

THE FINANCIAL RISK MANAGEMENT POLICY

N-MINING LIMITED

ADOPTED BY THE BOARD OF DIRECTORS

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1. PURPOSE

The purpose of the risk management policy is to provide guidance regarding the management of risk to support the achievement of corporate objectives, protect staff and business assets and ensure financial sustainability.

2. SCOPE

This policy applies to all N-MINING LIMITED activities. It forms part of N-MINING LIMITED governance framework and is applied to all employees, contractors and volunteers.

3. RISK MANAGEMENT PROCESS

When undertaking a risk management process the following steps must be taken: establish the context, identify the risk, analyse the risk, evaluate the risk, treat the risk and monitor and review the risk. Refer to the risk management procedure for details on how to perform each step in the process.

4. INTEGRATION WITH OTHER SYSTEMS AND PROCESSES

Risk management is factored into business planning, performance management, audit and assurance, business continuity management and project management.

5. RISK CATEGORIES

Risk categories may include strategic, financial, environmental, safety, people and reputation.

6. ORGANISATION OF FINANCIAL RISK MANAGEMENT SYSTEM

The Board of Directors is involved in the process of forming financial risk management strategy and adoption of appropriate policies, positions and limits. The Board of Directors reserves the right of approval, review from time to time and amending when necessary the policy of financial risk management.

7. OBJECTS OF MANAGEMENT IN SCOPE OF FINANCIAL RISK REGULATION

7.1.1. Objects of management are financial risks which arise from the basic activity. The Group abstains from any speculative activity on commodity and financial markets.

7.1.2. Under financial risks in the present Policy are understood the following types of risks, which lead to potential losses and impact to revenue of Group's companies:

- Price risk – risk of potential losses and/or impact on the Group's cash flows referred to negative change in market price for precious metals being produced by the Group¹.

¹ Price risk arises as in Group's producing companies as far as in Group's companies, which sell metal.

- Credit risk - risk of losses referred to failures of counterparties' (suppliers, purchasers of goods and services, banks, insurance companies and other organizations) contract obligations.
- Currency risk – potential losses referred to negative influence of rates of exchange deviations for financial assets and liabilities of the Group.
- Interest risk - risk of potential losses arisen as a result of negative movement (flow) of interest rates on the market².
- Stock risk (risk on market of capital) – potential losses arisen from negative movement of market prices of securities³ held by the Group.
- Liquidity risk - risk of potential losses referred to insufficiency of paying capacity of the Group as a whole (or any of its companies) for fulfillment of its payment obligations.

7.1.3. The price risk for the Group arises from high volatility of prices for precious metals. Price risk influences greatly on budget execution.

7.1.4. Currency risk may arise from:

- a) sale of production on the international bullion market and prevalent practice of gold price setting on the Russian market based on world market prices and market rate of exchange of rouble to US dollar;
- b) substantial share of operational costs incurred and investments made by the Group in roubles.
- c) from difference in the currency of Group's balance sheet liabilities, assets and revenue.

7.1.5. Sources of credit risk rise for the Group are the following operations with external counterparties:

- a) advance payment under procurement and supply contracts, contracts for providing informational, consulting and other services.
- b) handing over Group's property to a counterparty without preliminary or simultaneous receiving of money or property equivalent to its market value (preliminary supply of finished goods under the sale contract, delivery of semi-fabricated materials for processing and refining, delivery of finished goods for stocking and/or transportation etc.)
- c) keeping cash on accounts and deposits with banks, clearing and credit institutions;
- d) entering into agreements under which contractor's unsecured liabilities to the Group may potentially arise (derivatives, contracts of insurance etc.).

² Particular case – interest risk can arise while attracting assets on conditions of variable interest rate, while allocating assets on conditions of fixed interest rate on the long-term basis (for more than a year).

³ Particular case – in the presence of securities holdings, which the Group isn't going to hold before repayment (clearing off)

7.1.6. The cause of liquidity risk is imbalance of Group's outgoing cash flows with ingoing cash flows by terms and volume of requirements/obligations.

7.1.7. Deals entered into between the Group's companies whose financial risks are centrally managed, are not taken in account while evaluation of an aggregate risk value and are not considered as objects of financial risk management within this Policy.

7.1.8. Objects of risk management within the framework of the present Policy are those risks which arise from deals of Group's companies, which manage their financial risks independently.

8. PRINCIPLES OF FINANCIAL RISKS MANAGEMENT

8.1. Centralized management of financial risks

8.1.1. In the Group centralized management of financial risks is carried out with regard to analysis and identification of risks, their estimation, control and regulation.

8.1.2. Financial risk management is regulated by united methodology of risk's valuation, unified limits, hedge policies and other instruments of risk regulation.

8.2. Consolidation and valuation of an aggregate financial risks within the Group

8.2.1. Quantitative valuation of financial risks assumed by separate Group's companies and aggregate value of financial risks for the whole Group should be consolidated and shown on regular basis in managerial accounting.

8.2.2. The frequency of managerial accounting risk reports shall be one calendar year.

8.3. Principles of financial risk hedging

8.3.1. Decisions on financial risk hedging within the policy adopted by the Board are to be made with the following purposes:

- Budget's execution;
- Stability and forecasting of Company's cash flows;
- Certain level of profitability maintenance.

8.4. Principles of market risk valuation

8.4.1. Open positions are evaluated by mark-to-market method. LBMA⁴ fixings and MOEX⁵ rouble's rate of exchange are used for valuation of open positions in gold and rouble.

8.5. Principles of liquidity risk mitigation

8.5.1. For liquidity risk mitigation the "moving" method of cash planning is used (on a daily basis with liquidity forecast for the term up to two weeks, monthly drawn up cash flow of Budget (for separate affiliated and subsidiaries companies) and on the quarterly basis with cash flow of Budget). Liquidity risk valuation is performed both on consolidated basis and for any separate Group's company.

8.5.2. Planning of a long-term liquidity (for more than a year) is carried out on the basis of Group's working capital model and approved Strategy.

⁴ LBMA – London Bullion Market Association

⁵ MICEX – Moscow Interbank Currency Exchange

8.6. Principles of credit risk valuation

8.6.1. Evaluation approaches and principles of acceptable credit risk may be different, depending on presence or absence of contractor's international rating or national rating. When choosing its contractors, the Group prefers to deal with companies which have international or national ratings.

8.6.2. Lists of rating agencies and levels of ratings accepted by a Group (together with appropriate risk limits) are to be ratified by the Board of Directors. Responsible divisions can enter into contracts with counterparties having ratings approved by the Board as allowable from the point of credit risk evaluation without standard procedure of limit approval according to Credit Limit Regulation.

8.6.3. Internal methods are used for valuating limit value and also for setting limits for contractors without international or national ratings.

9. RESTRICTION AND CONTROL OF FINANCIAL RISKS

9.1.1. Chief Financial Officer is responsible for adoption and implementation of internal regulations and manuals in order to ensure that:

- before entering into any business transaction all financial risks associated with it are duly identified and evaluated;
- the final decisions on entering into business transactions are based on the analysis of arising financial risk, are made by persons having appropriate level of financial authority and within the limits set forth in accordance with the present Policy;
- the permanent and careful subsequent control over the Group's exposure to financial risks is established and adequate reporting procedures are in place.

9.1.2. The following strategic decisions can be made with regard to financial risks:

- Acceptance of risks without setting any limits for purpose of their restriction and without hedging operations;
- Restriction of risks by means of limit setting, restriction of finished goods stocks, and managing terms of payments for accounts payable and accounts receivable, determination of currency payment structure.
- Automatic closing of open risk positions (subject to liquidity of the market), refusal of opening new risk positions (for example, refusal of prepayment for buying goods and services)⁶.

9.1.3. Price risks are the basic Group's financial risks. Taking into account that Group's finished goods practically completely consist of gold, the Group has no opportunity to restrict volatility of revenue by sale structure diversification among different types of metal. At the same time, in order to restrain the revenue volatility, the Group refuses to conduct arbitral (speculative) operations on commodity market.

9.1.4. Restriction of currency risks is carried out by means of regulating currency structure of returns, payments and savings of the Company, refusal to conduct arbitrate (speculative) operations on currency markets.

9.1.5. With the purpose of credit risk restriction, the Group aspires to conduct its business:

⁶ Particularly – on spot-market or forward market within policies of market risk hedging

with Russian contractors of Procurement Division on terms of “payment against delivery” and with foreign contractors using settlements by means of bank letters of credit.

9.1.6. Group’s liquidity risk is regulated on the basis of position control over Group’s payments during the current day, compiling of payment calendar in daily breakdown for two weeks ahead, monthly compiling of quarter cash plan. Liquidity planning is based on annual basis with the quarter breakdown while budget forming.

9.2. Tolerance for risk

9.2.1. Financial risk valuation gives an opportunity to evaluate aggregate risk value, to determine its influence on consolidated execution of budget and compare it with Group’s financial opportunities taking into account risk level assumed by every separate company.

9.2.3. The value of tolerance influences on aggregate limit value and selection of this or that strategy for financial risk management.

9.3. Restriction of risk by limit system

9.3.1. For restricting credit and market risk value the following types of position limits are established:

- Limits for counterparties (suppliers, purchasers of goods and services, banks, financial companies, insurance companies):
- Limits for financial instruments, including derivative instruments while metal trading and foreign exchange.

9.3.2. Chief Financial Officer is in charge of limit distribution between responsible divisions in accordance with purposes of operational activity and requirements of budget execution.

9.3.3. Risk Manager controls limits in order to provide the preliminary (on the stage of draft contract discussions) and the subsequent control.

9.3.4. Chief Financial Officer adjusts with executives of responsible divisions the regime of limit control based on coordination regulations. Selection of limit control regime depends on IT opportunities for gathering data of operations, which lead to finance risk arise, specific of responsible division’s operational activity, legislative restrictions determining procedure of control.

9.3.5. In case of excess of settled limits, Risk Manager reports about limit violations to the governing body of the Group which had made a decision about particular limit setting.

9.3.6. The Department which is responsible for internal control, sales and budget planning controls observance of fixed limits in accordance with their authority (power).

9.4. Risk mitigation by hedging operations

9.4.1. Hedging operations can be centrally carried out for the Group for currency, interest and stock risks, and price risks by the Risk Manager.

9.4.2. Hedging can be carried out for risks from individual deals (for example, within the limits of structural financing), from a number of similar deals, which arise either for separate Group’s companies or for consolidated Group’s open position.

9.4.3. The issue about necessity of hedging operations is submitted to the Chief Financial Officer by the initiative of responsible or supervisory division.

9.4.4. Hedging deals identification by responsible divisions, which is conducted in accordance with approved hedging strategies, is obligatory for effective valuation and implementing an appropriate accounting.

9.4.5. In absence of hedging policies adopted by the Board of Directors it is allowed to conclude forward transactions in order to hedge the market risk positions for the period of no longer than one calendar quarter. Such operations are conducted by heads of responsible divisions within the limits approved by Chief Financial Officer, in order to ensure that sale of metal/foreign exchange are made at the price/rate which is not lower than average during the reporting period.

9.4.6. The Board of Directors reserves the right of ratifying currency, interest, stock and price hedging policies.

9.4.7. Hedging market risk policies should contain the following main issues:

- Objects and goals of hedging;
- Strategies and appropriate hedging instruments;
- Limits for conducting operations;
- System of control and authority for making decisions about hedging operations
- Principles for evaluating effectiveness of hedge operations.

9.4.8. The hedging policies should be submitted for ratification to the authorized body by Chief Financial Officer. Hedging policy project shall be presented to the Board of Directors on the grounds of conclusions of the Group's divisions responsible departments. These conclusions should contain the following main issues:

- Objects and goals of hedging;
- Proposed value of hedging;
- Analysis of an existing risk position (the value of position, types of contract, prices for opening a contract, terms of contracts);
- Forecast of price flow;
- Terms of concluding hedging deals and the schedule of hedging deals executing;
- Valuation of hedging price and comparison with alternative hedging strategies.

9.4.9. Control for hedging operations is carried out by the managers of responsible divisions. The responsible divisions prepare consolidated managerial accounting about hedging of financial risks for Chief Financial Officer and the Board of Directors.

10. METHODOLOGY OF FINANCIAL RISK VALUATION

10.1.1. Consolidated financial risks within the Group are evaluated with regularity, determined by Chief Financial Officer.

10.1.2. Evaluation of market risks is carried out by the Risk Manager on the basis of models corresponding to the following principles:

- setting general criteria for all types of financial risk evaluation;
- setting uniform standard for using internal models;
- modeling includes procedures of stress-testing and/or script analysis;
- models pass verification (back-testing);
- models are periodically updated.

10.1.3. Key elements of market risk evaluation are:

- Choosing *time forecast interval* – the period of time, during which company can suffer losses. For evaluating risk positions for operations one-day and two-week (or 10 workdays) term is used. In particular cases the interval of forecast can be changed (for example while consolidated risk index evaluation).
 - Choosing *basic currency* for risk evaluation – currency for evaluating potential losses.
 - Choosing *level of reliability* for risk evaluation, i.e. possibility of forecast fault⁷.
- 10.1.4. Long positions are revaluated by quotation for bid and short – by quotation for offer. Financial results from every type of operation are reduced to general basic currency.
- 10.1.5. Correlation between instruments, referred to different types of risks isn't taken into account, even if these instruments are aggregated into one portfolio.

Credit risk evaluation

10.1.6. The value of accepted credit risk is determined on the basis of methodology, permitting to evaluate accepted risks quantitatively. Against readiness of credit risk evaluation methodology and accumulated statistics, evaluation is carried out on the basis of internal models, developed the Risk Manager or based on statistic indexes of Bank of Russia, commercial banks within their quotas of problem credits in total value of loan portfolio of commercial banks.

Currency risk evaluation

10.1.7. This risk is determined on the basis of VaR for open currency position, evaluated on the basis of ingoing and outgoing cash flows in different currencies with respect to basic currency, evaluated on the basis of budget, data of analytic calculation and forecasts of responsible divisions.

Stock risk evaluation

10.1.8. It is determined on basis of VaR for debt securities portfolio.

Interest risk evaluation

10.1.9. It's determined on the basis of one of the method of interest risk evaluation – GAP-method, method of duration, methodological approaches of VaR. Selection of the method depends on opportunities of technology automation for required collection of data, requirements of settlement efficiency. Method should be chosen by Vice-president of economy and finance for Treasury department and ratified by Budget Committee.

Price risk evaluation

10.1.10. The value of price risk is determined on basis of VaR for metal portfolio on stocks, in transit and also on open forward positions.

Liquidity risk evaluation

⁷ Level of 99% determines possibility of fault as 1%.

10.1.11. Accepted liquidity risk is evaluated on stages of budget forming, during determination of possible holding volumes for the purpose of maintenance of cash assets adequacy, for execution of obligations and current costs, implementing investment plans. Evaluation of possible gaps with one-month time interval is carried out monthly with quarter horizon, with one-day time interval – daily for two-week term.

11. BASIC CURRENCY

US Dollar is taken as basic currency if nothing else is determined by the Board of Directors.