

Approved by resolution of
IDGC of the South, JSC Board of Directors
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IDGC of the South, JSC
Risk Management Policy
(restated)

Rostov-on-Don, 2014

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1. General provisions

1.1. The Risk Management Policy of IDGC of the South, JSC (hereinafter referred to as – the Policy) is an internal document of IDGC of the South, JSC (hereinafter referred to as – the Company) and is prepared in accordance with the Company's Charter and the legislation of the Russian Federation, including Federal law "On Joint Stock Companies" #208-FZ dated 26.12.1995, the Code of Corporate Governance, approved by the Bank of Russia Board of Directors on 21.03.2014 and recommended for use by joint stock companies.

1.2. The Policy is based on the best practices, experience of advanced global and Russian companies, on the Strategy of company's development on management of the electric grid complex of the Russian Federation – Rosseti, JSC and the Strategy of development and enhancement of the internal control system of Rosseti, JSC and affiliated and dependent companies of Rosseti, JSC with use of mechanisms of implementation of the Risk Management System, stated in the report of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) - COSO Enterprise Risk Management (2004) and it is developed to continue the development and implementation of provisions of the Strategy of development of the electric grid complex of the Russian Federation, confirmed by Order of the Government of the Russian Federation No.511-r dated 03.04.2013.

1.3. The Policy determines:

risk management objectives;

principles of functioning of risk management system;

general approaches to risk revealing, estimation and management;

the basic functions and responsibility of participants of the risk management system;

the procedure of performance evaluation of the risk management system

1.4. The methodology of revealing, assessment and management of risks is disclosed in normative documents of the Company, developed by the Company to elaborate provisions of the Policy and approved by the Sole executive body (General Director) of the Company.

1.5. In respect of affiliates and dependent companies of IDGC of the South, JSC the Policy contains regulations of general (methodological) character describing the process of interaction between the Company and affiliates when arranging activity in the sphere of risks management.

1.6. The Policy (as well as particular regulations of the Policy) is recommended for use by affiliates and depended companies as a basis for development of internal documents of affiliates and depended companies, regulating the arrangement of risks management activity in affiliates and depended companies.

2. Terms and definitions

The risk management system is a set of management measures, techniques and procedures, designed and used for effective implementation of risk management.

Risk management is a process, performed by heads and employees at all levels of management of the Company, including revealing (identification) and assessment of risks, their ranging, and also influence on risks for provision of a reasonable guarantee of achievement of strategic and operational objectives of the Company.

Risk is a potentially possible action or event, capable of preventing Company from achieving its goals or particular processes (business activities) and resulting in negative consequences. The risk is characterised by probability and materiality of consequences.

The risk owner is deputy/first deputy of the Sole executive body (General Director) of the Company, the head of a structural division of the Company, responsible for all aspects of management of a certain risks, including decrease in probability of realisation of risk and-or decrease in possible influence of consequences from risk realisation. Risk owners are the heads supervising the business whose objectives the given risk directly influences on.

The Company – IDGC of The South, JSC

Subsidiaries and affiliates – affiliates and dependent companies of IDGC of The South, JSC.

3. Risk management objectives

The objectives of the Company in the field of risk management are:

- decrease in probability and/or consequences of happening of events, making negative impact on goal achievement of the Company;
- establishment of priorities in the Company's activity on the basis of knowledge of existing risks, including those of financial character;
- soundness of assets of assets and effective use of available resources;
- accomplishment of planned performance indicators;
- constant increase of efficiency of the activity in all spheres by means of analysis and estimation of the existing risks;
- provision of reliable technological functioning of the electric grid complex;
- achievement of appropriate efficiency of functioning of the risk management system in the Company and its affiliates and dependent companies;
- timely and complete information and analytical provision of processes of accepting management decisions and planning of the Company's activity and subsidiaries and affiliates.

4. Principles of functioning of the risk management system

The risk management system is based on the following principles:

System approach – management of all types of risks is performed in all key spheres of the activity, at all levels of management of the Company.

Leadership – executive bodies and management of the Company distribute in the Company knowledge and skills in the field of risk management, and make possible the effective information exchange within the risk management system, contributes to development of corporate culture of “management with risks taken into account”.

Integrity – the risk management system is integrated in strategic and operational management of the Company and subsidiaries and affiliates. Planning and decision making processes are performed with the view of comprehensive assessment of risks in their implementation. Risks are connected with objectives of the Company and subsidiaries and affiliates.

Division of levels of decision making – decisions on risk management are accepted at various levels of management depending on the importance of risks.

Responsibility for risk management - each employee of the Company considers as one of their tasks risk management within their competence, knowledge and available information.

Cross-functional interaction – the risk management process, covering several business activities or activity of several structural subdivisions within one line of business, is based on joint decisions accepted collectively, on the basis of the information, which is available for various structural subdivisions.

A single information channel – information support of the risk management system gives a chance in due time and in full to inform on risks of the persons, making decisions.

Rationality – the risk management system provides cost efficiency of events for risk management. Decrease in risks is performed proceeding from economic feasibility.

5. Revealing (identification) of risks

5.1. Revealing of risks means determination of events and factors (internal and/or external) which may significantly influence on achievement of the defined objectives and realisation of tasks.

5.2. Timely revealing of risks is the key driver for provision of achievement by the Company of its objectives and tasks.

5.3. The risk management system first of all is focused on revealing of potential risks before their origin or at an early stage of their occurrence.

5.4. One of the main key tasks of the Company is operation of grid complex of the Russian Federation. Taking it in account, the Company except risks related to arrangement, coordination and control of affiliates' activity, should also evaluate risks its affiliates are exposed to.

5.5. Identification of risks is performed at all levels of management of the Company and subsidiaries and affiliates.

5.6. Revealed risks are subject to ordering and are grouped by external and internal, lines of business, etc.

5.7. Particular risks can be factors (reasons) of other risks.

5.8. The Company introduces processes and procedures that are aimed at timely revealing and control of internal and external events influencing goal achievement of the Company, establishes and traces change of key indicators of risks, automates control procedures and activity on risk management in key business processes.

5.9. The Company consolidates the information on the revealed risks, informs shareholders on events for their management, keeps account of implemented risks and analyzes the reasons, contributing to their implementation.

6. Risks assessment

6.1. The Company develops and approves an acceptable level of risks (risk-appetite) – a level of overall risk, which the Company considers acceptable as a whole when achieving of objectives in view.

6.2. Risks are analyzed by two parameters: probability of their origin (probability of realisation of risk) and degree of potential damage to the Company and its subsidiaries and affiliates (degree of influence of an event on indicators of the Company's activity and its subsidiaries and affiliates).

6.3. The estimation of risk parameters may have qualitative or quantitative features. The Company strives to develop and apply mainly quantitative methods of risk rating; constantly to accumulate and improve modern techniques of quantitative risk assessment.

6.4. Various risk rating methods are applied depending on types of risks and applicability of certain assessment methods.

6.5. The valuation range of risk parameters corresponds to the horizon of achievement of the relevant objective (task) of the Company and its subsidiaries and affiliates.

6.6. Not interconnected risks are estimated separately.

6.7. Interconnected risks are estimated as a set.

6.8. Results of risk assessment are regularly reviewed.

6.9. On the basis of the produced estimations ranging of risks and revealing of critical risks of the Company and subsidiaries and affiliates is conducted.

7. Influence on risk (risk management)

7.1. The basic risk management practices:

- Refusal (evasion) of risk – refusal of the activity accompanied with an unacceptable (above the set size) risk level.
- Transfer (redistribution) of risk – transfer of risk to the counterpart (insurance, hedging, outsourcing).
- Reducing (minimisation) of risk – measures to decrease in probability of approach of a risky event and-or decrease in possible damage.
- Risk accepting – the Company undertakes to eliminate possible consequences of approach of a risky situation and is ready to cover losses at its own expense.

7.2. Measures for risk management can be:

- preventive - influencing reasons (factors) of risks for their prevention;
- emergency - directed on elimination of consequences of a developed risk.

7.3. The Company establishes the following levels of risk management (depending on risk assessment):

- the Board of Directors;
- the Sole executive body (General Director) of the Company, the Management Board;
- risks owners.

7.4. To reduce risks to minimum the Company develops plans for risk management confirmed at a corresponding level of risk management together with budgets on realisation of measures, contained in the plans.

7.5. Simultaneously with decision making on a risk management practice and measures to influence the risk control procedures are developed providing proper execution of planned events.

8. Risks monitoring

8.1. The Company strives to raise efficiency and quality of risk management, to bring it into accord with requirements of business and corporate management.

8.2. Monitoring of risks is performed by means of control of dynamics of risks, tracing values of key indicators of risks. The Company regularly updates information on risks, events to manage risks, and the status of accomplishment of

events.

8.3. The sector responsible for coordination and methodological provision of the activity on risk management, aggregates information on all revealed risks and updating of a risk registry.

9. The basic functions and responsibility of participants of the risk management system

9.1. The basic participants of the risk management system are:

- the Board of Directors;
- the Audit Committee attached to the Board of Directors;
- the Sole executive body (General Director) of the Company, the Management Board of the Company;
- risks owners;
- performers of control procedures and events on risk management;
- the sector responsible for coordination and methodological provision of the activity on risk management;
- the sector responsible for internal audit function.

9.2. The Board of Directors of the Company:

- approves internal documents of the Company that determine the strategy and development of the Company's risk management system;
- makes decisions aimed at realisation of measures to manage critical risks, and also considers budgets for realisation of the given events;
- considers reports of the Sole executive body of the Company on management of strategic and critical risks of the Company's activity.

9.3. The Audit Committee attached to the Board of Directors of the Company performs:

- preliminary consideration before approval by the Board of Directors of internal documents of the Company, determining the strategy, organisation and development of the Company's risk management system;
- control of reliability and efficiency of the risk management system, including

the evaluation of risk management system performance, preparation of offers on its enhancement;

- analysis of the list and structure of risks of the Company, discussion with executive bodies of substantial risks and their indicators, consideration of periodic reports on risk management, and also the analysis of events for management of substantial risks.

9.4. The Sole executive body (General Director) of the Company, the Management Board of the Company bears responsibility for:

- efficient risk management within the current activity of the Company;
- budget approval for risk management measures in the Company in the limits agreed by a decision of the Board of Directors of the Company;
- permission of cross-functional (carried out by several structural subdivisions) asks on risk management.

9.5. Owners of risks bear responsibility for:

- timely revealing and assessment of risks;
- choice of a risk management practice;
- timely development and organisation of accomplishment of events for risk management;
- regular monitoring of risks;
- provision of timely informing of management bodies of the Company about results of work on risk management;
- provision of efficient interaction with the division responsible for coordination and methodological provision of the activity on risk management, regarding documents and reporting formed within the risk management activity.

9.6. Performers of control procedures and events for risk management bear responsibility for:

- proper execution of control procedures directed on timely revealing and-or risk minimisation, in conformity with job descriptions and the established regulating documents;
- timely and in full accomplishment of events directed on risk management.

9.7. The sector, responsible for coordination and methodological provision of the activity on risk management, bears responsibility for:

- methodological support of the risk management process;
- coordination of actions of all participants of the Risk Management System;
- timely aggregating of the information on all revealed risks and the risk register updating;
- timely and complete provision to all shareholders (including executive bodies of management of the Company) the information about the main tendencies, risks, challenges and threats in the activity of the Company and subsidiaries and affiliates if necessary.

9.8. The division responsible for internal audit function performs:

- independent estimation of a current condition of the risk management system;
- issue of recommendations about effectiveness increase of the risk management system;
- informing executive bodies of management and the Board of Directors of the Company on condition of the internal control and risk management system.

10. Evaluation of effectiveness of risk management system

The Company carried out regular effectiveness evaluation of current condition of the risk management system (within the estimation of a current condition of the internal control and risk management system).

Such assessment is conducted by:

- the sector responsible for realisation of the function of coordination and methodological provision of the activity on risk management of the Company, – testing and estimation on a constant basis;
- the internal audit sector – annually;
- an independent party – external consultants – at least once in three years.