

**Risk Management Policy**  
**of**  
**Georgian State Electrosystem JSC**

**1. Introduction**

This document sets out the policy and assurance framework for the management of strategic, operational and project risk at **Georgian State Electrosystem JSC (GSE)**.

GSE is committed to developing and implementing a risk management policy and assurance framework that will provide a systematic and consistent framework through which the risks that threaten the delivery of its key objectives can be minimized. The Assurance Framework will be used by the GSE Supervisory Board to identify, monitor and evaluate strategic risks. It will be considered alongside other key management tools, such as key performance indicators, assurance framework, and financial reports to give the GSE Supervisory Board a comprehensive picture of the GSE's risk profile.

The purpose of this document is to provide guidance to all staff within GSE on the management of strategic, operational and project risks within the organization and will describe the procedures to be used in identifying, analyzing, evaluating and monitoring risks to the delivery of key objectives.

The objectives of this strategy and policy are to:

- Promote awareness of business risk and embed the approach of its management throughout GSE.
- Ensure that risk management is an integral part of the GSE's culture.
- Seek to identify, measure, control and report on any risk that will undermine the achievement of GSE's priorities, both strategically and operationally, through appropriate assessment criteria.
- Monitor and measure the overall performance of the Risk Management Policy and Assurance Framework and the way in which it contributes to the achievement of business activities

**2. Scope**

The Risk Management Policy and Assurance Framework covers the management of strategic, operational and project risks.

This policy applies to those members of staff that are directly employed by GSE, as well as to the Supervisory Board and the Board of Directors of GSE.

The following areas of risk will be included within the Risk Management Policy and Assurance Framework:

- People;
- Financial performance;
- Assets;
- Sustainability;
- Operations;
- Reputation; and
- Regulatory compliance.

### **3. Risk Management Vision and Objectives**

GSE will seek to identify the risk and its cause at the earliest opportunity and measure the risk effect on the organization. Wherever practicable, it will seek to apply a proportionate level of resources to control the risks in order to maximize the quality of its service provision and maintain its reputation.

The main objectives are:

- Ensure risk management is aligned with corporate and operational business planning and service delivery.
- Provide assurances to stakeholders that risk management is being used to improve decision making.
- Ensure risks are regularly monitored and reviewed to ensure the mitigation is effective.
- Develop a risk aware culture.
- Ensure resources are appropriate to carry out effective risk management.
- Ensure that the risk management framework continues to be fit for purpose and remains relevant.
- Implement an effective risk management framework that forms a key part of effective corporate governance including annual reporting.
- Raise awareness of the need for risk management by all those connected with the delivery of service (including partners, providers and suppliers) and risk management to be embedded within the process of commissioning services.

### **4. Responsibilities**

#### **4.1 The Supervisory Board**

The Supervisory Board is responsible for:

- Identifying the principal risks that threaten the achievement of GSE's strategic priorities and populating these on the Assurance Framework.
- Identify and evaluate the design of key controls intended to manage these principal risks.
- Put in place plans to take corrective action where gaps have been identified in relation to principal risks.
- Set the risk tolerance level and risk appetite for GSE.
- When receiving reports from the General Director on high risks, assure itself that responses in place to mitigate the GSE's exposure to high risk are being managed effectively.

- Assuring itself that each risk has appropriate controls in place and where gaps in controls and assurances are identified, challenges these to ensure that the risk is being adequately and effectively managed and mitigated.

#### **4.2 Supervisory Board Risk Management Committee**

The Supervisory Board Risk Management Committee is responsible for certifying to the Supervisory Board that they have evaluated risk management processes including reporting to the risk register and compliance with the Risk Management Policy and Assurance Framework, and that the Supervisory Board can be assured that risks are being effectively mitigated, in accordance with the committee charter.

#### **4.3 Supervisory Board Audit Committee**

The Supervisory Board Audit Committee is responsible for:

- Reviewing the adequacy and effectiveness of all risk and control related disclosure statements.
- Evaluating the adequacy and effectiveness of the underlying assurance processes that indicate the degree of achievement of the GSE's objectives and the effectiveness of the management of principle risks.

#### **4.4 General Director**

The General Director is accountable for implementing and promoting the risk management function and to ensure its effectiveness throughout the GSE. Ensuring that within GSE all risk management issues are coordinated, managed, monitored and reviewed. Ensuring all staff comply with the GSE Risk Management Policy and Assurance Framework.

#### **4.5 Board of Directors**

The Board of Directors is responsible for:

- Evaluating the adequacy of controls and actions recorded on the Risk Register to mitigate operational risks.
- Stimulating a culture of scrutiny and challenge throughout the organization
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- Ensuring appropriate operational risk registers are maintained and actively management within each business unit, department or division.
- Determining resource requirements arising in connection with risk responses.

#### **4.6 Executive Risk Management Committee**

The Executive Risk Management Committee is responsible for:

- Embedding a risk management culture across the company consistent with the tone established by the Supervisory Board and the General Director in respect of risk management.

- Approving and ensuring Risk Leads receive proper training.
- Ensuring there is a common acceptance through the organization of the importance of continuous management of risk, including clear accountability for and ownership of risks.
- Encouragement of risk reporting, incident reporting and whistleblowing to actively learn from mistakes and near misses.
- To ensure risks identified, that may affect the organization are recorded as necessary and reported to the Board of Directors and Supervisory Board.
- To ensure controls are progressed and assurances are in place to mitigate risks.
- To review directorate and major project registers in line with the requirements set out within the Risk Management Policy and Assurance Framework.
- To provide quality assurance and consistency in reporting of risks.
- To scrutinize risks identified to ensure accuracy and appropriateness.
- To ensure the Assurance Framework and Risk Register reflects the actual risks to the organization.

#### **4.7 Risk Management Director**

The Risk Management Director, who serves on the Board of Directors, is responsible for:

- Serving as chair of the Executive Risk Management Committee.
- Ensuring that full support and commitment is provided and maintained in every activity relating to risk management.
- Ensuring that each business unit reports risks, completes and regularly updates an appropriate Assurance Framework, and the same receive appropriate consideration.

#### **4.8 Risk Leads**

Risk Leads are responsible for:

- Taking a lead role in embedding risk management processes within their business unit or department.
- Taking a lead role in maintenance of local risk register.
- Ensuring risks that meet the tolerance level of 15 or more (GSE's current risk tolerance threshold) are escalated to the Risk Register
- Provide assurance of risk management activity through GSE.

#### **4.9 Managers**

Managers are responsible for:

- Ensuring that risk identification has been properly undertaken for all areas within their unit, division, or area of responsibility.
- Supporting Risk Leads to ensure that risk registers are submitted to appropriate governance group for scrutiny in timeframe required.

#### **4.10 All Staff**

All staff are responsible for:

- Understanding that risk management is everybody's business.
- Being aware of the Risk Management Policy and Assurance Framework.
- Having risk management objectives in their annual review.
- Attending mandatory risk management training.

## **5. Definitions**

### **5.1 Strategic Risks**

Strategic risks are significant risks that have the potential to impact across the organization and are raised and monitored by the Board of Directors, the Risk Management Director, and the Supervisory Board.

Strategic risks are those risks that if realized, could fundamentally affect the way in which the organization exists or commissions services in the next 1 to 5 years. These risks will have a detrimental effect on GSE's achievements of its key objectives.

### **5.2 Operational Risks**

Operational risks are key risks that impact individual business units and are managed by unit heads and senior responsible officers.

Operational risks are those risks that if realized, could affect the way in which GSE operates in the next 0-1 years. They will have a detrimental effect on GSE's key processes, and activities that underpin the delivery of objectives.

### **5.3 Project Risks**

Project risks are risks that impact on the delivery of key projects and are the responsibility project managers monitored by the Board of Directors and the Supervisory Board.

### **5.4 Assurance Framework**

The Assurance Framework is a reporting tool for the Supervisory Board to assure itself based on evidence regarding the successful delivery of the GSE's strategic priorities. The Assurance Framework is designed to focus the Supervisory Board on controlling principal risks threatening the delivery of those priorities. It aligns principal risks, key controls and assurances on controls alongside each priority.

### **5.5 Risk Register**

A risk register is a risk management tool which acts as a central repository for all risks identified by the organization or project. For each risk the register will include information such as risk likelihood, impact, the actions steps to be taken, the risk owner and so on.

Managers should view the risk register as a management tool to review and update the process that identifies, assesses, and manages risks down to acceptable levels. Actions are then instigated to reduce the probability and the potential impact of specific risks.

## **5.6 Risk Scoring**

GSE has adopted the following approach.

- Use a scale of 1 to 5 to measure impact and likelihood and thus determine the overall risk score and priority.
- By applying the measurement criteria the areas of highest risk should by their nature rise to the top.
- This will assist management in formulating priority actions and using resources appropriately in doing so.

### 5.6.1 Impact Scoring Criteria

	Negative impact on annual net income less than 100,000 GEL	Negative impact on annual net income in the range of 100,000 - 550,000 GEL	Negative impact on annual net income in the range of 550,000 - 1,000,000 GEL	Negative impact on annual net income in the range of 1,000,000 - 1,500,000 GEL	Negative impact on annual net income greater than 1,500,000 GEL
	Event not resulting in media coverage	Isolated occurrences of criticism in local or national media	Isolated occurrences of criticism in local or national media	Adverse public opinion campaign or criticism by national government	Permanent criticism by the government or criticism in international media
	Event considered to be routine and not brought to the attention of stakeholders	Event considered to be routine and not brought to the attention of Supervisory Board/Audit Committee	Consideration of disclosure of the event in the annual report	Qualification of the company's audit opinion. Negative impact on the company's value	Corrections to financial statements. Significant impact on the company's value
	Events with no regulatory impact		Isolated instances of sanctions by regulator	Recurring sanctions and other limits to the company's activity imposed by regulator that affect its functioning significantly and bear high cost to assure	Recurring sanctions and other limits to the company's activity imposed by regulator that affect its functioning significantly and bear VERY high cost to assure

	Claims against the company not resulting in court proceedings	Isolated claims against the company resulting in local court proceedings	Court proceedings affecting the company's reputation or charges against the company resulting in international court proceedings	Legal proceedings that might affect the future functioning of the company	Legal proceedings that might affect the near term functioning of the company
	No loss or damage to asset value	Loss / damage less than 1% of asset value	Loss / damage up to 1% of asset value	Loss / damage from 1-10% of the value of assets	Loss / damage over 10% of asset value
	No discernable impact on the environment	Contained release with minor local environmental impact	Uncontained release with potential for minor environmental impact	Uncontained release with potential for moderate environmental impact	Uncontained release with potential for major environmental impact
	Non-criminal activity involving isolated breach of company policy by a single person on a non-repeating/non-continuous basis	Non-criminal activity involving breach of company policy by multiple people <u>or</u> on repeated/continuous basis	Criminal activity involving a single person on a one time basis	Criminal activity involving multiple people <u>or</u> on repeated/continuous basis	Criminal activity involving multiple people <u>and</u> on repeated/continuous basis
	No or injury not requiring reporting or without any loss of work or recovery time	Injury with full recovery under 1 month	Injury with full recovery under 6 months Written warning or repeated warnings	Injury or impairment of greater than 6 months	Death or Permanent Incapacitation Termination of Employment

### 5.6.2 Likelihood Scoring Criteria

Likelihood Score	1	2	3	4	5
	Rare	Unlikely	Possible	Likely	Almost Certain
	This will probably never happen/recur	Do not expect it to happen/recur but it is possible it may do so	Might happen or recur occasionally	Will probably happen/recur but it is not a persisting issue	Will undoubtedly happen/recur, possibly frequently

### 5.6.3 Risk Scoring Matrix

The risk scoring matrix reflects GSE's current tolerance to risk, specifically what constitutes a high risk, taking into account the risk scoring criteria set in connection with impact and likelihood. This matrix is to be updated periodically based approval by the GSE Supervisory Board and/or GSE Board of Directors, as applicable.

		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
5 Catastrophic	5	10	15	20	25	
4 Major	4	8	12	16	20	
3 Moderate	3	6	9	12	15	
2 Minor	2	4	6	8	10	
1 Negligible	1	2	3	4	5	

Using the risk matrix, risks will be rated in the following groups:

#### Negligible (Green)

Risks scored between 0-3 are mainly insignificant and would probably be unlikely to occur. These will be considered "acceptable risk" i.e. the quantified residual risk in terms of its likelihood and impact should remain between 0 and 3. However, there still needs to be evidence of responses and monitoring.

#### Low (Yellow)

Risks scored between 4-6 will be considered tolerable providing the appropriate responses are in place to minimize the likelihood of undesirable occurrences. It should be realistically possible to reduce these risks within a reasonable timescale through reasonably practicable measures to mitigate them. Existing responses should be reviewed, with regular auditing of their effectiveness undertaken.

#### Moderate (Amber)

Risks scored between 8-14 will be considered "moderate risk". These are significant risks that require prompt action. With a concerted effort (for example extra resource in terms of funding, staff time etc.) and a challenging action plan, the risks should be realistically reduced within required timescales.

#### High (Red)

Risks with scores between 15-25 will be considered a “high risk”. The consequences of these risks could seriously impact on the organization and the responsible manager should ensure that there are suitable and sufficient action plans in place to reduce the risk and that these are escalated for immediate attention to the Board of Directors and Supervisory Board.

### 5.7 Inherent and Residual Risk Ratings

When a risk is identified, the initial risk score is known as the inherent risk rating. This is the risk in the absence of any controls or actions that might alter, mitigate, or reduce the likelihood or impact of the risk. Once controls are put in place, the risk that remains is known as the residual risk.

### 5.8 Risk Tolerance

GSE sets the tolerance on the amount of risk it can withstand by using the combined likelihood and impact scores on a 5 x 5 matrix to identify those risks presenting as unacceptable. At the current time, all risks scored as 15 or above are deemed to be above the GSE’s risk tolerance level. These risks will be reported to the Board of Directors and the Supervisory Board to ensure that key actions are taken to manage the risk to an acceptable level that falls within GSE’s tolerance.

### 5.9 Response Categories

Once risks have been identified and their risk score assessed, the task of addressing the risks begins. A decision needs to be taken on how to respond to each risk by taking action to improve the outcome.

The responses to the risk should be one of the following:

ACCEPT	The exposure may be tolerable without any further action being taken or you may have reduced your risk as far as possible. Even if it is not acceptable, ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to any benefit gained. This risk can therefore remain on your risk register by choosing the “accept/retention” option but it is advisable to have in place contingency planning for handling any impacts that could arise if the risk is realized.
AVOID	Some risks will only be treatable or containable to acceptable levels by terminating an activity or doing something differently thus removing the risk, but only if it is either feasible or practical to do so. This option can be particularly important in project management if it becomes clear that the projected cost/benefit is unfavorable.
EXPLOIT	This option should be considered when accepting, avoiding, transferring or reducing a risk, evaluate whether an opportunity arises to exploit positive impacts or opportunities. Examples could include redeploying resources for a terminated activity.
REDUCE	The majority of risks will be reduced. The purpose of reducing a risk is that while continuing with the activity giving rise to the risk, action (control) is taken to constrain the risk to an acceptable level. Choose the “reduction” option on your risk register to show

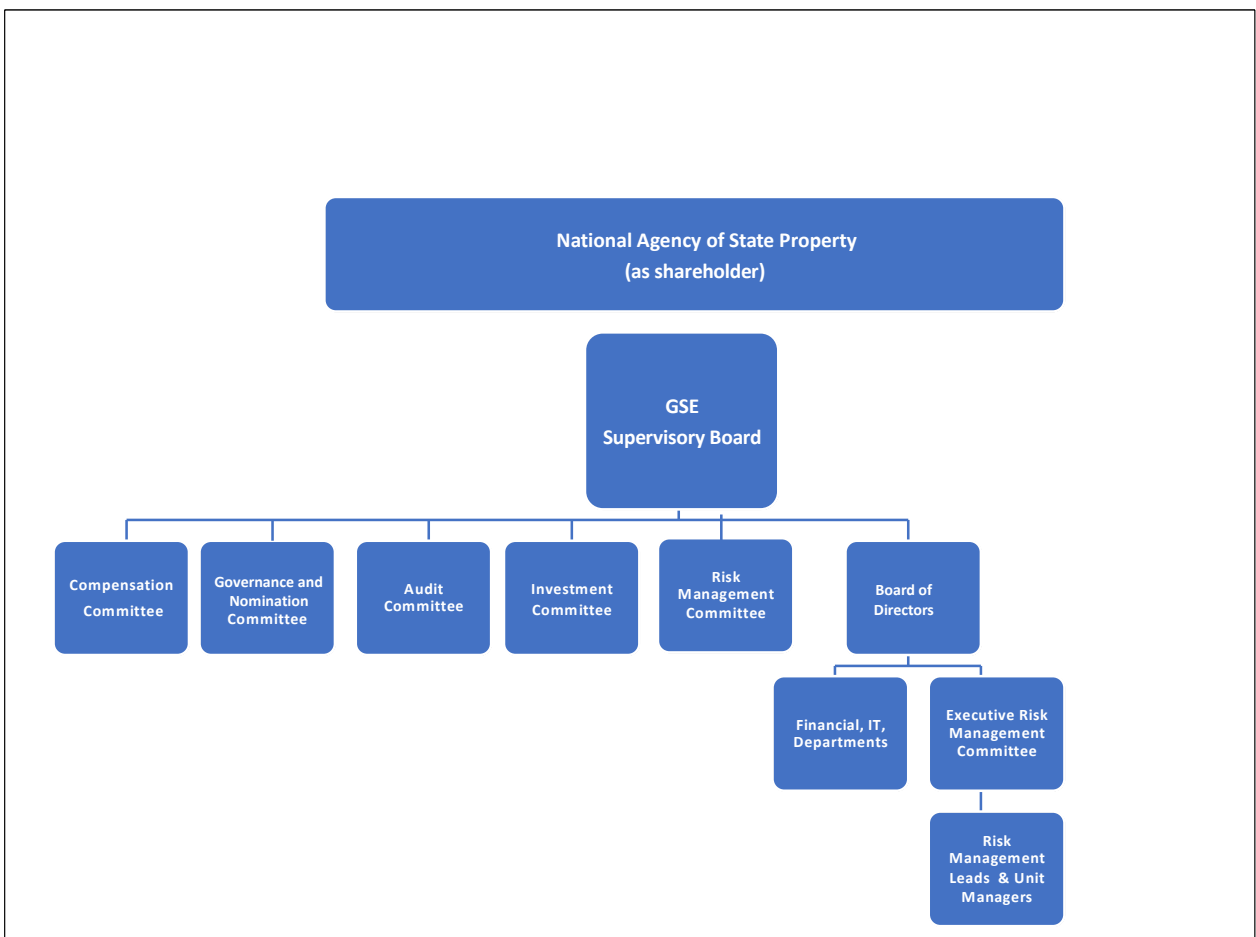
	you intend to treat the risk.
SHARE	Share is an option that is different in nature from the transfer response. It seeks for multiple parties, typically within a supply chain, to share the risk on a responsibility/gain share basis. Rarely can risks be entirely shared – the primary risk taker will always need to protect their reputation - but this can be a successful way of encouraging collaboration.
TRANSFER	For some risks the best response may be to transfer them, through conventional insurance or contractual arrangement. Its main use is for financial risk and typically involves payment of a premium. The premium cost must be balanced against the benefit of transferring the risk to another party but any financial penalty will be borne by the insurer. It is not possible to transfer reputational risk even if the delivery of a service is contracted out.

### 5.10 Risk Appetite

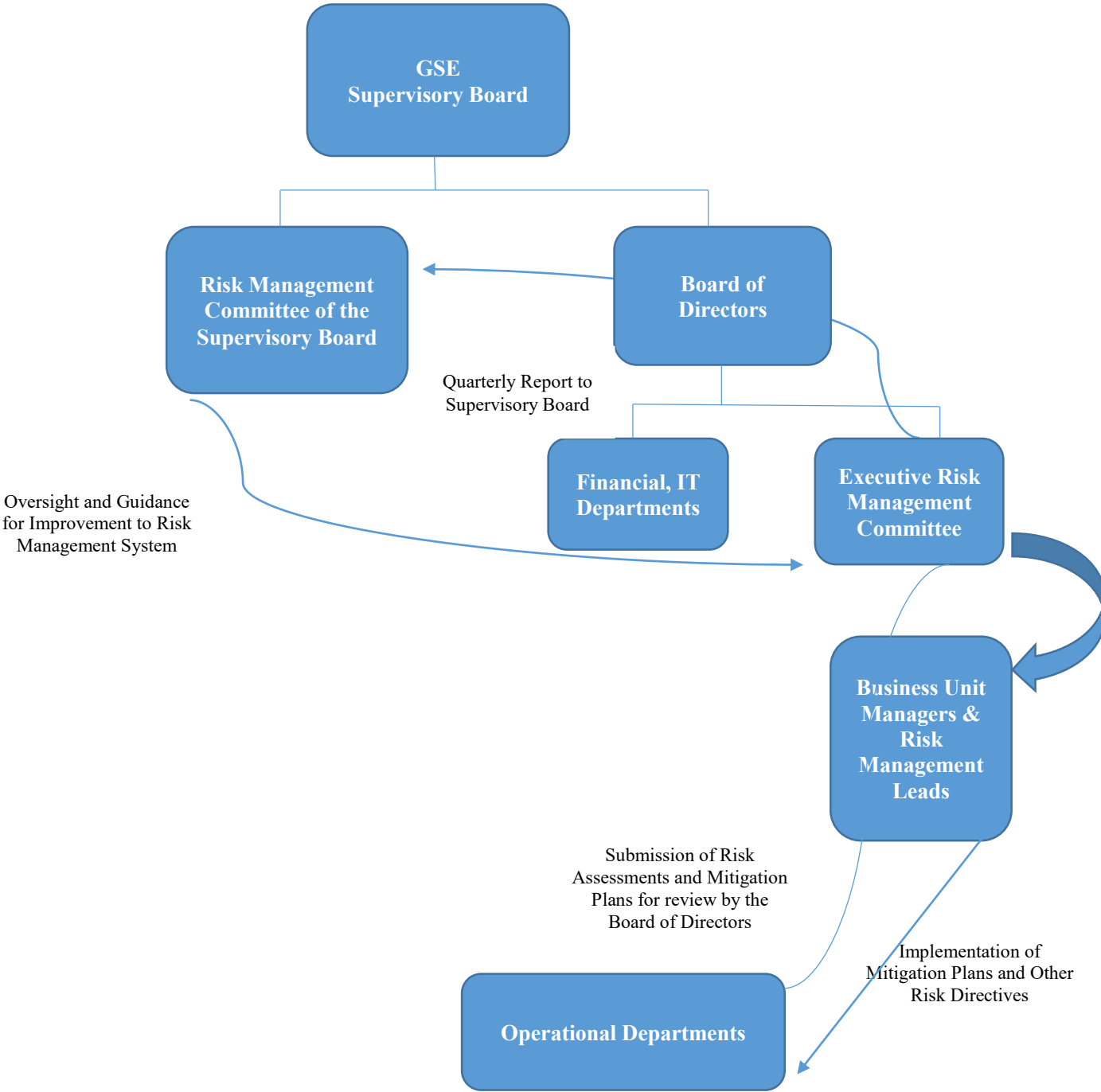
Risk appetite defines the governance over risk taking and the risk monitoring processes across GSE. Risk appetite defines the overall risk levels the GSE is willing to accept while operating in full compliance with regulatory and legal requirements. In addition, it establishes principles for risk taking in the aggregate designed to ensure that the risks remain within the defined risk appetite boundaries. The approach for approving the risk appetite will be repeated annually in order to keep pace with change within the GSE.

## 6. Governance of Risk Management Policy, Risk Registers and Assurance Framework

### Diagram of Relationships of the Supervisory Board to Audit and Risk Management Functions



**Diagram of Risk Management Monitoring Framework Work Flow**



## **7. Assurance Framework**

### **7.1 Introduction**

The Assurance Framework enables GSE to be assured that the responses applied in the mitigation of risk are operating effectively. Therefore this is a key element of the risk management process at GSE.

The application of the assurance framework will help the GSE Supervisory Board members to collectively consider the process of securing assurance via a formal structure that promotes good organizational governance and accountability in order to deliver on its key objectives.

### **7.2 The Assurance strategy**

The Assurance Strategy established will be both proportionate to the level of assurance required, whilst being suitably robust and transparent,

It is the Supervisory Board's policy to ensure that they receive appropriate assurances that all key responses and mitigation are effective where they contribute to reducing a primary risk exposure to a lower classification. The Assurance Strategy identifies the following:

- The frequency on which this will be required;
- The source of assurance provision i.e. who and what; and
- A description of the level of assurance i.e. what is deemed as effective regards the operation of a response / mitigating action.

### **7.3 Assurance Strategy - Objectives**

The primary objective of the Assurance Strategy is to ensure that appropriate arrangements are established for the purpose of providing the Supervisory Board with assurance that the responses put in place to mitigate GSE's exposure to risk; in the achievement of its objectives; can be assessed for their effectiveness. The arrangements will be:

- Proportionate to the level of risk and assurance required by the Supervisory Board;
- Transparent;
- Consistently applied across GSE; and
- Efficient, effective and reliable for their purpose.

Without the application of the objectives, then GSE will be unable to identify and evaluate the risks that threaten the achievement of its goals and design and operate a proportionate system of internal control to manage those risks. The Framework puts responsibility for the system of internal control at Supervisory Board level and this encompasses the following:

- Setting appropriate policies on internal control;
- Seeking assurance that will enable the Supervisory Board to satisfy itself that the system is functioning effectively; and
- Ensuring that the system of internal control is effective in managing risks in the manner the Supervisory Board has approved.

### **7.4 Control Assurance and Action Plans**

The Assurance Framework requires GSE to consider the effectiveness of each response through the process of obtaining assurances that the response is in place and it is operating effectively. These assurances are obtained from a variety of providers, such as management through their routine checks and reports, internal and external audit and other external assessors such as health and safety inspectors, regulators, professional advisors, and insurers. The type of assurance provision will be dependent on the level and reliability of assurance

required. A greater level of assurance will be provided by an independent source. Table 1 refers to the differing levels of assurance.

A gap in response is deemed to exist where responses are not in place, or where collectively they are not effective and or, the responses are non-existent or limited. This will be determined through the assurance provided. A gap in assurance is deemed to exist where there is a failure to gain evidence that the responses are either in place or the response has not been subject to any assurance review. Recommendations contained in the assurance review should be identified as in Table 2.

Wherever gaps in response or assurance are identified, then an action must be defined and allocated to appropriate responsible persons. However, in all cases an assessment will need to be made as to the level of risk to which GSE is exposed as a result of the response failure or assurance gap. This will be achieved through application of the GSE risk scoring methodology. This will ensure:

- Consistency in measuring the risk exposure that is deemed to exist; and
- Action can be appropriately prioritized, given that GSE’s resources are finite and that the response environment should be proportionate to the risk.

Management should consider whether the implementation of identified actions (either from management identification of response weakness, internal audit reviews of other assurance/inspection programs) will further reduce the risk exposure proportionate to the resources required and the nature of the risk. Those that management consider require implementation should be recorded against the risk in which the response or assurance gap was identified in the GSE risk register.

Responses in place will be assessed for their effectiveness. The frequency of when these responses are formally assessed as part of the assurance strategy will be determined by the inherent and residual risk classification that has been attributed to the risk that they mitigate. It is the inherent and residual risk classification that will determine the quality, level and priority of assurance work required i.e. a basis for the development of a risk based internal audit plan.

Table 3 provides a guide as to what type and frequency of assurance provision should be obtained in proportion to the risk and importance of responses.

## 7.5 Levels of Assurance

Levels of assurance will be attributed to a response when it is reviewed. The levels of the assurance that will be used are displayed in the table 1. These levels of assurance will be applied in all cases.

**Table 1: Levels of Assurance**

Level	
Significant	Taking account of the issues identified, the Supervisory Board can take reasonable assurance that the responses upon which the organization relies to manage this risk are suitably designed, consistently applied and effective.
Adequate	Taking account of the issues identified, the Supervisory Board can take reasonable assurance that the responses upon which the organization relies to manage this risk are suitably designed, consistently applied and effective. However further action could be taken to improve the effectiveness and

	efficiency of responses.
Limited	Taking account of the issues identified, while the Supervisory Board can take some assurance that the responses upon which the organization relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.
None	Taking account of the issues identified, the Supervisory Board cannot take assurance that the responses upon which the organization relies to manage this risk are suitably designed, consistently applied or effective.  Action needs to be taken to ensure this risk is managed

**Table 2: Recommendations**

High	Recommendations are prioritized to reflect the assessment of the risk associated with the response weakness.
Medium	
Low	
Suggestion	These are not formal recommendations that impact the overall opinion, but used to highlight a suggestion or idea that management may want to consider.

**Table 3: Risk vs. Assurance**

Inherent Risk Rating	Residual Risk Rating	Assurance Sign Off
High	High	Management attention should be focused on implementing actions to improve existing responses or introduce new ones within the next 2 months.
	Moderate	Bi-monthly sign off of existing response effectiveness by management. Independent assurance obtained within the next 6 months.
	Low	Bi-monthly sign off of existing response effectiveness by management. Independent assurance obtained within the next 12 months.
	Very Low	Bi-monthly sign off of existing response effectiveness by management. Independent assurance obtained within the next 12 months.
Moderate	Moderate	Management attention should be focused on identifying and implementing actions within the next 6 months.
	Low	Sign off of existing responses effectiveness by management every 4 months. Independent assurance obtained within the next 18 months.
	Very Low	Sign off of existing responses effectiveness

		by management every 4 months. Independent assurance obtained within the next 18 months.
Low	Low	Management attention should be focused on identifying and implementing actions within the next 12 months.
	Very Low	Annual sign off of existing responses effectiveness by management. Independent assurance obtained within the next 2-3 years.
Very Low	Very Low	No assurance work required.

## 7.6 Application of the Assurance Framework

GSE will look to document its objectives and the associated risks, responses, potential sources of assurance, actual assurances received.

The progress of action plans will be reported to the Executive Risk Management Committee, and exceptions will be reported to the Board of Directors on a monthly basis. The Supervisory Board or its Risk Management Committee will review the complete Assurance Framework at least annually as part of the GSE corporate governance arrangements

The application of the Assurance Framework will enable GSE to assure itself that all risks are being managed effectively. This involves three distinct phases:

- The updating of key risks, responses and assurances as required as part of the risk management monitoring cycle;
- This will then be monitored for progress towards closing the identified gaps in response and/or assurance; and
- A degree of independent scrutiny must take place, to ensure that these updates are valid.

**Risk Register**

№		Risk Description	Business Unit				Composite Score				

**Staff of the GSE Risk Management Committee**

№

