctional *and intra-group interaction.* Plans to manage cross-functional and intra-group risks serve as an effective and transparent tool for allocating responsibility and coordinating the activities of various divisions of the company during the process of managing such risks.

5) *Monitoring of risks at the appropriate level.* Risk assessment is the rationale for considering and monitoring a significant risk at a higher level of management of the Company.

4. CRMS cannot guarantee the success of the Company, however the effective risk management, implemented in an integrated and consistent manner across the Company, can provide significant benefits:

1) greater certainty in achieving the strategic and operational objectives set with regard to risks and risk appetite by identifying and managing multiple risks in a complex;

2) reduction of negative unforeseen events, reduction of instability and increase of profitability by ensuring acceptance of acceptable risks by the Company, adequate to the scale of its activities;

3) effective compliance with legislative, regulatory and management requirements;

4) ability to monitor and respond to changes and trends in the external environment;

5) improving the quality of decision-making and transparency;

6) increasing control over losses and expenses, as well as maintenance of cost-optimal control environment;

7) improvement of performance indicators;

8) timely identification of new opportunities and markets and their transformation into capital.

5. CRMS policies and procedures are being implemented in phases, so the dates for implementation and full compliance will depend on the specific phase of development of the overall CRMS.

6. The mission of this Policy is to maintain a risk management system that allows the executive body and the management body of the Company to effectively manage and allocate resources in priority areas to ensure an acceptable level of risk for the Company and to obtain the greatest return on such investments through the identification, assessment, management and monitoring of risks.

7. **The objectives** of this Policy are:

Building an effective integrated system and creating an integrated risk management process as an element of the company's management, as well as continuous improvement of activities based on the best practices and a unified standardized approach to risk management methods and procedures to ensure the stability of its activities and protect the company's value from risk

1) ensuring that the Company accepts acceptable risks, adequate to the scope of its activities;

2) determination of risk appetite and ensuring effective management of accepted risks;

3) improving the quality of the decision-making process and increasing transparency.

8. **The objectives** of this policy are:

1) creation of a full-fledged basis for decision-making and planning;

2) ensuring a continuous coordinated process of risk management based on timely identification, assessment, analysis, monitoring and control to ensure the achievement of goals;

3) implementation and improvement of the management system to prevent and minimize potentially negative events;

4) improving the efficiency of use and allocation of resources;

5) prevention of losses by improving the efficiency of the Company's activities, ensuring the protection of the Company's assets;

6) ensuring the efficiency of business processes, reliability of internal and external reporting and promoting compliance with legal forms.

9. A detailed description of methods and procedures of the risk management process, including the procedure for submission and reporting forms for risk management, tasks, functions and responsibilities of participants in the process of managing the main types of risks, risk management activities and other components of the risk management process are presented in the internal documents of the Company (including this Policy), approved by the Board of Directors or the Management Board of the Company in accordance with the competence of each body.

10. The company should take measures to build a risk management system based on international standards and best international risk management practices.

11. Regulatory documents in the field of CRMS are reviewed (including this Policy, if necessary) at least once a year in order to ensure their compliance with the goals, scope and complexity of the Company's activities and risk management systems of the Company, to take into account best practices of risk management and experience, as well as consider new regulatory requirements, experience and standards of risk management.

12. Risk management should take place in the context of certain goals, objectives set for the Company, which follow come the approved strategy, development plans and other internal documents. At least once a year the Company must determine the risk appetite, i.e. the ability to take risks to achieve its goals.

13. There must be constant exchange of information in the Company, in order to raise awareness about the risks and provide development of risk culture and effective risk management. All employees should receive timely assignments regarding risk management, clearly understand their role, the work they should do, and how they should interact with their colleagues.

14. Each employee is responsible for risk management to some extent.

15. The introduction of a corporate risk management system in the Company implies the establishment and development of the necessary infrastructure and culture, as well as the application of logical and systematic methods of identification, analysis, evaluation, monitoring, control and management of risks inherent in all activities, functions or processes of the Company, in order to prevent losses and maximize benefits.

16. In carrying out its activities within the framework of the Policy, the Company takes into account the interests and consequences of the risks for the shareholder of the Company and other interested parties.

17. The policy is posted on the website of the Company and its main provisions are disclosed in the annual report of the Company. The Policy and other documents in the field of risk management are available to all employees and officials of the Company through the electronic document management system. Changes in the risk management system are communicated to all employees and officials of the Company through the electronic document management system

**7. CRMS structure**

1. Risk management in the Company is a constant, dynamic and continuous process that consists of such components as internal and external environment.

2. The internal environment determines the Company's overall attitude to risk, and how its employees view and respond to risks. The internal environment is the basis for all other components of the risk management system, including risk management philosophy, risk appetite, control by management bodies, ethical values, competence and responsibility of employees, the structure of the Company, its capabilities determined by human, financial and other resources.

3. The Company's activities are aimed at creating an internal environment that increases employee's understanding of risks and increases their responsibility for risk management. The internal environment should support the following principles of the Company's activities:

1) identification and consideration of all forms of risks in decision-making and support of integrated risk vision by the company's management;

2) supporting the sense of ownership and responsibility for risks and risk management at the appropriate levels of the management hierarchy (Company, structural units, etc.). At the same time, risk management does not mean the transfer of responsibility to others;

3) observing compliance with internal policies and procedures of the Company and the state of the corporate governance system;

4) timely information on significant (critical) risks and shortcomings of the risk management system;

5) understanding that risk management Policies and procedures are mandatory.

4. The relations of the Company with the external environment (business structures, social, regulatory, other state and financial bodies) are reflected in the internal environment of the company and affect its formation. The external environment is complex in its structure and includes various industries interconnected with each other, and creates conditions for the emergence of systemic risks.

5. The main principles of the risk management process in the Company are:

1) integrity – consideration of the Company's aggregate risk elements in the context of the corporate risk management system;

2) openness – prohibition to consider the corporate risk management system as autonomous or separate;

3) structuring – a comprehensive risk management system has a clear structure;

4) awareness – risk management is accompanied by the availability of objective, reliable and relevant information;

5) continuity – the risk management process is carried out on an ongoing basis;

6) cyclicity – the risk management process is a constantly repeating cycle of its main components.

6. The structure of the risk management system in the Company is represented by risk management at several levels with the involvement of the following bodies and divisions of the Company: Board of Directors, Management Board, structural unit responsible for risk management, other structural units.

7. The first level is represented by the **Board of Directors.** The Board of Directors plays a key role in overseeing the corporate risk management system.

8. The Board of Directors performs the following functions in the field of risk management:

1) approval of the Company's risk management Policy;

2) approval of other risk management policies of the Company;

3) approval of the levels of responsibility for monitoring and control over the risks of the Company by approving this Policy;

4) setting goals (short-term and long-term) of the Company;

5) approval of the company's risk management rules and procedures;

6) approval of the Company's register, risk map and critical risk management action plan;

7) approval of the risk and control matrix;

8) approval of risk reports;

9) approval of the company's business continuity plan in the field of information technology and recovery of critical IT resources (developed by the structural unit responsible for the provision of IT resources);

10) approval of the company's business continuity plans regulating the ways of incident management, restoration and support of the Company's activities to the established level in case of violations (developed by the responsible structural unit of the Company).

11) approval of risk management system performance indicators;

12) review of reports on the effectiveness of the risk management system;

13) quarterly review of risk management reports with description and analysis of key risks of the company, as well as information on the implementation of plans and programs to minimize the risks of the Company;

14) determination of forms and terms of submission of financial and management reports to the Board of Directors, providing the possibility of analysis and evaluation of financial indicators of the Company;

15) approval of the risk appetite;

16) approval of limits;

17) approval of key risk indicators;

18) monitoring activities through committees under the Board of Directors of the Company.

9. The second level is the **Management Board of the Company**, which is responsible for the organization of an effective risk management system and the creation of a risk control structure to ensure compliance with corporate policies. The Management Board is responsible for creating a culture of “risk awareness”, which reflects the risk management policy and philosophy of the Company. The Management Board is also responsible for establishing an effective risk management system so that employees have clearly defined risk management responsibilities and are responsible for fulfilling their duties. The Management Board has the right to carry out some of the functions in the field of risk management through the establishment of appropriate committees.

10. The Management Board of the Company ensures the integrity and functionality of the risk management system by performing the following functions:

1) implementation of risk management Policy;

2) organization of an effective risk management system to identify and assess potential risks;

3) provision of reports to the Board of Directors in accordance with the approved regulatory documents;

4) ensuring compliance with the provisions of this Policy by structural units of the Company;

5) approval of the organizational structure of the Company that meets the needs and provides adequate control and risk reduction;

6) consideration of the company's risk management reports and taking appropriate measures within its competence;

7) approval of response measures and risk management techniques in the Company and some activities in the Company within the framework of regulatory documents approved by the Board of Directors;

8) improvement of internal risk management procedures and regulations;

9) consideration of quarterly reports of the Boards of Directors (Supervisory boards) on key risks.

11. The Company must comply with the following requirements:

1) the structural unit (person) responsible for risk management in the Company should not combine functions related to financial risks (economic planning, corporate finances, treasury, accounting);

2) it is allowed to combine the functions of risk management with the functions of corporate governance and strategic planning.

12. For the purpose of effective organization of risk management, collegial bodies under the Management Board of the Company may be assigned functions and powers, which are determined by the relevant internal documents of the Company.

13. The third level in the risk management process is the structural unit of the Company responsible for risk management, having the following main functions (but not limited to):

1) preparation of recommendations for the development of risk management policies, procedures and structure;

2) development of the Company's risk monitoring procedures;

/) providing support to the structural units of the Company on the functioning of the risk management system;

4) monitoring and informing the Management Board and the Board of Directors of significant deviations from established risk management processes;

5) monitoring the external factors that may have a significant impact on the Company's risks;

6) providing quarterly reports and holding at least two meetings with the Board of Directors to provide information with a description and analysis of the Company's risks, as well as information on the implementation of plans and programs to minimize the risks of the Company;

7) coordination of risk management training programs;

8) monitoring compliance with the Company's key risk management limits and policies;

9) coordination of the process of preparation of the risk register, risk map and risk matrix and control, ensuring meetings, discussions, data consolidation and submission of draft materials for approval by the Board of Directors;

10) monitoring the implementation of plans and programs to minimize risks;

11) holding quarterly meetings with the owners of the Company's risks to discuss the identification and assessment of identified and emerging risks of the company;

12) introduction and improvement of the risk management process in the Company through the Board of Directors;

13) maintaining a database of realized risks, tracking external factors that can have a significant impact on the risks;

14) preparation and provision of information on risks to the Management Board and the Board of Directors of the Company;

15) development, implementation and updating (if necessary) of methodological framework, policies, risk management rules and risk monitoring procedures;

16) ensuring integration of risk management into other business processes and development of risk management culture in the Company;

17) review and approval of regular reports on the Company's risks submitted to the Boards of Directors;

18) approval of projects of strategic orientation, investment projects of the Company, part of sufficiency of disclosure and analysis of information on risks;

19) implementation, analysis and verification of regulatory and working documentation in the field of risk management;

20) making proposals on conducting training seminars and trainings on risk management for the Company's employees;

21) identification of possible cases of risk, real or potential, negative trends, indicating an increase in risk, analysis of the factors that caused the risk, and assessment of the extent of the alleged loss.

14. Responsibilities and authorities of employees of the structural unit of the Company responsible for risk management, and reporting requirements are provided for in this Policy and regulations on the structural unit responsible for risk management, and job descriptions of employees of the structural unit of the Company responsible for risk management.

15. Employees of the structural unit of the Company responsible for risk management should interact with other units, as well as external and internal auditors of the Company for the effective implementation of the goals and objectives of the risk management system.

16. Employees of the Company's structural unit responsible for risk management shall have access to information, documents of the Company necessary to perform their functional duties specified in this Policy and job descriptions of these employees.

17. One of the important elements in the structure of the risk management system is the structural units of the Company represented by each employee.

Structural units (risk owners) should understand that they play a key role in the risk management process. Employees of the Company work with risks on a daily basis, manage them and monitor their potential impact in the

sphere of their functional duties. Structural units are responsible for the implementation of the risk management action plan, should timely identify and inform about significant risks in the field of their activities and make proposals for risk management for inclusion in the action plan.

18. The main functions of the Company's structural units in the risk management process are:

1) identification and assessment of risks on an annual basis with quarterly review;

2) participation in the development of methodological and regulatory documentation within their competence;

3) making proposals for the development of action plans for risk management and risk reduction measures;

4) implementation of approved measures on response and risk management and reporting on a regular basis on the implementation of risk management measures;

5) facilitating the development of risk communication;

6) provision of information on realized risks.

**8. Relationship between risk management and strategic planning process,**

**operational activities, budgeting and development**

1. The objectives of the Company are defined at the strategic level and set the basis for the development of operational objectives. The company is exposed to risks from external and internal sources, and setting goals is the main condition for effective identification, assessment and development of risk management methods.

2. The Company's objectives are determined before identifying potential risks that may adversely affect their achievement. Corporate risk management allows us to make sure that the Company has a process of determining the goals and objectives that are consistent with the mission and meet the risk appetite of the Company.

3. The company annually establishes alternative ways to achieve its goals and determines the risks associated with such alternatives or events that may affect the achievement of the goals. This analysis provides a basis for identifying risks.

4. The risk management process is based on cross-functional interaction. The process of managing cross-functional (inter-process) risks (risks affecting the goals of several functions (business processes)) is based on collective decisions taken jointly, on the basis of information available to various departments (participants and managers of business processes).

5. The relationship between the risk management process and the **strategic planning process** includes (but is not limited to) the following:

1) the process of developing strategic plans should include the identification and analysis of risks that may have an impact on the achievement of the set and strategic goals;

2) the Company's strategic plans should include a set of measures aimed at minimizing the potential adverse effect of the main risks associated with the implementation of the planned strategic initiatives.

6. The relationship between the risk management process and the operating process includes (but is not limited to) the following:

1) risk management action plans (as well as their separate stages) should be included in the relevant annual plans of the Company's structural units;

2) the risk owner shall objectively assess the time and administrative resources necessary for the implementation of the risk management Plan proposed by him and shall reflect the assessment in the relevant risk report;

3) employees of structural units should be allocated the necessary time and administrative resources to carry out the activities provided for by the risk management action Plans;

4) the initiators of the questions submitted for consideration of Management Board and the Board of Directors of the Company in their materials (explanatory notes) include sections with a description of the risks associated with the adoption and not the adoption of specific decisions.

7. The relationship between the risk management process and the **investment and credit process** (in the case of obtaining, granting credit, financial assistance and financial guarantees) includes (but not be limited to) the following:

1) the initiators of investment projects in the process of their consideration and development should include the identification and analysis of risks that can affect the implementation of the investment project and the achievement of its objectives. There should also be a set of measures aimed at minimizing the potential adverse effect of the main risks associated with the implementation of the project;

2) the initiators of the process of obtaining/granting a loan (raising/lending) should include an analysis of the risks to the financial stability of the Company, including, but not limited to, an analysis of the effect on compliance by external creditors (if any).

3) initiators of the process of granting credit (loan) and financial guarantees to counterparties should include credit risk analysis.

8. In the event that the execution of risk management program requires the involvement of temporary or administrative resources of related functional units (cross-functional risks) of the Company, the Risk owner, with the support of an employee of the structural unit of risk management, must agree on the allocation of appropriate resources with the heads of these units.

9. The relationship of the risk management process with the budgeting process:

1) before approval of the risk management program by the Management Board of the Company, risk owners should provide the necessary financial resources for the implementation of the proposed program and work out this issue with the structural unit responsible for budgeting;

2) filling in the table of factors and risks of Development plans is carried out on the basis of the approved risk register.

5. The relationship between the risk management process and the strategic planning process includes (but not limited to) the following:

1) the obligations of the CRMS participants to carry out all the procedures provided for them by the system should be formalized, and the performance and non-performance of relevant duties should be monitored during the reporting period;

2) it is also recommended to provide incentive mechanisms designed to motivate managers and employees of the Company to act within the risk management system properly, in accordance with the established deadlines and targets.

**9. Operation process of the CRMS: The calculation of risk-appetite**

1. After defining strategic goals (strategic directions of development), the Company identifies risks that may prevent the Company from achieving its goals. The company also determines the risk appetite – the amount of risk that is acceptable to the Company in achieving its goals.

2. The company determines the risk appetite for each of the strategic goals (strategic activities).

3. Risk appetite determines the upper limit of the level of critical risks that Company is ready to accept. It also affects the allocation of resources, the organization of processes, and the infrastructure within the organization needed to effectively monitor and respond to risks.

4. Risk appetite (statement of risk appetite) of the Company for the planning period is approved by the Board of Directors and has the following characteristics:

1) it reflects the Сompany's strategy, including objectives, business plans, financial constraints and stakeholder expectations;

2) covers all key aspects (areas) of activity;

3) takes into account the willingness and ability to take risk;

4) determines the Company's attitude towards risk;

5) periodically reviewed to reflect industry and market conditions;

6) requires effective monitoring of the risk itself;

7) includes both quantitative and qualitative indicators

5. In calculating the quantitative risk appetite, the Company adheres to the principle of conservatism in the calculations and uses the financial indicators for the past few years to calculate the weighted average for the period, which allows to minimize random fluctuations. The weighted averages are then multiplied by the limits.

6. The calculation of the quantitative risk appetite is made by the structural unit (person) responsible for risk management and submitted for approval by the management body.

7. When calculating the quantitative risk appetite, the level of risk appetite is determined that does not violate the principles of financial stability. Thus, the higher the debt burden, the lower the risk appetite. This approach provides liquidity to cover losses in case of losses from risks.

8. The calculation of the Company's quantitative risk appetite is based on the K2.1 coefficient (according to the Debt and financial stability management policy of JSC “Samruk-Kazyna”), the target value of which is approved by the Management Board of JSC “Samruk-Kazyna”, or on the basis of covenants established by creditors on borrowed loans. In this case, the most stringent indicator is used from the established restrictions.

9. The higher the actual value of the K2.1 coefficient the lower the financial stability, the lower the borrowing capacity and the less risk the Company is ready to accept and the lower the risk appetite.

10. All results and proposals on the Company's risk appetite should be coordinated with the involved structural units, including those responsible for strategy, planning and corporate financing.

11. The resulting risk appetite indicator is taken as the basis for further risk management decisions.

12. The company ensures risk appetite by accepting non-budgeted losses on its balance sheet (i.e. financing losses as they occur due to current cash flow or equity).

13. In order to carry out effective monitoring and prevent exceeding the level of risk appetite, the Company applies risk tolerance. Risk tolerance is measured in the same units as similar targets.

14. The decision of the management body approves the levels of tolerance to key risks on the basis of two main approaches:

1) Objective approach. Takes into account the requirements of laws, regulations of state supervisory bodies and internal documents. In some cases, levels of tolerance to key risks are established in accordance with regulatory documents, as well as regulatory documents of state supervisory bodies. If the requirements of the supervisory bodies change, the threshold should be revised.

2) Subjective approach. Levels of tolerance to key risks are determined by a survey or questionnaire among experts. In this approach, experts on the basis of experience and knowledge determine the threshold level, which is the level of tolerance to key risk.

15. Tolerance to Key performance indicators (hereinafter – the KPI), the maximum permissible deviation from the KPI, are specified by the owners of KPI in the Development plans (table of factors and risks in the "KPI threshold value" column (risk tolerance)".

16. Activities within key risk tolerance levels provide management with a higher degree of confidence that risk appetite will not be exceeded. This, in turn, gives the Company a higher degree of confidence in achieving its goals.

17. After approval of risk tolerance, risk tolerance levels are monitored. The levels of risk tolerance are reviewed in case of new risks or occurrence of risk events. On a quarterly basis, the structural unit responsible for risk management monitors compliance with the levels of risk tolerance to key risks in accordance with the following procedure:

1) comparing the actual results of the deviation of risk tolerance levels from the planned indicators;

2) in the event of a deviation, the structural unit responsible for risk management, together with other involved units, shall determine the causes and take additional measures to reduce the impact, as a result of which the actual indicators of tolerance levels within the established planned corridor for each risk are aligned or revised.

**10. Risk identification**

1. The Company identifies potential events in accordance with the Risk identification and assessment rules of JSC "Mangistau power distribution сompany", which may affect the Company's activities, and determines whether they represent opportunities or risks. When identifying events, various internal and external factors that can cause risks and opportunities across the organization are considered.

2. Risk identification is the determination of the Company's exposure to the impact of events, the occurrence of which may adversely affect the ability to achieve the planned goals and objectives. The purpose of the risk identification procedure is to detect risks and include them in the Risk register.

3. Identification of risks and the presence of a real objective view of the existing risks is one of the foundations of effective risk management, contributing to the achievement of the Company's goals.

4. Risk identification provides a tool for determining the direction and need to improve the risk management process.

5. Risk identification allows to increase the level of confidence in achieving the objectives by obtaining an overview of risks and their main characteristics, determining the relationship of risks with each other, ranking the level of

risks of the Company, increasing awareness of risks and their management methods, as well as focusing on the most critical risks.

6. Risk identification provides a tool for recording and reporting possible negative events that may adversely affect the achievement of the goals and objectives set for the Company and each of its employees, as well as determining the direction and need to improve the risk management process.

7. Each employee of the Company on a regular basis identifies and assesses the risks affecting the achievement of the goals and objectives set for the Company and in particular for each employee of the Company.

8. The CRMS of the Company is aimed at identifying a wide range of risks and considering them in a complex, which contributes to the reflection of a holistic picture of the existing risks and improves the quality of the risk analysis.

9. In accordance with the basic risk management standards, the Company regularly conducts risk identification with the participation of employees of all structural units in order to identify the maximum range of risks, increase awareness of surrounding risks and stimulate the development of risk culture in the Company.

10. To identify risks, a combination of different methods and tools is used, such as risk identification based on goals and objectives, industry and international comparisons, seminars and discussions, interviews, database of losses, etc. described in more detail in the Risk identification and assessment rules of the Company.

11. The identified events and risks are systematized in the form of a risk register. The Risk register of the Company is a list of risks faced by the Company in its activities, which also includes various scenarios for the possible implementation of risk. For each risk, the owners of the risk, i.e. units that deal with this risk due to their functional responsibilities, are identified. The risk register is complemented by the structural subdivisions of the Company on a permanent basis, as the identification of new risks.

12. It is recommended that risk identification and approval of the Company's Risk registers be carried out prior to approval of Development plans in order to ensure advance submission of applications for expenses in connection with the implementation of the risk management plan.

13. The results of risk identification and assessment are provided to the Management Board and the Board of Directors of the Company, as well as to the relevant committees, in the form of a Risk report, which includes information on critical risks, plans of measures for critical risk management.

14. To classify risks, the Company uses risk grouping in the following categories:

1) strategic risk (S) – the risk of losses due to changes or errors (shortcomings) in the determination and implementation of the business and development strategy, changes in the political environment, regional conjuncture, industry recession, and other external factors of a systemic nature;

2) financial risks (F) – include risks related to capital structure and reduced financial profitability. Financial risks include market risks (fluctuations in interest rates and foreign exchange rates, fluctuations in prices for natural resources), liquidity risks, credit risks (for corporate counterparties, second-tier banks and claims in other countries);

3) legal risks (L) – risks of losses due to non-compliance with the requirements of the legislation of the Republic of Kazakhstan, and the laws of other States, as well as internal rules and procedures in relation with non-residents of the Republic of Kazakhstan;

4) operational risk (O) – the risk of losses, accidents at work as a result of deficiencies or errors in the implementation of internal processes made by employees (including personnel risks), the operation of information systems and technologies (technological risks), industrial safety, as well as due to external events.

**11. Risks assessment**

1. Risk identification and assessment is aimed at providing a common vision of the existing risks and their size through the implementation of a basic ranking to identify the most “weak” places. This process allows an assessment of the methods and procedures used to manage major risks.

2. Assessment of the probability of implementation and the possible impact of risks allows to develop an understanding of the risks, provides the necessary information base for making decisions about the need to manage a certain risk, as well as the most appropriate and cost-effective strategies to reduce it.

3. The risk assessment process is carried out in order to identify the most significant (critical) risks that can adversely affect the Company's activities and the achievement of strategic goals and objectives. These risks should be submitted to the Board of Directors, which should make decisions on the management and control of these risks.

4. In the framework of risk assessment and analysis, the Company uses qualitative, quantitative analyses or a combination of them, which create a methodological basis for the risk management process.

5. Risk assessment includes consideration of the sources and causes of each risk, the negative consequences of their implementation, and the likelihood that a particular event will occur.

6. Initially, the risk assessment is carried out on a qualitative basis, then the most significant risks can be quantified. Risks that cannot be quantified, due to the lack of reliable statistical information to model them, or the construction of such models is not cost-effective, are assessed only on a qualitative basis. Quantitative assessment provides more accurate analytical data and is particularly useful in developing risk financing methods.

7. All identified and assessed risks are reflected on the risk map. Risk map – graphical and textual description of the limited number of risks of the Company, located in a rectangular table, one “axis” of which indicates the impact force or significance of the risk, and the other shows the probability or frequency of its occurrence. Probability or frequency is displayed on the map, on the horizontal axis, and impact force or significance is displayed on the vertical axis. In this case, the probability of risk increases from left to right as you move along the horizontal axis, and the impact of risk increases from the bottom to the top of the vertical axis. Risk map allows you to assess the relative importance of each risk (compared to other risks), as well as identify risks that are critical and require the development of measures for their management.

8. To determine the level of risk impact on the Company, the Company's risk appetite is used.

**12. Risk management.**

1. Company defines methods to respond to risk and develop a management plan for critical risks.

2. Risk management is the process of developing and implementing measures to reduce the negative effect and probability of losses or obtain financial compensation in case of losses associated with the risks of the Company's activities. In order to ensure the effectiveness of the process or reduce the costs of its implementation, the Company should focus on the risks that can have the most significant impact on its financial condition and the

achievement of goals and objectives. The Company's critical risk management plans are reviewed annually, approved by the Company's management body and are binding on all structural units.

3. The choice of risk response methods and the development of risk management plans to ensure an acceptable level of residual risk includes the following response strategies:

1) risk reduction and control – the impact on the risk through the use of preventive measures and planning of actions in the event of risk realization, which includes changing the probability of risk realization in the direction of reduction and changing the causes or consequences of the risk realization in order to reduce the level of possible losses;

2) retention/acceptance of risk, implying that its level is acceptable, and the possibility of its manifestation is accepted, it is also possible to accept the residual risk after the application of measures to minimize it;

3) risk financing – transfer/sharing of risk or partial transfer of risk to another party, including the use of various mechanisms (contracts, insurance agreements, definition of structure), allowing the division of responsibility and obligations;

4) evasion/avoidance of risk by deciding against continuation or taking an action that is the source of the risk.

5) subsequent impact – a strategy that provides for the impact on the consequences of the realization of a risk event. Typically, this strategy is applied to risks with low manageability and/or low probability of implementation. This

type of strategy may include insurance, risk hedging, as well as the development of emergency plans, business continuity plans.

4. Proposals for risk management strategies, methods and plans are presented by the Risk owners and included in the risk management action plan.

5. Structural divisions of the Company, which are the risk owners, submit quarterly reports on the implementation of approved action plans in accordance with the Risk identification and assessment rules in the prescribed form.

6. **Risk reduction and control** involves activities aimed at:

1) loss prevention – reducing the probability of occurrence of a certain risk (loss);

2) loss control – reduction of the amount of loss in case of risk;

3) diversification – distribution of risk in order to reduce its potential impact.

7. Methods of risk reduction and control involve the introduction of procedures and processes in the Company aimed at reducing the possibility of losses.

8. Methods of reducing and controlling the Company's financial risks include:

1) for credit risks – setting limits on the level of accepted credit risk of corporate counterparties, second-tier banks, as well as setting limits on the size of claims in other countries.

2) for market risks – control and calculation of the level of possible losses, the use of hedging and diversification tools.

3) for liquidity risks – setting limits on the degree of debt burden of the Company.

4) the risk of losses as a result of deficiencies or errors in the implementation of internal processes made by employees (including personnel risks), the operation of information systems and technologies (technological risks), as well as due to external events.

9. Methods of reduction and control of the Company's regulatory risks include monitoring of changes in legislation by the authorized legal service of the Company, which together with interested structural units assesses the impact of changes on the Company's activities and develops measures necessary for their adoption. Any document that regulates the internal procedures of the Company or in accordance with which the Company has obligations, must undergo a mandatory examination in the authorized legal service of the Company.

10. Reduction and control of strategic risk of the Company is carried out by monitoring the implementation of approved short-term and long-term plans and strategies, in the results of which the corrective measures are taken to reflect changes in the internal and external environment.

11. Reduction and control of operational risks in the Company is carried out through the analysis of established business processes and the development of appropriate action plans for their improvement, as well as the introduction of

internal controls. For operational risks in the workplace, the reduction and control of risks is carried out by observing the rules of occupational safety and health, rules on environmental safety and rules of work at the production.

12. If the methods used to reduce and control risks are associated with significant costs, the following analysis is carried out:

1) to what extent these measures are necessary, and whether they can be reduced through retention and/or financing (transfer) of risks;

2) what is the alternative cost of activities compared to the cost of retention/transfer of risks.

13. **Risk retention.** In the course of identification and assessment of key risks, the Company's risk appetite is calculated.

14. The Company's risk appetite is financed by the current income of the Company and retained earnings of previous years and has no direct allocation for unplanned losses (i.e. losses due to the occurrence of risks directly reduce the Company's profit).

15. The risk appetite distribution of the Company is based on the analysis of the impact of each of the risks and the cost of risk transfer, i.e. the more expensive the cost of risk transfer, the higher the probability of risk retention at the expense of the Company's own funds.

16. **Financing (transfer) of risks** includes the following instruments:

1) insurance (for “net” risks – risks, the occurrence of which entails only losses and cannot lead to income);

2) hedging (for " speculative” risks – risks, the implementation of which can lead to losses and income);

3) transfer of risk under the contract (transfer of responsibility for the risk to the counterparty for an additional fee or a corresponding increase in the value of the contract);

4) conditional credit line – access to bank financing on agreed terms upon occurrence of certain events;

5) other alternative methods of risk financing.

17. The main distinguishing feature of these tools is the availability of “fee” for risk, which, consequently, requires the optimal application of this instrument with the aim of reducing costs of Company.

18. **Risk avoidance** includes actions aimed at termination or refusal to carry out operations that potentially lead to negative consequences for the Company.

19. The choice of the most appropriate option is made taking into account the balancing of costs associated with a particular method, with the advantages that its use entails, and other direct and indirect costs.

20. The application of appropriate risk management measures and techniques is described in the critical risk management plan. This plan includes a list of necessary actions and responsible persons.

**13. Control activities**

1. After determining the list of key risks and risk management activities, the main business processes exposed to these risks are determined. A step-by-step analysis of business processes is carried out to determine the necessity and expediency of including appropriate control actions. In addition, the planned risk management activities are analyzed and the control actions and (or) indicators necessary to ensure the effective implementation of such activities are defined (often control actions themselves can be a risk management method).

2. Control actions include policies and procedures that help ensure that risk management measures are implemented. Control actions include a wide range of measures such as approval, authorization, verification, transaction analysis, asset security and segregation of duties.

3. The risk owners, or he heads of the relevant structural units of the Company, are responsible for the analysis of business processes and determining the need and feasibility of additional control actions.

4. The main results and conclusions of the risk management process in the Company are displayed in the form of regular reporting on risks and measures to respond to them.

5. On the basis of regular reporting on risks, the Company controls the current risks and the implementation of measures to respond to risks.

**14. Communication and monitoring**

1. The risk management structure of the Company ensures an adequate flow of information – vertically and horizontally. At the same time, the information coming from the bottom-up, provides the Board of Directors and the Management Board of the Company with information: on current activities; on the risks taken in the course of activities, their assessment, control, response methods and level of management. Information sent from top to bottom ensures that goals, strategies and objectives are achieved through the approval of internal documents, regulations and instructions. Horizontal transmission of information implies interaction of structural units within the Company.

2. The objectives of the process of regular exchange of information on risks within the Company include:

1) assigning personal responsibility for the management of certain significant risks to the relevant managers (risk owners);

2) timely communication to the Board of Directors of the Company of all risks that need to be managed at the appropriate level of the Company;

3) timely communication to the executors of risk management activities about their personal responsibility for the implementation of the relevant activities (including the expected result, terms, resources, etc.);

4) ensuring effective exchange of information in the course of management of cross-functional risks of the Company.

3. In the process of implementing of each component of the risk management system, information is exchanged between the structural units of the Company. All materials and documents prepared within the framework of the risk

management system are coordinated with the involved departments, which make their comments and suggestions. At least once a year the Board of Directors receives: proposals on the Company's risk appetite, risk register, risk map and risk management action plan.

4. Information and communication in the Company allows to provide participants of the risk management process with reliable and timely information on risks, increases the level of awareness of risks, methods and tools to respond to risks. Relevant information is identified, recorded and provided in a form and time frame that enables employees to perform their functions effectively.

5. The Company's divisions constantly monitor and inform the division responsible for risk management about the losses incurred. For each implemented risk, an analysis of the causes of losses is carried out, and measures are taken to prevent such incidents in the future.

6. The Company provides partners, creditors, external auditors, rating agencies and other stakeholders (including as part of the annual report) with information on risk management, while ensuring that the level of detail of the disclosed information is consistent with the nature and scope of the Company's activities.

7. The Company monitors the effectiveness of the risk management system (including existing management methods and means of risk control) and, if necessary, its modification and improvement. Monitoring is carried out on a regular basis at least once a year.

8. The Company monitors and controls its risks in accordance with the basic principles, policies, rules and regulations established by the Board of Directors of the Company.

9. One of the main tools for monitoring risks and risk factors are the key risk indicators (hereinafter – the KRI). The KRI - are indicators that provide early signals to organization of changes in risk factors in different areas of activity. The KRI alow to identify potential risks and take early action to avoid the occurrence of risk events or minimize their impact on the activities of the organization.

10. The development of KRI must be performed at least for the risks with the impact level of “four” and more, which will allow to manage all critical risks.

11. In order to improve the effectiveness of risk monitoring, the Company applies the KRI using two approaches:

1) the definition of the KRI on the basis of risk factors - defining risk factors for each key risk. Risk factors are analyzed for measurability. For each risk factor, the corresponding units and the measurement rate are determined, which can be expressed in the form of coefficients, percentages, numbers, etc.

2) determination of the KRI on the basis of preventive measures for risk management – the structural unit responsible for risk management together with the involved structural units of the Company determine the measurement unit of the level of performance for each preventive measure, the measurement rate and the source of information for the calculation. KRI developed on the basis of preventive measures can be expressed as a percentage or in the actual execution of preventive measures.

12. Determination of threshold levels of KRI is carried out using objective and subjective approaches:

1) objective approach – based on the existing Laws of the Republic of Kazakhstan, regulatory and legal acts of the state supervisory bodies and internal requirements of the Company;

2) subjective approach – on the basis of a survey or questionnaire of branch directorates or other key employees of the Company who are experts in the relevant field. Experts determine the threshold level in relation to the KRI based on their experience and knowledge.

13. The developed KRI are displayed in the risk register and approved simultaneously with the issuance of the risk register, risk map and risk appetite for the next year. Information on the KRI should include:

1) The name of the KRI;

2) Calculation formula;

3) Sources of information;

4) Measurement unit and measurement rate;

5) The direction of the KRI, signaling the possible realization of the risk;

6) Threshold level.

14. Monitoring the corporate risk management system is an important part of the whole business process and assesses both the availability of such system and the implementation of its components. Monitoring is carried out through continuous control of the implementation of policies, procedures and activities of the risk management system and targeted audits. The scope and frequency of targeted inspections depend on the risk assessment and the effectiveness of ongoing monitoring. The shortcomings of the risk management system should be brought to the attention of the Board of Directors and the Management Board of the Company.

15. After approval X of action plans for critical risk management by the Board of Directors, the structural unit responsible for risk management exercises control over the execution of measures in accordance with the timing of each event.

**15. Requirements for confidentiality of risk information**

1. The decision on the disclosure of detailed information on the description, assessment or action plans to manage certain risks to certain officials of the Company is taken by the Risk owner.

2. Members of the Board of Directors of the Company, members of the Management Board of the Company, employees of the structural unit responsible for risk management have unlimited access to any information about the risks of the Company.

3. External persons who have access to information about risks and action plans to manage them may be granted access only after signing a non-disclosure agreement.

4. Following documentation: Risk management policy, Risk identification and assessment rules are public documents and are available for review and use by a wide range of persons.

**16. CRMS performance criteria**

1. The effectiveness of CRMS can be assessed on the basis of the following quantitative and qualitative criteria:

1) Risk management is carried out on an ongoing basis, the risk management process is linked to the processes of strategic and operational planning, budgeting, staff development;

2) Information generated by the CRMS is used and taken into account in the process of making management decisions, including those related to the prioritization of tasks and effective allocation of resources;

3) In the long term, the CRMS is not a subject of resource consumption, but a tool for their more economical use;

4) The effectiveness of the Company's CRMS is confirmed by the results of audits conducted by internal and/or external auditors or independent experts, and is approved by members of the Company's Board of Directors, Chairman of the Board and heads of structural units, rating agencies, investors, creditors, company staff, government agencies, and the media.

Annex No.1

to Risk management policy of

JSC "Mangistau power

distribution сompany"

**Structure and requirements**

**to the minimum content of the risk report**

1. Risk register card:

a) Risk map for the forecast year, changes in the risk map for the reporting quarter, providing detailed information on changes in the dynamics of key risks.

b) A separate allocation of critical risks specifying the causes of occurrence, action plan on reduction of the probability/effect, qualitative/quantitative assessment of influence.

c) The Risk register for the forecast year, the risk register with changes on a quarterly basis, if necessary.

d) Plan of risk management measures once a year, amendments to the risk management plan on a quarterly basis, if necessary.

(e) Implementation of the risk management action plan on a quarterly basis with an assessment of the effectiveness of the measures taken during the reporting period.

f) New detected risks (threats), specifying the causes of occurrence, action plan on reduction of the probability/effect, qualitative/quantitative assessment of influence.

2. Risk appetite for a forecast year (once a year), the adjusted risk appetite on a quarterly basis, if necessary.

3. KRI on key risks and their dynamics, including KRI, which can have a significant impact on the risk portfolio.

4. Report on financial risks:

a) Financial risks in accordance with the Rules of management of certain types of financial risks (currency, interest rate, credit risk for corporate counterparties, credit risk for counterparty banks).

b) Information on compliance/non-compliance with risk limits, including limits on counterparty banks.

c) Financial stability report, which includes information on the debt burden and performance of covenant obligations under the Debt management and financial stability policy of JSC “Samruk-Kazyna”.

5. Report on critical operational risks with the result of their qualitative/quantitative assessment.

6. Report on risks of investment projects, including implemented risks of investment projects.

7. Information on realized risks (quarterly) with obligatory indication of damage (in quantitative, if possible, its calculation, and in qualitative assessment) and actions taken to respond to these risks with an assessment of the effectiveness of the measures taken. Comparative analysis of losses from realized risks for the period (quarterly) with the approved risk appetite. This section should also include information on incidents and accidents at work (including information on the number of victims, and the number of lethalities).

8. Information on significant deviations from established risk management processes, if necessary.

9. Activities carried out to improve risk management systems in accordance with the recommendations of the IAS (if any).

10. Information on compliance with regulatory requirements in the field of risk management.

11. Insurance report according to the Policy on insurance protection of JSC “Samruk-Kazyna” and national development institutions, national companies and other legal entities, more than fifty percent of the voting shares (stakes) of which directly or indirectly belong to JSC “Samruk-Kazyna”.

12. Statement by the executive body confirming the effectiveness/non-effectiveness of the risk management system.

Annex No. 2

to Risk management policy of

JSC "Mangistau power

distribution сompany"

**Terms of submission of the risk report**

For the Company, the mandatory risk management reports include:

* reporting forms for each risk (provided in accordance with the approved package of management reporting forms);
* financial stability report (provided in accordance with the Debt management and financial stability policy of JSC “Samruk-Kazyna” (included in the financial risk report);
* Risk report approved by the management body of the Company.

Terms of submission of risk reporting forms (according to the established forms) and the risk report:

|  |  |  |
| --- | --- | --- |
| **Document name** | **Document indicators** | **Terms of submission** |
| Risk reporting form including CMS | Risk management and internal control department of JSC “Samruk-Energy” | Reporting date for the 1st and 3rd quarters +35 calendar days, and reporting date for the 2nd and 4th quarters +45 calendar days |
| Risk report, including the Report on financial risks | Board of Directors | According to the Work plan of the Board of Directors. |