# Annex 27
# A MODEL BY-LAW ON RISK MANAGEMENT

APPROVED
by decision of the Supervisory Board
of the Open Joint Stock Company «___________________»

Supervisory Board Minutes
No. ________________________________
of ______________ 200_

Signature of the Chairman of the Supervisory Board
________________________________

dated this __ day of ________, 200_
[The Company's Seal]

## BY-LAW ON RISK MANAGEMENT

of the Open Joint Stock Company
«_________________________»

The city of ___________
_______________, 200_

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## Article 1. General Provisions

1.1. This By-law on Risk Management (hereinafter the By-law) of the Open Joint Stock Company «______________________» (hereinafter the Company) has been developed and drafted in accordance with the laws of the Russian Federation (hereinafter the Law), the charter of the Company, by-laws, and other internal corporate documents, and recommendations of the Federal Commission for the Securities Market's Code of Corporate Conduct (hereinafter the FCSM Code).[203]

1.2. The By-law defines the principles and elements of the risk management system, risk management methods, monitoring and control over the efficiency of the risk management system, the bodies responsible for the risk management system, and information disclosure.

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[203] This By-law has been developed to help companies implement the requirements of the FCSM Code and is consistent with recommendations of specialized institutions. For more information see:

- Internal Control, Guidance for Directors on the Combined Code, The Institute of Chartered Accountants in England & Wales, 1999.
- Implementing Turnbull — A Boardroom Briefing, The Institute of Chartered Accountants in England & Wales, 1999.
- A Risk Management Standard, The Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC), The National Forum for Risk Management in the Public Sector, 2002.
- Internal Control — Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission (COSO), U.K.
- Act on Corporate Control and Transparency (KonTraG), Germany.

## Article 2. Definitions, Principles, and Objectives of Risk Management

2.1. For the purposes of the By-law, risk shall be defined as the probability of an event occurring, and its expected effect upon the Company's activities. The Company's approach to risk management takes into account the potential of unfavorable events or threats, and the potential of favorable events or opportunities.

2.2. The Company views risk management as one of the most important elements of strategic management and internal control. Risk management is a process utilized by the Company which regularly identifies, evaluates, and controls threats and opportunities; modifies its operations for the purpose of decreasing the level of threats and in order to take advantage of any opportunities; and informs shareholders and other stakeholders thereof.

2.3. The Company's system of risk management is not designed to eliminate risks, but to increase the probability that the Company's strategic goals will be attained and in addition, take appropriate actions to decrease the probability and amount of potential losses. To this end, the Company clearly defines the levels of risk acceptable for each category of corporate activity.

2.4. An integrated risk management system takes into account the interrelation of various risks for the purpose of evaluating their aggregate effect on the Company's operations, and uniformly evaluating the potential of financial, operational, and other risks.

2.5. The By-law is not limited to the protection of shareholder interests; it also takes into account the potential consequences of the Company's operations for other stakeholders.

2.6. Implementing and maintaining the risk management system has the following objectives:

- 2.6.1. Compliance with corporate governance standards which focus on identifying, monitoring, and managing the risks, and properly disclosing information regarding such risks;
- 2.6.2. Preventing situations that threaten the strategic goals and objectives of the Company, and providing protection against them;
- 2.6.3. Coordinating and integrating risk management affecting various aspects of the Company's financial and business activities to generally increase the efficiency of management;
- 2.6.4. Taking advantage of opportunities for increasing the value of the Company's assets and the Company's long-term profitability; and
- 2.6.5. ________________________________.

## Article 3. Risk Identification

3.1. The Company uses its best efforts to identify all material risks. To achieve this objective, the Company uses standardized questionnaires, joint meetings of those persons responsible for risk identification, surveys conducted by external consultants, benchmarking, results of internal and external audits, and other methods of risk identification.

3.2. The Company identifies the risks related to all aspects of its operations, and maintains a register of risks. The register is limited to the description of the nature of the risk, and an experts' opinion regarding the materiality of such risks for the Company's operations. The register shall be updated periodically to reflect any changes in the external and internal conditions of the Company's operations.

## Article 4. Analysis, Evaluation, and Classification of Risks

4.1. For each of the material risks, the Company assesses the probability of all possible outcomes, and the expected effects of each risk on shareholder value.

4.2. Based on this assessment and the allocation of certain risks to a certain management function (e.g. strategic, operating, financial), risks are classified in the form of a "risk chart" and "risk matrix."[204]

4.3. The Company uses simple, measurable, and well-defined indicators that allow it to assess the current probability of an expected event that correspond to each material risk. When an indicator approaches a certain critical threshold, it signals the necessity for management's and/or the Supervisory Board's intervention and decision-making.

4.4. For each risk indicator, the Company determines critical thresholds based on the level of acceptable risk and the relevant objectives of the Company.

4.5. After a preliminary assessment of the risks identified, the Company reviews registered risks in light of the Company's priorities and needs. As a result, risks that have been rated as high or low may receive a different rating.[205]

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[204] Methods of assessment and the risk chart/matrix format depend upon the objectives and specific features of a company's operations. The main goal of the chart is to illustrate relative priorities of material risks and allocate them by certain areas of functional responsibility. An example has been included at the end of this By-law in Exhibits 1 and 2.

[205] If the risks are re-evaluated, minutes reflecting the relevant discussions on this matter should be kept. Many of the risks may be insignificant, but sometimes they may be numerous. This, in turn, may impede focusing on major and material risks.

## Article 5. Risk Management Methods

5.1. For each material risk, the Company develops methods and solutions for dealing with such risks, for minimizing possible losses, but also to take advantage of opportunities presented. Such methods include, but are not limited to, detailed response programs when risk indicators reach critical thresholds.

5.2. The type and structure of the method is based on a reasonable balance between the expected economic effect of its application and the costs of its implementation.

5.3. Main risk management methods applied by the Company are:

- 5.3.1. Acceptance and recording of risk;
- 5.3.2. Sharing the risk with other parties;
- 5.3.3. Termination of risk (e.g. canceling the project);
- 5.3.4. Financing the risk (insurance, additional investments, or financing for the project, reducing the risk to an acceptable level);
- 5.3.5. Diversification of risks; and
- 5.3.6. ______________________________.

5.4. Key considerations for choosing risk management methods are:

- 5.4.1. The Company's willingness to accept a certain amount of risk;
- 5.4.2. Balance between preventive versus detective controls;
- 5.4.3. Weighing the costs versus the benefits of control; and
- 5.4.4. ______________________________.

## Article 6. Monitoring and Control of the Risk Management System

6.1. The Company shall ensure ongoing monitoring and review of the risk management system.

## Article 7. Bodies Responsible for the Risk Management System

7.1. The Heads of the Company's structural units are responsible for identifying risks in their respective areas of the Company's operations and within the scope of their authority as vested in them by the General Director.

7.2. The General Director is responsible for the implementation of the Company's overall risk management policy.

7.3. The General Director establishes a standing body _________ [a council, committee, commission, risk management department] that reports directly to the General Director. This body consists of the following persons:

7.3.1. Deputy General Director;
7.3.2. Heads of structural units;
7.3.3. ______________________________;
7.3.4. ______________________________; and
7.3.5. ______________________________.

7.4. The body shall meet regularly, once every ___ weeks to address the following issues:

7.4.1. The Company's operational, financial, and strategic risks, and any other risks identified by the structural units of the Company;
7.4.2. The appraisal and analysis of identified risks;
7.4.3. The development and review of the risk chart;
7.4.4. The development of risk management methods for each separate risk; and
7.4.5. ______________________________.

7.5. Results of the risk management body meetings are reported directly to the General Director.
7.6. The General Director is responsible for submitting regular reports to the Supervisory Board that include information on the overall condition of the risk management system, any deficiencies in the system which have been identified, and specific proposals for its improvement.
7.7. If the Supervisory Board receives information on any material deficiencies in the risk management system, it commences an audit of the executive bodies and, if necessary, an assessment of the effectiveness of the risk management system.
7.8. The Supervisory Board approves the Company's risk management policy, reviews its efficiency, and takes measures to improve it on regular basis.
7.9. The control over the Company's risk management system is the responsibility of the Supervisory Board [the Audit Committee and/or the Strategic Planning and Finance Committee, if established].
7.10. The Supervisory Board reviews the following issues on a regular basis:

7.10.1. The nature and relative weight (significance) to be assigned to various risks faced by the Company;
7.10.2. Identification of acceptable and unacceptable risks for the Company;
7.10.3. The Company's ability to compensate for losses associated with risks or manage those risks deemed acceptable;

7.10.4. The cost of maintaining a comprehensive risk management system relative to its potential economic effect;
7.10.5. Structure and arrangements of the Company's risk management system; and
7.10.6. ____________________________.

7.11. After receiving the annual appraisal of the risk management system, the Supervisory Board shall discuss and take a position on:

7.11.1. Changes in the nature and priorities of material risks since the most recent annual review, and the Company's ability to react to such changes;
7.11.2. Quality and volume of activities of the executive bodies, Internal Auditor, and other bodies of internal control in the area of risk management;
7.11.3. Whether the reports on the status of risk management are provided by the executive bodies to the Supervisory Board and its committees in a timely and complete fashion;
7.11.4. Material errors in the risk management system during the reporting period, and the consequences of such errors for the Company's financial and business activities;
7.11.5. The efficiency of the Company's accountability to outside stakeholders; and
7.11.6. ____________________________.

## Article 8. Disclosure of Information on Risk Management

8.1. The risk management policy is viewed as an important element of the internal organizational culture, and shall be communicated to all employees. The company maintains communication channels between the Supervisory Board, the executive bodies, and all functional units for appropriate management of operational and strategic risks.

8.2. The Company discloses in its annual report the following information for outside stakeholders:

8.2.1. The structure of responsibility for various risk management functions;
8.2.2. An analysis of material risks to the Company;
8.2.3. Control processes for material risks, and risk management methods;
8.2.4. Changes made to the company's risk management system and the grounds for such changes; and
8.2.5. ____________________________.

# EXHIBIT 1. RISK MANAGEMENT CHART

**Company/Project Name: _______________**
**Project Status:_________________**

1. **PARTIES INVOLVED:**

| Name | Title | Department/Company |
|---|---|---|
| | | |
| | | |
| | | |

2. **POTENTIAL RISKS:**

| Potential Risks | Reasons/Explanations |
|---|---|
| | |
| | |
| | |

3. **RISK MANAGEMENT PLAN:**

| Potential Risks | Actions taken/planned<br>(include staff name, date/timeline of action) |
|---|---|
| | |
| | |
| | |

Prepared by:________________ Date:____________ Signature:____________

Reviewed by:________________ Date:____________ Signature:____________

Received by:________________ Date:____________ Signature:____________

## EXHIBIT 2. RISK MANAGEMENT MATRIX

*[Company Name]* **Risk Register** | **As of:** [*Enter Date*] | **Next Review:** [*Enter Date*]

| Risk Serial No. | Risk Category / Risk Sponsor / Risk Owner | Description of Risk | Risk Assessment | | Risk Priority | Adequacy of Existing Controls | Action (Treat, Tolerate, Transfer, Terminate) | Close Date |
|---|---|---|---|---|---|---|---|---|
| | | | Likelihood | Impact | | | | |
| 1 | [*Enter Risk Category*] | | | | | | | [*Enter Date*] |
| | [*Enter Risk Sponsor*] | | | | | | | |
| | [*Enter Risk Owner*] | | | | | | | |
| 2 | [*Enter Risk Category*] | | | | | | | [*Enter Date*] |
| | [*Enter Risk Sponsor*] | | | | | | | |
| | [*Enter Risk Owner*] | | | | | | | |
| 3 | [*Enter Risk Category*] | | | | | | | [*Enter Date*] |
| | [*Enter Risk Sponsor*] | | | | | | | |
| | [*Enter Risk Owner*] | | | | | | | |

**Risk Assessment:** High (H), Medium (M), or Low (L)

**Adequacy of Controls:** Uncertain, Inadequate, Adequate

**Assessment Order:** Highest Likelihood first, then by Impact

**Risk Categories:** External, Operational, Technology, Resource