

Approved by
the Board of Directors of
PIK Group
Minutes No. 3 dated 27.07.2012.

RISK MANAGEMENT CONCEPT OF PIK GROUP

Concept

K 603.0100.0110.001.01-2011

CONTENTS

CONCEPT	1
1. GENERAL PROVISIONS	4
2. RISK CLASSIFICATION	4
3. MANAGEMENT AND CONTROL BODIES	6
4. FUNCTIONAL POSITIONS.....	7
5. DOCUMENTS	7
6. PROCEDURES	11

TERMS AND ABBREVIATIONS

The terms and the abbreviations used herein shall mean the following:

PIK GROUP OJSC	PIK Group Open Joint-Stock Company
PIK Group	PIK Group Open Joint-Stock Company and all its subsidiary and dependent companies (SDC)
Company	PIK Group Open Joint-Stock Company and all its subsidiary and dependent companies (SDC)
Risk management system of PIK Group	represents a set of procedures, processes, management and control bodies, functional positions and documents ensuring risk management at the level required by the Company's shareholders (the Board of Directors)
Risk management system	designated for increase of business efficiency, successful settlement of the Company's tasks, increase of the Company's value
Risk	combination of the probability of an event and its consequences
Risk probability	probability of occurrence of a particular risk at a particular period of time determined by experts. May range from 0% to 100%.
Threat level	(amount of potential consequences of a risk) evaluation of a financial damage related to consequences of a risk, or evaluation of costs of measures for liquidation of consequences of a risk occurred for continuation of the Company's activity
Risk category	a group of reasons of risks. Risks in the List of Main Risks of the Company are grouped by categories. Categories may contain sub-categories, smaller groups of risks
Risk reason (risk factor)	a condition that causes a particular risk. As a rule, measures for reduction (elimination) of a risk shall be aimed at a reason (factor) of a risk
Risk management strategy	brief (in several sentences) description of main management principles of a particular risk. Main classes of strategies: risk avoidance, risk acceptance, risk mitigation, risk transfer
Risk management measures	particular actions, the content of which is formed by a person responsible for implementation of a particular risk management strategy. As a result of development of management measures, a period and costs of implementation of strategy are specified
Company's subdivision	any Team of the Investment-Development Project, any functional department, any subsidiary dependant company of PIK Group
Vice President for Risks	a functional duty imposed by the President of the Company on the Vice President of the Company. Responsible for functioning of the risk management system of the Company

1. GENERAL PROVISIONS

- 1.1. Concept K 603.0100.0110.001.01-2011 “Risk Management Concept of PIK Group” (hereinafter referred to as the “Concept”) is developed for the purpose of forming uniform rules and policies for arrangement of works in the area of building the risk management system of the Company and determination of the procedure of interaction of executive officers and structural subdivisions of PIK Group for implementation of this procedure.
- 1.2. The goal of the risk management system of the Company is permanent increase of efficiency of operating activity of structural subdivisions of PIK Group and subsidiary dependant companies through revelation of all potential “negative” and “positive” factors having influence on maximization of the Company’s value.
- 1.3. The task of the risk management system of the Company is identification of risks and management of the Company’s risks as a permanent developing process integrated into the corporate structure of the Company, accepted and approved by the management, and brought to attention of each employee of the Company as the general development program with the setting of particular tasks in situ.
- 1.4. The concept establishes:
 - risk classification;
 - composition of participants of the risk management process;
 - responsibility of persons taking part in functioning of the risk management system of the Company;
 - general procedure (main phases) and the brief description of the risk management procedures;
 - methods of evaluation and management of the Company’s risks.
- 1.5. This document is mandatory for all subdivisions of the Company and Subsidiary Dependant Companies as specified in Enclosure No. 1.
- 1.6. The responsibility for control over fulfillment of the provisions hereof shall be borne by the Internal Audit Department of PIK Group.

2. RISK CLASSIFICATION

- 1.1. The Company divides risks by categories:
 - External risks (depending on external factors), such as the legislation, standards (technology, designing, construction), currency rates, environmental conditions on a site/facility, competition, natural disasters, politics, a state, influence groups / the public, macroeconomics, force majeure, technological novelties (innovations).
 -
 - Internal risks (not depending on external factors) classified by groups of risk factors:
 - Technical risks: technology, physical volumes of works/services, production rate, reliability, safety, testing and acceptance.
 - Project management risks: budget, work schedule, designing, implementation, labour costs, logistics, purchases/contracts, arrangement.

- Risks of the Company's management: arrangement, resources, communication, information, Occupational Safety and Industrial Safety + Environment protection, reputation.
 - Commercial risks: contractual terms, finance, responsibility of contractors and guarantees, payment terms, suspension and termination, contractors, applicable law, partners/co-investors, sale of products / services.
- 1.2. And also:
- Financial, such as liquidity, change of a currency exchange rate, control over finance, change of a bank rate;
 - Operational, such as non-performance of contractual obligations, difficulties with sale of a product, threat of loss of a market share, dismissal of experienced personnel, accidents, potential environment contamination;
 - Strategic risks having influence on achievement of long-term goals of the Company, such as availability of capital, competition, political situation, change of the legislation, reputation and image.
- 1.3. And also:
- Main risks having influence on the Company in general and/or being outside the Company's influence, and/or at the intersection of functionality of departments and/or in the responsibility area of several departments and/or project portfolio risks;
 - Risks of the Investment-Development Project – in the responsibility area / functionality of a team of the IDP;
 - Risks of a Subsidiary Company – in the responsibility area / functionality of a subsidiary company;
 - Risks of a Functional Department – in the responsibility area / functionality of a particular department.
- 1.4. Each risk has its probability of occurrence of an uncertain event and a size of potential consequences for the Company. The detailed description of each risk is contained in the document entitled "*Description of the Company's Risk*".
- 1.5. The Company divides risks by **the threat level** (severity of potential consequences):
- **High** – significant influence on strategic development and activity of the Company and/or potential financial consequences starting from 3 billion rubles and/or high concerns of the top management and/or the Board of Directors.
 - **Medium** – financial consequences starting from 600 million rubles up to 3 billion rubles. Moderate influence on strategic development and activity of the Company. Moderate concerns of the top management and/or the Board of Directors.
 - **Low** – financial consequences below 600 million rubles. Weak/absence of influence on strategic development and activity of the Company. Weak concerns of the top management and/or the Board of Directors.
- 1.6. Division by the level of threat of the Company's risks is reflected in the document entitled "*Policy of Management of the Company's Risks*".

1.7. Division by the level of threat of risks of the Investment-Development Project / Functional Department / Subsidiary company is reflected in the document entitled “*Risk Management Policy of the Company’s Subdivision*”.

1.8. The Company divides risks by probability of occurrence of an event:

Probability evaluation	Description	Indicators
High (probably)	Probability of occurrence each PERIOD or probability of occurrence of an event exceeds X%	Potential probability that an event will occur several times during a certain period of time. An event has happened recently.
Medium (possibly)	Possibility of occurrence of an event during AA years or possibility of occurrence is less than Y%	An event may happen several times during a certain period of time. It is difficult to control due to influence of external factors. The history of occurrence of an event exists.
Low (distantly)	There is no possibility of occurrence of an event during AA years or possibility of occurrence of an event is less than Z%	An event hasn’t occurred. The possibility of occurrence of an event is small.

X, AA, Y, Z parameters are determined for each particular risk in the document entitled “Risk Description”.

3. MANAGEMENT AND CONTROL BODIES

- 1.1. **The Board of Directors** determines the category and the level of threat of main risks which the Company shall account for in the course of achievement of its strategic goals. Approves the Risk Management Concept (Principles) of the Company. Approves *the List of Main Risks with Serious Consequences* and the Main Risk Matrix. Evaluates efficiency of the risk management system of the Company. In the annual report, informs shareholders of results of evaluation of the risk management system of the Company.
- 1.2. **The Audit Committee of the Board of Directors (AC)** effects evaluation of the risk management system of the Company. Evaluation is effected on a regular basis, not less than once per year by the Internal Audit Department of the Company or an external expert. Recommends the Main Risk Matrix to the Board of Directors.
- 1.3. **The Management Body** recommends the Risk Management Concept (Principles) of the Company to the Board of Directors. On the basis of the List of Main Possible Risks with Serious Consequences determines the List of Main Risks with Serious Consequences and the Main Risk Matrix. Recommends them for approval by the Board of Directors of the Company. Approves the Risk Management Policy of the Company. Approves parameters of the policy. Approves the Main Risk Map, the Main Risk Description, the Main Procedure Register. Approves the Risk Management Policy of Investment-Development Projects, Functional Departments.
- 1.4. **The Operational Improvement Department** drafts the concept and the policy of risk management. Makes up *the List of Main Possible Risks with Serious Consequences*. Supports the actual condition of *the Main Risk Map, the Main Risk Matrix, the Main Risk Description, the Main Procedure Register*.

- 1.5. **The Internal Audit Department** ensures control over implementation of the risk management policy. The Internal Audit Department on a regular basis (not less than once per year) shall report to the Audit Committee on results of examination of the risk management system of the Company.
- 1.6. **The Financial Planning and Analysis Department** drafts methods of quantitative evaluation of risks. Offers parameters of the Risk Management Policy of the Company.

4. FUNCTIONAL POSITIONS

- 1.1. **Vice President for Risks** submits to the Board of Directors and implements the Risk Management Policy of the Company. Submits to the Management Board for approval the List of Main Possible Risks with Serious Consequences. Determines levels of threat of main risks. Determines distribution of main risks by probability of occurrence of an event. Agrees upon the Main Risk Map. Agrees upon the Risk Management Policies of Investment-Development Projects, Functional Departments. Examines the Risk Management Policy of a Subsidiary Company, the List of Main Possible Risks of a Subsidiary Company for the conformity with the Risk Management concept of PIK Group, agrees upon and recommends for approval by collegiate bodies of Subsidiary Companies.
- 1.2. **Top Manager** means a Vice President of the Company for a direction, or a head of a Subsidiary Company. Implements the risk management policy of the Company. Recommends risks for adding to the Main Risk Map. Determines the Risk Management Policy of the IDP / a functional department / a subsidiary company. Appoints a person responsible for implementation of risk management measures in a team of the IDP / a functional department / a subsidiary company and controls its activity. Approves the regular reporting with respect to risks of his IDP / a functional department / a subsidiary company.
- 1.3. **IDP team** means a structural unit, any particular Team of the Investment-Development Project.
- 1.4. **Functional Department (FD)** means a structural unit, any particular department of the Company.
- 1.5. **Subsidiary Company (SC)** means a structural unit, any subsidiary dependant company of PIK Group.
- 1.6. **Employee for Risks** means an employee appointed by a head of the IDP / Functional Department / Subsidiary Company responsible for implementation of risk management measures.

5. DOCUMENTS

5.1. RISK MANAGEMENT POLICY

- 1.1. **Risk Management Policy of the Company.** Represents a set of documents including the Risk Management Concept with defined and agreed parameters, the List of Main Risks with Serious Consequences approved by the Board of Directors of the Company, the Main Risk Map, the Main Risk Matrix, the Main Procedure Register and the Main Risk Description approved by the Management Board of the Company
- 1.2. **Risk Management Policy of the Investment-Development Project.**
- 1.3. Analogous to Clause 1.1. for the IDP.

1.4. **Risk Management Policy of a Subsidiary Company.**

1.5. Analogous to Clause 1.1. for a subsidiary company.

1.6. **Risk Management Policy of a Functional Department.**

1.7. Analogous to Clause 1.1. for a functional department.

5.2. LIST OF MAIN POSSIBLE RISKS WITH SERIOUS CONSEQUENCES

1.1. A document drafted on the basis of annual interrogation of top managers.

1.2. A document contains a list of main possible risks of the Company with serious consequences.

5.3. RISK MAP

1.1. Main Risk Map of the Company

A document represents the Main Risk List of the Company, their brief description, positive and negative effects of influence of each risk on activity of the Company, potential quantitative evaluation, offers with respect to the permissibility level of a risk, a method of risk management, a person responsible for risk management.

The Main Risk Map is annually approved by the Management Board of the Company.

The Head of the Internal Audit Department annually represents the Main Risk Map approved by the Management board of the Company to the Audit Committee.

The results of the interrogation and/or questionnaire of top managers of the Company held annually by the Operational Perfection Department are used as a basis of the Map.

The Map is annually prepared by the Operational Perfection Department and implemented by the Internal Audit Department.

1.2. Risk Map of the Investment-Development Project

A document represents the Main Risk List of the IDP, their brief description, positive and negative effects of influence of each risk on an investment-development project and on activity of the Company, potential quantitative evaluation, offers with respect to the permissibility level of a risk, a method of risk management, a person responsible for risk management.

The Risk Map of the IDP is made up by the Operational Perfection Department on the basis of the interrogation of heads of the IDP and ranging of the list of risks received by value for the IDP. The Map Risk of the IDP is approved by the management Board of the Company.

The Risk Map of the IDP is annually revised by the Operational Perfection Department, agreed upon by the Vice President for Risks responsible for functioning of the risk management system of PIK Group and a top manager responsible for the IDP.

The Risk Map of the IDP is annually approved by the Management Board of the Company.

In accordance with the approved Risk Map of the IDP, in the course of preparation of the FS (Feasibility Study) of an investment-development project for presentation the Team of the IDP elaborates the risk map of a particular project. The risk map of a particular project is approved by the Investment Committee, and annually implemented by a head of the IDP and the Operational Perfection Department.

1.3. Risk Map of a Subsidiary Company

A document represents the Main Risk List of a Subsidiary Company, their brief description, positive and negative effects of influence of each risk on activity of a Subsidiary company,

potential quantitative evaluation, offers with respect to the permissibility level of a risk, a method of risk management, a person responsible for risk management.

The Risk Map is annually made up / revised by an employee for risks of a Subsidiary Company and the Operational Perfection Department of the Company.

The Risk Map is annually agreed upon by the Vice President for Risks responsible for functioning of the risk management system of PIK Group and approved by an order of a top manager responsible for a Subsidiary Company.

1.4. **Risk Map of a Functional Department**

A document represents the Main Risk List of a functional Department, their brief description, positive and negative effects of influence of each risk on activity of the Company, potential quantitative evaluation, offers with respect to the permissibility level of a risk, a method of risk management, a person responsible for risk management.

The Map Risk is annually made up / revised by an employee for risks of a Functional Department and the Operational Perfection Department.

The Risk Map is annually approved by the Management Board of the Company.

5.4. **RISK DESCRIPTION**

1.1. **Risk description**

A document containing the following information:

- Brief name of a risk;
- Detailed description of a risk, accompanying events, exposure area;
- Risk type (strategic, operational, financial, etc.);
- Persons participating, influencing or influenced by this risk;
- Significance of consequences of an event for the Company and its probability;
- Acceptability of a risk. Potential losses/profits, their probability. Established level of permissibility of a risk. Who established the permissibility level of a risk;
- Risk management methods. Evaluation of the control safety level over a risk;
- Recommendations for mitigation of a risk;
- Persons responsible for implementation of the management and control strategy over a risk;
- Subdivision of the Company that prepared the description of a risk;
- Specialist responsible for preparation of a document;
- Date of creation, making amendments;
- Date of examination by an employee of the Internal Audit Department.

5.5. RISK MATRIX

1.1. Main Risk Matrix of the Company

A table representing distribution of all described risks of the Company in the form of matrix in accordance with probability and the threat level determined for them. All risks from *the Risk Map* shall be distributed by 9 groups (see Table 1).

Table 1. Example of *the Risk Matrix*.

Risk matrix		Probability of an event low	medium	high
Threat level	high	Risk 1 Risk 2	Risk 3	Risk 4
	medium	Risk 5 Risk 6 Risk 7	Risk 8 Risk 9	Risk 10
	low	no	Risk 11	Risk 12 Risk 13

1.2. Risk Matrix of the Investment-Development Project

Analogous to Clause 1.1.

1.3. Risk Matrix of a Subsidiary Company

Analogous to Clause 1.1.

1.4. Risk Matrix of a Functional Department

Analogous to Clause 1.1.

5.6. MAIN PROCEDURE REGISTER

1.1. Main Procedure Register of the Company

A document containing all procedures of management of main risks of the Company.

The procedures include:

- choosing the risk management strategy;
- measures for risk management of the IDP, a functional department, a subsidiary company;
- monitoring of risks;
- audit of the risk management system;
- making up the regulation reporting with respect to risks as required by the Board of Directors of the Company;
- analysis of the regulation reporting with respect to risks and making recommendations for perfection of the risk management system.

1.2. Risk Management Procedure Register of the Investment-Development Project

Analogous to Clause 1.1. for the Investment-Development Project.

- 1.3. **Risk Management Procedure Register of a Subsidiary Company**
Analogous to Clause 1.1. for a Subsidiary Company.
- 1.4. **Risk Management Procedure Register of a Functional Department**
Analogous to Clause 1.1. for a Functional Department.

5.7. RISK MANAGEMENT REPORTING

- 1.1. **Report** of a Head of the IDP, a Functional Department or a Subsidiary Company on performance of the risk management procedures.
The Report is prepared by an employee for risks of a Subdivision of the Company, approved by a top manager of a Subdivision of the Company and passed to the Operational Perfection Department for analysis and making recommendations/opinion with respect to the risk manageability level, the conformity of the risk control system with the approved Policy. To be effected on a regular basis in accordance with the Policy.

6. PROCEDURES

6.1. MAIN RISK MANAGEMENT PROCEDURES

- 1.1. **Main Risk Management Procedures** mean actions and/or consequences of actions of employees and subdivisions of the Company ensuring the level of management of Main Risks of the Company required by the Board of Directors, approved by the Management Board of the Company, the Collegial Management Body of a Subsidiary Dependant Company and/or the Vice President for Risks.
- 1.2. **Risk Management Procedures of the Investment-Development Project** mean actions and/or consequences of actions of employees of the Team of the IDP ensuring the risk management level required by the Vice President for Risks, prepared by the Operational Perfection Department and approved by the Vice President for Risks.
- 1.3. **Risk Management Procedures of a Subsidiary Company** mean actions and/or consequences of actions of employees of a Subsidiary Company ensuring the risk management level required by the Vice President for Risks, approved by a top manager of a subsidiary company and agreed upon by the Operational Perfection Department.
- 1.4. **Risk Management Procedures of a Functional Department** mean actions and/or consequences of actions of employees of a Functional Department ensuring the risk management level required by the Vice President for Risks, approved by a top manager and the Operational Perfection Department.
- 1.5. **Procedures of the Operational Perfection Department** mean actions and/or consequences of actions of employees of the operational Perfection Department for collection, processing and analysis of information and reporting with respect to risks of Subdivisions of the Company.

- 1.6. **Control Procedures** mean actions and/or consequences of actions of employees of the Internal Audit Department for examination of performance of the Main Procedures and the risk management procedures of the IDP, a functional department and a subsidiary company.
- 1.7. **Audit of the Risk Management System** means actions of employees of the Internal Audit Department or an external expert for evaluation of efficiency of the risk management system and its conformity with the policy approved by the Management Board of the Company.

Enclosure 1. The List of Subsidiaries of the Company, to which the Concept applies

No.	Name of a subsidiary company
	OJSC "DSK-2"
	OJSC "DSK-3"
	OJSC "MFS-PIK"
	OJSC PIK REGION"»
	OJSC "PIK Profile"
	OJSC "PIK Podyom"
	OJSC "PIK Autotrans"
	OJSC "EVROPROEKT"