**APPROVED BY:**

Resolution of the Supervisory Board of PJSC ALROSA

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**PJSC ALROSA RISK MANAGEMENT POLICY (New Version)**

**2020**

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# Purpose and Objectives of the Risk Management Policy

1.1. This Policy defines the approach of Public Joint Stock Company ALROSA (hereinafter “PJSC ALROSA” or the “Company”) to risk management, the main goals and objectives in the field of risk management, and the principles underlying the risk management system of ALROSA (hereinafter the “RMS”).

1.2. The objectives of this Policy are to:

* Determine the Company-wide principles and approaches to risk management;
* Ensure unambiguous understanding of the goals, objectives, principles and

approaches in the field of risk management by all employees of the Company.

1.3. This Policy has been developed in accordance with the Russian laws, international standards and best practices of corporate governance and risk management.

# Terms and Definitions

The terms used in this Policy have the following definitions:

2.1. **Risk Probability** means the value reflecting the degree of confidence in the occurrence of a risk event.

2.2. **Risk Management Process Owner** means the person responsible for the functioning of the Company's risk management process and having appropriate authority to that end.

2.3. **Risk Owner** means the head of a structural unit or functional service / deputy Chief Executive Officer / Chief Executive Officer – Chairman of the Executive Committee of the Company, who is personally responsible for continuous operational management of risks that may affect the achievement of goals set by the Company / subsidiary / structural subdivision / functional service.

2.4. **Risk Impact** means a measurable adverse impact on the Company's goals in the event of risk occurrence (the amount of potential damage).

2.5. **Risk Identification** means the process of identifying and describing the risk the Company may be exposed to.

2.6. **Critical Risks** means the risks the occurrence of which may cause significant and potentially irreversible damage to the Company and/or pose a threat to the Company's continuation and/or assets.

2.7. **Supervising Manager** means the head of a structural subdivision or functional service, deputy Chief Executive Officer or Executive Committee member who makes decisions on risk management and regularly monitors the efficiency of measures taken to manage risks within their scope of competence.

2.8. **Risk Management Measure** or **Risk Mitigation Measure** means the action aimed at reducing the probability and/or damage from the occurrence of a risk event.

2.9. **Risk Monitoring** means a systematic collection of information on the state of factors affecting the risk level with the purpose to update risk data.

2.10. **Risk Assessment** means the process of determining the level of risk based on the assessment of risk probability and impact in accordance with the methodological approaches to risk assessment adopted by the Company.

2.11. **Risk Portfolio** means aggregated information on the distribution of the entire set of risks by business processes, operations, decision-making levels and/or other criteria.

2.12. **Preferred Risk** or **Risk Appetite** means the types and values of maximum permissible levels of risks that the Company's Supervisory Board considers acceptable in the process of achieving its goals.

2.13. **Risk Response** means the choice of a risk response method, planning and implementation of risk mitigation measures, taking measures aimed at minimizing damage and/or risk probability.

2.14. **Risk** means the impact of uncertainty on the achievement of the Company’s goals.

2.15. **Risk Event** means a potential event that has a negative or positive impact on the achievement of the Company’s goals.

2.16. **Aggregate Risk Level** means the level of risk determined based on an assessment of all identified risks of the Company and reflecting the Company’s overall exposure to risks.

2.17. **Risk Management** means a continuous and cyclical process that is part of the RMS and is aimed at identifying risks and responding to identified risks to prevent the occurrence of risks and minimize damage in the event of their occurrence; any processes, policies, devices, practices or other conditions or actions aimed at changing the risk.

2.18. **Risk Level** or **Risk Assessment** means the risk value expressed in points which is determined based on the results of risk assessment and represents the value at the intersection of the risk probability and impact values on the risk significance matrix. The risk level indicates the degree of risk impact on the results of operations and the achievement of the Company’s strategic goals.

# The Company's approach to risk management

3.1. PJSC ALROSA is one of the world leaders in the exploration, mining and sale of rough diamonds and diamond manufacturing. PJSC ALROSA was established in accordance with Decree of the Russian President No. 158C “On the Establishment of Joint Stock Company Almazy Rossii — Sakha” dated February 19, 1992. The Company is headquartered in Mirny, the Republic of Sakha (Yakutia), and in Moscow, Russia.

3.2. Within the scope of its activities, the Company places a special focus on ensuring compliance with the laws of the countries in which it operates, the applicable listing requirements, internal regulatory requirements, as well as international standards related to various aspects of the Company’s activities, including corporate governance.

3.3. An important component of corporate governance is risk management. Since the Company’s activities is fraught with various risks, including country and industry risks, PJSC ALROSA strives to ensure effective functioning of its risk management processes required for timely prevention of risk occurrences and minimization of their consequences.

3.4. Efficient risk management is a continuous and systematic process at all levels of the Company, which is integrated with key business processes and aimed at improving the quality of decisions made by the Company’s management. The Company regularly identifies, monitors, analyzes, evaluates and responds to risks, including systematic planning of measures to reduce the risk level and control their occurrence.

3.5. The systematic approach to risk management ensures the Company's sustainable development in conditions of uncertainty and changes in the external environment affecting the Company's operations. That is why the Company aims to form and maintain an effective risk management system with structured risk management activities and necessary resources, organized in accordance with the Company’s strategy and goals. The Company's executive bodies are responsible for ensuring the continuity of the RMS and the implementation of risk management decisions passed by the Company's Supervisory Board.

3.6. The Company pays special attention to the management of critical risks: the list of risks is regularly revised with involvement of the Company's management. Risks are reviewed and assessed, and the ways of their mitigation are discussed at the Executive Committee’s meetings. The efficiency of critical risk management is assessed by the Internal Audit Department (within the scope of assessing the reliability and efficiency of the risk management and internal control system (RM & ICS)), the Audit Committee within the Supervisory Board and the Supervisory Board. Other risks that may cause less damage in the event of their occurrence are managed in the course of daily operations without the involvement of the Executive Committee in accordance with the established procedure.

3.7. For operations and transactions associated with an increased risk of capital or investment loss, it is necessary to proceed from a reasonable degree of risk and the conformance of the accepted risk level to the maximum level of the Preferred Risk determined by the Supervisory Board.

# The Company’s principles, goals and objectives in risk management

## Risk management principles

4.1.1. **Integration:** Risk management is an important component of corporate governance and an integral part of the Company's overall management system. Risk management processes shall be integrated into key business processes, including business planning and strategic goal setting. Risk management affects all business functions, structural subdivisions, functional services of the Company. Risk management is directly related to the internal control system, including through the establishment of risk appetite, cascading of goals and associated risks, and ensuring the organization of risk management at the process and operational (transactional) levels of activity.

4.1.2. **Consistency and continuity:** Risk management is systematic in nature and is a continuous process involving a regular and consistent implementation of risk management and adapting to the changing conditions of the internal and external environments.

4.1.3. **Integrity:** Management of individual risks and implementation of various risk management processes are performed within the scope of the overall risk management system.

4.1.4. **Economic expediency:** The risk management system shall be consistent with the size, organizational structure, strategy and objectives of the Company. Risk management shall be based on maintaining a reasonable balance between the risk management costs and the cumulative impact of risks on the Company and take into account the risk probability (aggregate risk level). Financial and other resources for measures are allocated and risk mitigation measures are taken depending on the risk significance for the Company determined by the risk level, as well as the priority of risk response measures and the expected effect of the event.

4.1.5. **Responsibility:** Risk management is the responsibility of all structural subdivisions, functional services, governing bodies and employees of the Company.

## Risk management goal

* Assistance in the implementation of the Company’s strategy, achievement of its goals and attainment of its key performance indicators.
* Ensuring the continuity of all types of the Company’s activities in the interests of its shareholders.
* Improving the quality of managerial decisions.
* Strengthening the Company’s reputation and trust of its investors, shareholders, business partners and other stakeholders.
* Ensuring compliance of the RMS with legal requirements, listing requirements and best practices in the field of risk management and corporate governance.
* Ensuring an objective, fair and clear view of the Company's current state and prospects, the integrity and transparency of the Company's reporting, and the reasonableness and acceptability of risks assumed by the Company.

## Risk management objectives

* Ensuring reasonable confidence in the achievement of the Company’s objectives.
* Ensuring the efficiency of the Company’s financial and economic activities, the rational use of its resources and the safety of its assets.
* Ensuring timely identification and prompt response to risks to decrease the aggregate level of the Company’s risk.
* Providing support to the Company’s executive bodies in the decision-making process and monitoring the achievement of target indicators by aggregating and providing up-to-date information on risks on a regular basis.
* Ensuring the completeness and reliability of the Company's accounting (financial), statistical and management reports.
* Ensuring control of compliance with legal requirements and the Company’s internal regulations.
* Promoting a risk-oriented culture where each Company employee is involved in the risk management process, clearly understands their functions and responsibilities and acts in the interests of the Company and its shareholders.
* Improving the effectiveness of the Company’s aggregate actions on risk management and the efficiency of allocation and use of resources for risk management activities.

# Risk management system

5.1. Risk management is an integral part of the Company’s activities and involves regular monitoring and identification of events and factors affecting the achievement of the Company’s strategic goals (identification of risks), analysis of identified risks, assessment of the likelihood of such events and the scope of potential damage (risk assessment), as well as planning and implementation of measures to prevent the occurrence of risks and minimize the adverse impact of their occurrence (response to risks). The above measures are implemented on a systematic and coordinated basis through the Company’s risk management infrastructure, which includes:

* internal regulations of the Company defining the principles, goals, objectives, approaches and methods of risk management and documents on risk management;
* risk management at all levels of the Company’s governance using a structured and regulated business process;
* clear distribution of roles, functions and responsibilities of the participants of the management process and their documentation in the Company’s internal regulatory documents;
* a center of responsibility for the coordination of the risk management process and aggregation of information on risks.

5.2. Components of the risk management system:

* corporate governance and culture;
* strategy and goal setting;
* efficiency of activities;
* analysis and revision;
* information, communication and reporting.
  1. PJSC ALROSA aims to ensure the infrastructure required for a structured and systematic approach to risk management. The risk management system facilitates the integration of data for all risk categories and the regular exchange of information on risks, and creates conditions for the use of data on risks in planning and for making decisions in all kinds of the Company’s activities.
  2. The key element affecting the development and efficiency of the RMS is the Company’s risk culture. Risk culture reflects the core values, behavior and decision-making model of all governing bodies and employees of the Company. Risk culture includes the desired behavior with respect to risks, as well as all elements of the Company's control environment, such as leadership style, corporate culture, ethical values, organizational structure, accountability and responsibility of heads of business lines and structural subdivisions, competence and development of employees, open communication, etc. Creation of a risk culture to be shared by all employees of the Company is a fundamental factor in ensuring effective risk management to implement the strategy and achieve the Company's business goals. The Company's Supervisory Board and the executive bodies are expected to set a personal example in sharing values, following the behavioral model of decision-making, and demonstrating and maintaining good risk management practices, that is, creating a behavioral environment with regard to the expectations of stakeholders, social and ethical norms and rules of behavior. The Company's Supervisory Board and executive bodies determine the desired risk culture of the Company as a whole, and the Company's values, in turn, determine the expected behavior when making day-to-day decisions to meet the expectations of stakeholders.
  3. The efficiency of the risk management system depends on a clear and competent delineation of functions, competencies and responsibilities among the participants of the risk management process, the well-coordinated functioning of the RMS elements, as well as regular interaction between the participants of the risk management process.
  4. PJSC ALROSA’s risk management system provides for the following key participants of the risk management process responsible for various aspects of risk management on an ongoing basis:
* Supervisory Board;
* Audit Committee within the Supervisory Board;
* Executive bodies: Chief Executive Officer – Chairman of the Executive Committee, Executive Committee;
* risk owners and supervisors;
* risk management process owner;
* Risk Management Department;
* Internal Control Department;
* Internal Audit Department;
* Audit Committee;
* employees of the Company's structural subdivisions and functional services.

5.7. Limitations of the risk management system:

1. Company’s corporate management peculiarities (the risk management system is one of the elements of corporate governance, however, a number of corporate governance issues are beyond the RMS, but have a direct impact on its functioning);
2. The subjectivity of judgments (decisions regarding risks are made on the basis of human judgment, taking into account time constraints, on the basis of available information subject to distortion by employees and under conditions of internal and external pressures (deadlines, requirements, high key performance indicators));
3. External events (the RMS cannot provide reasonable assurance in the achievement of goals, as long as external events can have a significant impact on the achievement of goals and this impact cannot be reduced to an acceptable level; in these situations, the RMS can only provide reasonable assurance that the Company is aware of the progress or lack of progress in achieving such goals);
4. Failures in the RMS (can be caused by various factors, including misinterpretation by the RMS participants of internal documents, Russian laws, requirements of regulatory bodies, terms of contracts, employee errors, including because of negligence, lack of competence, impossibility to completely eliminate the risk of imperfect processes, technologies, or models);
5. Deliberate violation (circumvention) of the RMS (the RMS participants may commit deliberate actions (including as a result of collusion) with the purpose to conceal (distort) data on risks or risk control measures, omit risk control measures (including control procedures) and/or perform illegal actions;
6. Lack of personal (in addition to civil, administrative and criminal) responsibility of the Company's executive bodies and/or employees for the implementation of the Company’s significant projects.

# Final provisions

6.1. This Policy applies to all structural subdivisions, functional services, governing bodies and employees of PJSC ALROSA.

6.2. The risk management policy of PJSC ALROSA is approved by the Company’s Supervisory Board.

6.3. The implementation of this Policy will be controlled by the Company’s Audit Committee and Supervisory Board.

6.4. This Policy may be modified or amended as necessary. All amendments and modifications will be approved in the same manner as the Policy.