



«Approved»
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the Board of Directors
Of «CAEPCO», JSC
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Risk Management Policy
«Central-Asian Electric-Power Corporation»,
Joint Stock Company

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1 General provisions

1.1 Terms and definitions

The Group - «Central Asian Electric-Power Corporation», Joint Stock Company («CAEPCO», JSC) includes the parent company “CAEPCO”, JSC and the subsidiary organizations (SO) - SEVKAZENERGO» Joint Stock Company, «PAVLODARENERGO» Joint Stock Company, «ASTANAENERGOSBYT» Limited Liability Company - and other subsidiaries, that have already joined or will be joined to the Group in the future.

The Board of Directors of «CAEPCO», JSC– is a body that fulfills the general management of the Group, except the issues referred to the effective Law of the Republic of Kazakhstan on Joint Stock Companies and the Group's Articles of Association of «CAEPCO» JSC, which is the exclusive jurisdiction of the general meeting of shareholders.

The Audit Committee of the Board of Directors of "CAEPCO", JSC (The Audit Committee) - is an advisory body of the Board of Directors of “CAEPCO”, JSC and established to assist the Board of Directors to monitor decisions and processes designed to ensure the integrity of financial reporting and sound systems of internal control and risk management.

Risk – a potential event (or set of circumstances), which in case of its realization can have a negative impact on the achievement of long and short term goals of the Group.

Enterprise Risk Management (ERM) - a set of interrelated elements combined in a single process, effected by the Board of Directors, Management and other personnel at every level of the Group, applied in strategy setting and across the enterprise, designed to identify potential adverse events that may affect the Group, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Group's objectives.

Internal Control System - a is a set of policies, processes, procedures, standards of behavior and performance indicators combined in a single process, which is a part of the Group management process effected by the Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations of the Group;
- Compliance with the effective laws and regulations of the Republic of Kazakhstan;
- Reliability of financial reporting and its preparation system;
- Safety of the assets (resources) and prevention of fraud and illegal actions.

Significant risk – the risk, having a significant, critical or catastrophic impact on the achievement of the Group's long and short term goals.

Cross-functional risk – the risk, which involves the management of different levels or different functional units during the management process.

The Department of Risk Management of "CAEPCO", JSC (Department) – a division of the Group that organizes and supports an implementation process of Enterprise Risk Management and Internal Control.

Risk manager – an employee of the SO/"CAEPCO", JSC responsible for performing tasks assigned by the Head of the Risk management department within the risk management process.

Risk manager - methodologist - an employee in the Risk management department, which is responsible for performing tasks assigned by the Head of the Risk management department within the risk management process.

Risk owner – a Head of a structural unit of the SO / "CAEPCO", JSC, which owns the business process, exposed to a particular risk event. The risk owner is fully responsible for achieving planned and approved goals on managing this risk.

Mitigation owner – a Head of a structural unit of the SO / "CAEPCO", JSC that develops and implements the mitigations on the cause of the risk or consequences of its realization. Mitigation owner can be a Head of the structural unit, which is a Risk owner, as well as a Head of another structural unit.

Expert – a highly qualified employee in a particular area of the Group, which has the ability to give expert assessment of risk impact on production and financial-economic performance of the Group, based on his/her expertise and qualification experience.

1.2 Goals and objectives

The Risk management Policy of the Group (hereinafter - Policy) is an internal document defining the main approaches to the organization, implementation and monitoring of risk management processes in the Group.

The main Policy goals and objectives are:

- creation of effective enterprise risk management system in the Group;
- development of favorable risk management culture among management and employees of the Group;
- creation of opportunities for the Group to set and monitor the quality of risk management process based on clear and understandable criteria;
- prompt response to emerging risk events, tracking changes in the external and internal environment;
- organization of direct activity on risk management in order to reduce risk impacts to acceptable level or transfer to third parties (insurance, hedging);
- systematization and further accumulation of information about the Group's risks, increase business agility;
- finally – improvement of the competitiveness of the Group and its market value through improved efficiency and optimization of risk management.

The main approaches to the organization, implementation and monitoring the of risk management processes, specified in the Policy, are based on the international enterprise risk management framework – “Enterprise risk management – integrated framework” COSO 2004.

1.3 Interrelation of the Policy with the internal documents

This Policy is linked to the approved and current Group's following internal documents:

1. The Regulations on the Risk Management Department of “CAEPCO”, JSC and its subsidiaries;
2. The Regulations on the interaction of the business units of “CAEPCO”, JSC on enterprise risk management;
3. The Methodology of enterprise risk management of “CAEPCO”, JSC;
4. The Regulations on the interaction of the business units of “CAEPCO”, JSC on internal control system;
5. The Methodology of internal control system of “CAEPCO”, JSC.

2 Risk management process

The enterprise risk management process consists of eight interrelated components. Due to the fact that these components are the main part of the risk management process, their content is determined by the way management governs the Group. These components include:

- internal environment;
- goal setting;
- risk identification;
- risk assessment;
- risk management;
- risk control;
- information and communication;
- monitoring.

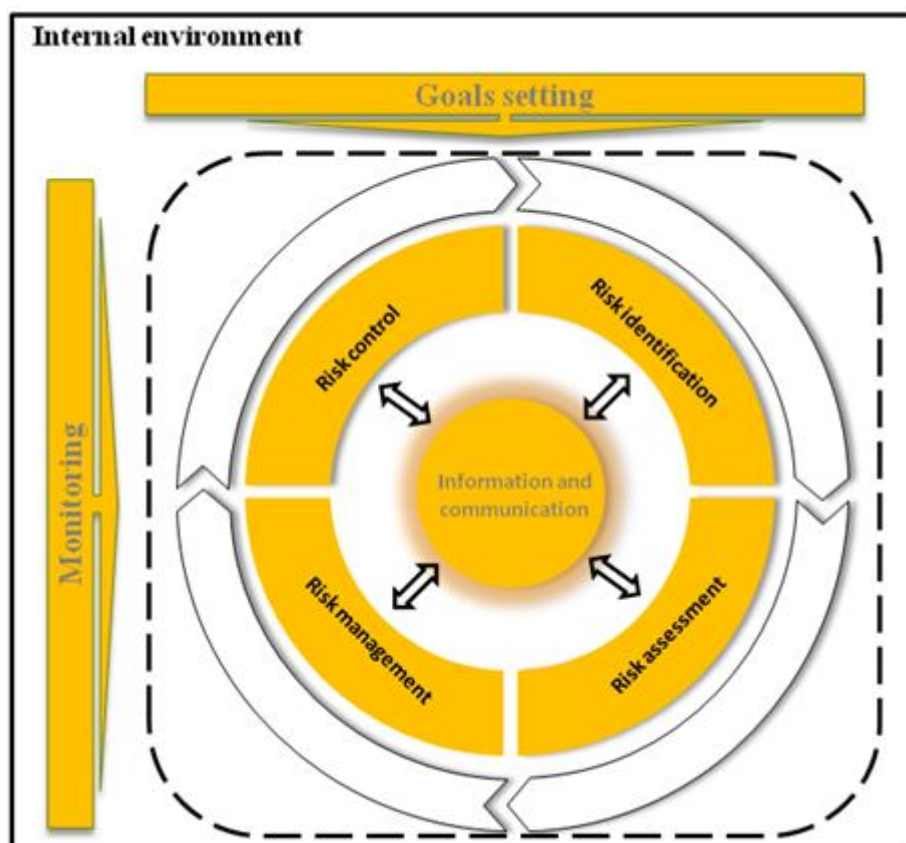


Figure 1. The risk management processes of "CAEPCO", JSC.

The risk management processes is not linear, where one component affects the other. This process is multidirectional and cyclical, in which all components interact with each other.

2.1 Internal environment

The internal environment presents the atmosphere in the organization that determines how risk is perceived by its employees, and how they react to it. The internal environment includes risk management philosophy of honesty and ethical values. The internal environment is the foundation for other components of risk management system.

In order to implement and maintain effective enterprise risk management system in the Group, the Board of Directors and the Group's management are interested in creating and maintaining favorable risk culture among employees at all levels. Risk culture is an indicator of the internal environment in which management and employees make decisions and carry out their operational and other activities by taking into account the optimal ratio of risks and opportunities.

The creation of risk culture that helps to maintain a favorable internal environment of the Group is carried out through the following activities:

- establishing of a separate division at the Group that sets up and maintains an enterprise risk management process (organizational structure of enterprise risk management system is represented in the Regulations on the interaction of the business units of "CAEPCO", JSC on enterprise risk management system);
- conducting periodic trainings on enterprise risk management for the key business units' employees and top management of the Group;
- conducting periodic meetings with representatives of various departments to discuss cross-functional risks.

2.2 Goal setting

Goal setting is a key element of the Group under the risk management system. The goals of the Group have to be determined before the top management starts to identify events that could potentially have a negative impact on their achievement. The risk management process is an ongoing process inherent in the normal course of governance. This process covers the whole Group and is being developed in order to provide reasonable assurance that management has properly organized the process of selection and formation of goals, and that these goals are aligned with its mission and the level of risk appetite. Reasonable certainty implies a low probability for negative risk event realization.

After determination of the Group's goals, it is necessary to develop a step-by-step plan to achieve these goals. Achievement of the Group's goals is carried out through proper strategic planning for the short, medium and long terms. For these purposes, the Group's top management develops short and long term business, development and strategic plans.

The Group annually determines its acceptable level of risk appetite, which allows taking risks in order to achieve its strategic objectives, while maintaining its financial stability. The Group uses the following approaches to determine an acceptable level of risk appetite:

- subjective approach;

- objective approach.

More detailed information on these approaches is presented in the Methodology of enterprise risk management of “CAEPCO”, JSC.

2.3 Risk identification

Risk identification procedure is a key component in the process of risk management. This procedure allows identifying both internal and external events that negatively affect the achievement of the Group goals. Identified events should be separated to risks and opportunities. Events that negatively affect the achievement of the Group goals are called risks. Events that have a positive impact on the achievement of the Group goals are called opportunities. Opportunities should also be taken into account by the top management during the process of strategy and goal setting.

Risks can be identified through the following procedures:

- initial risks identification and inventory – initial formation of the Group’s Risk register and its regular review;
- identification of a potential risk – identification of potential risks in the normal course of business.

As part of these procedures, the Group uses the following methods for identification of risks:

- business process analysis;
- collection and analysis of statistical data;
- individual expert methods (questionnaires, interviews);
- group methods (brainstorming, role play);
- monitoring of publications and presentations.

More detailed description of the procedures and methods for risk identification is presented in the Methodology of enterprise risk management of “CAEPCO”, JSC.

The result of risk identification procedure is a Risk register, which includes a complete list of Group’s identified risks with a brief description of its factors (causes) of occurrence, potential consequences, as well as Risk response action plans of these risks.

Actualization and updating of the Risk register of the Group is implemented on an annual basis. The individual responsibility for the timely updating and renovation, as well as time-frames are specified in the Regulations on the interaction of the business units of “CAEPCO”, JSC on enterprise risk management.

2.4 Risk assessment

A subsequent step in the risk management process is risk assessment. Risks are analyzed based on the probability and impact. This analysis allows determining the significance of the risk impact on production and financial-economic performance of the Group. Moreover, risk assessment can prioritize development of Risk response action plans for enterprise risk management of the Group.

The Group uses the following risk assessment approaches:

- qualitative assessment;
- quantitative assessment.

Qualitative assessment – uses financial and nonfinancial risk impact characteristics and applies to the risks that:

- by its nature cannot be assessed in terms of accurate numerical terms;
- must be assessed quantitatively, but:
 - statistical data are insufficient;
 - statistical data are unrepresentative;
 - experts find it difficult to assess risk quantitatively.

Quantitative assessment applies to the risks that:

- can be expressed in numerical terms;
- must be assessed quantitatively, because:
 - statistical data are sufficient;
 - statistical data are representative;

A Risk assessment approach is determined based on the type of risk impact. Linkage of risks to qualitative or quantitative risk assessment approaches is not fixed and can be modified for risk assessment purposes.

The result of risk assessment using the above approaches is the overall score for each risk, obtained depending on the method of calculation. More detailed information on risk assessment approaches is presented in the Methodology of enterprise risk management of “CAEPCO”, JSC.

Assessment of risks should be done on an annual basis. Individual responsibility for the timely risks assessment, as well as time-frames for risk assessment are specified in the Regulations on the interaction of the business units of “CAEPCO”, JSC on enterprise risk management.

2.5 Risk management

Controlling and managing of significant risks is a priority for the Group's management and is the process of developing and implementing measures to reduce the negative impact and probability of risks realization, or to receive financial compensation. Based on the corporate risk map, Risk management department responsible for enterprise risk management process that determines the significant (major, critical and catastrophic) risks. This procedure is carried out in order to ensure efficiency of the process and to reduce cost of its implementation.

Due to the fact that resources of the Group are limited, management should focus on risks that may have the most significant impact on the financial position, goals and objectives of the Group. Mitigation owners, together with risk owners, determine the methods of risk mitigation and develop activities to manage significant risks, which

allow bringing the potential impact of identified risks in line with an acceptable level of Group's risk appetite.

There are two types of Risk response action plans for risk management:

- Proactive Risk response action plans (influence on risk causes/factors);
- Reactive Risk response action plans (minimization of risk consequences).

More detailed information on methods and Risk response action plans on enterprise risk management are presented in the Methodology of enterprise risk management of "CAEPCO", JSC.

Adopted Risk response action plans for risk management are reviewed on an annual basis and approved by the Board of Directors, according to established terms of the Regulations on the interaction of the business units of "CAEPCO", JSC on enterprise risk management.

2.6 Risk control

Risk control is the policies and procedures developed and implemented in the way to provide the reasonable assurance that response to the emerging risk takes place efficiently and in timely manner.

Under the framework of risk control, the Group has developed the Regulations on the interaction of the business units of "CAEPCO", JSC on enterprise risk management, which determine the order and timing of actions, as well as reporting under the framework of risk management system.

Responsibility for the development of mitigation controls is placed on a structural unit which is responsible for risk management.

The result of risk control procedures is regular update of the information on the implementation of Risk response action plans, as well as taking necessary management decisions based on such information, including those related to adjustments and increasing the effectiveness of previously approved Risk response action plans.

2.7 Information and communication

Information and communication under the framework of the Group's risk management is carried out both vertically downward and horizontally. The objectives of regular information exchange on the risks within the Group are to:

- assign personal responsibility for the management of these or other significant risks to the relevant managers of the Group (Risk owners);
- promptly notify the Board of Directors of the Group about information on all risks, that have to be managed at the appropriate level of the Group;
- timely deliver to performers of risk management mitigations the information about their personal responsibility for the implementation of relevant mitigations (including the expected outcome, timing, resources, etc.);
- ensure effective information sharing in the management of the Group's cross-functional risks.

Reporting forms provided under the enterprise risk management framework are presented in the Methodology of enterprise risk management of “CAEPCO”, JSC; responsible persons and reporting dates - in the Regulations on the interaction of the business units of “CAEPCO”, JSC on enterprise risk management.

2.8 Monitoring

Monitoring is the final stage of the enterprise risk management process, which allows monitoring the whole process of risk management and, if necessary, making corrective adjustments. Monitoring is carried out under the current management activities or through periodic assessments.

Mechanism for monitoring of enterprise risk management system is aimed to define whether the existing risk management process still has a value in terms of enhancing the effectiveness of the Group activities or not. The Group uses the following mechanisms, which include both regular and periodic monitoring of enterprise risk management system:

Regular activities:

- oversight of the Audit Committee;
- continuous monitoring by managers of functional business units.

Periodic activities:

- evaluation by internal auditors;
- evaluation by independent consultants.

Dates of the abovementioned monitoring activities are presented in the Regulations on the interaction of the business units of “CAEPCO”, JSC on enterprise risk management system.