

Risk Management Procedure



Board
March 2013

INTRODUCCIÓN

Elaborado por	Revisado por	Aprobación por
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With the aim of formalizing the practices of Corporate Governance within the company, Sigdo Koppers S.A., hereinafter "Sigdo Koppers S.A." or "the Company", has developed the present Risk Management Procedure, of a corporate nature.

This document includes the methodology to be applied to implement risk management in the Company, through the identification, evaluation, analysis, monitoring and communication of the different types of risks to which it is exposed, in the development of its business activities.

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1. OBJETIVE

The objective of this document is to define and formalize the activities that the Company considers for the implementation of the management of its risks and to improve the administration thereof, through a unified approach, based on a common methodology and language.

Furthermore, by having adequate risk management, you can reasonably, consistently and systematically ensure that risks are identified, evaluated, analyzed, monitored and communicated.

This procedure requires its correct application and compliance by the employees of Sigdo Koppers S.A.

2. REACH

This procedure is applicable to the Directors and collaborators of Sigdo Koppers S.A.

3. RESPONSABLES

Board	Responsible for compliance with this policy.
Risk Committee	
Risk Coordinator	
Responsible for Risks	

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4. DEFINITIONS

Critical Risk: Possibility of an event that adversely affects the achievement of the Company's objectives or that significantly affects the value of the Company.

The risks are classified into four main objectives:

o Strategic: Risk related to strategic objectives, aligned with the mission of the organization.

o Financial: Risk related to the effective and efficient use of financial resources.

o Operational: Risk resulting from deficiencies or failures in processes, people, systems or external events.

o Regulatory: Risk related to compliance with laws and regulations, especially regarding compliance with those laws and regulations to which the organization is subject.

Risk Profile: It is the degree of risk exposure that the company is willing to accept to achieve its goals and objectives, preserve and create value.

Risk Tolerance: The acceptable level of risk with respect to the risk profile, taking into account the care of the specific objectives of the company.

Risk Management: Process developed by the board of directors, management and / or other personnel of an entity, which is applied in the formulation of strategies and throughout the company. Designed to identify potential events that could affect the entity and manage risk, in order to provide reasonable security.

Impact: It is the result of the materialization of an event.

Probability: Refers to the possibility of occurrence of a potential risk.

Inherent risk: It is the level of risk that the organization has without considering the actions of the administration. It is the risk measured without consideration of the control activities that the Company has.

Residual risk: The level of risk that the organization has after the actions of the administration. It is the risk measured considering the effect that control activities have on the level of exposure to risk events that the Company has.

5. REFERENCES

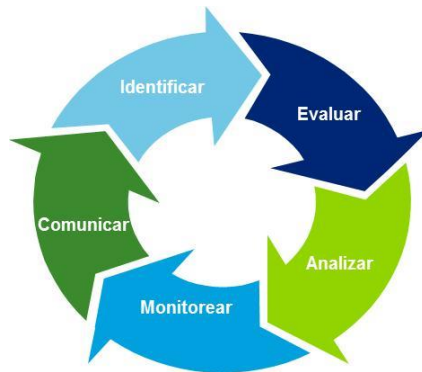
- Política de Gestión de Riesgos: GC_PV_GDR_1_2013
- Cronograma de Actividades del Directorio de Sigdo Koppers S.A.

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6. METODOLOGY

The methodology applied by Sigdo Koppers S.A. Regarding risk management, it is based on standards and best practices, such as: COSO (Committee of Sponsoring Organizations of the Treadway Commission), COBIT (Control Objectives for Information and Related Technology) and Australian / New Zealand Standard 4360.

The risk management that the Company has defined is based on the following methodology:

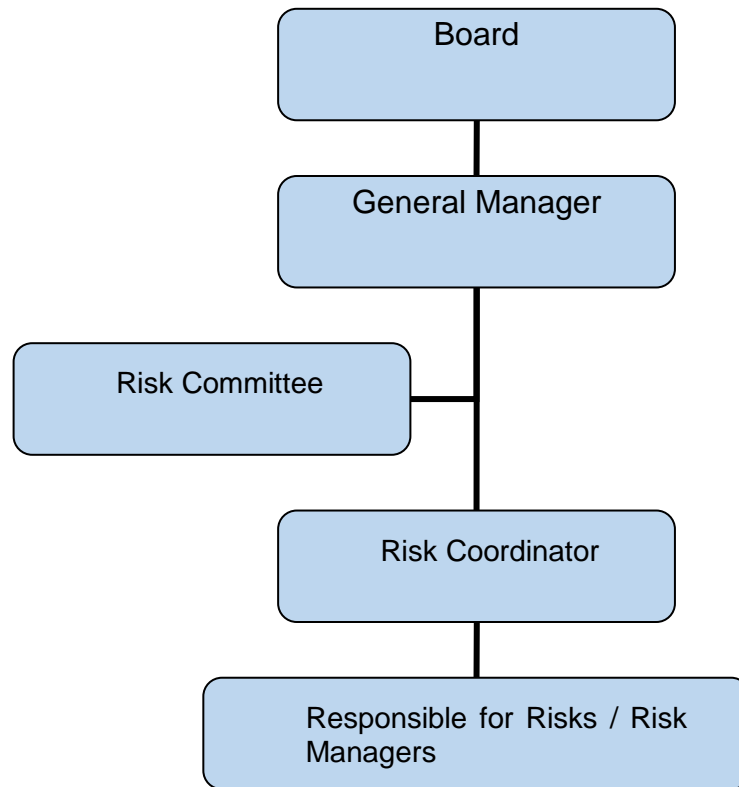


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7. ORGANIZATIONAL STRUCTURE

The structure defined for the risk management function of Sigdo Koppers S.A., is composed of: the Board of Directors, General Manager, Risk Committee, Risk Coordinator and Risk Managers and / or process owners.

Graphically, the organizational structure of the risk function is as follows:



The functions and responsibilities of the entities that make up the risk management function of Sigdo Koppers S.A., are defined in the Risk Management Policy approved by the Board of Directors of Sigdo Koppers S.A.

8. PROCEDURE - STAGES OF RISK MANAGEMENT

Sigdo Koppers S.A. has defined that its risk management consists of the identification, evaluation, analysis, monitoring and communication of critical risks for each of the processes and / or areas of greatest criticality within the organization, that is, those that are directly linked to the protection and creation of value of the Company.

The following are the different stages of the risk management methodology:

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Identification of Risks

The objective of this stage is to identify the main critical risks to which the processes of the organization are exposed.

The Risk Managers will identify, for the processes of their responsibility, the critical risks that could affect the objectives and / or strategies defined for the area. This identification can be done through the following methods:

- o Meetings or workshop with the work team.
- o Surveys to the different participants of the work team.
- o Risk data bases by industry and process

Once the critical risks are identified, the Risk Manager will document them in a risk matrix, classifying them by risk type according to the following:

- o Strategic: Risk related to strategic objectives, aligned with the mission of the organization.
- o Financial: Risk related to the effective and efficient use of financial resources.
- o Operational: Risk resulting from deficiencies or failures in processes, people, systems or external events.
- o Regulatory: Risk related to compliance with laws and regulations, especially regarding compliance with those laws and regulations to which the organization is subject.

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Risks evaluation

In this stage, the critical risks are evaluated, under the parameters of impact and probability to determine the inherent risk of these. On the other hand, control activities that mitigate critical risks will be identified in order to determine the level of residual risk for each of the documented risk events.

The Risk Managers must identify those who will participate in the evaluation of critical risks, to determine their level of impact and probability. This evaluation can be done through meetings or workshops with the work team.

The parameters of impact and probability are the following:

Impact

Level of Impact	Description of the consequence	Evaluation scale
Highest	The event will have a catastrophic effect. (Financial losses, loss of image, among others, which considers a high impact for the Company).	5
High	The event will have considerable effects for the Company. (High losses, with a significant impact at the level of the organization and relevant at the unit level).	4
Medium	The event will have smaller effects that can be assumed without major problems by the units (low impact losses).	3
Mild	The event will have smaller effects that can be assumed without major problems for the areas (low impact image, financial and / or operational losses).	2
Low	The event will have little significant effects.	1

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Probability

Level of Probability	Description of the Probability of Occurrence	Evaluation scale
Almost certain	Risk whose probability of occurrence is very high, that is, a high degree of security that occurs (90% to 100%).	5
Probable	Risk whose probability of occurrence is high, that is, between 66% and 89% of security that occurs.	4
Moderate	Risk whose probability of occurrence is medium, that is, between 31% to 65% of security that occurs.	3
Unlikely	Risk whose probability of occurrence is low, that is, between 11% to 30% of security that occurs.	2
Very Unlikely	Risk whose probability of occurrence is very low, that is, between 1% to 10% of security that this occurs.	1

The inherent risk is determined from the product of the impact by probability.

Once the level of inherent risk of the risk events has been determined, the Risk Manager or whoever considers it, will identify the control activities that mitigate the identified risks, and document them in the risk matrix. Control activities will be gathered, through interviews and work sessions with executives and process owners. For each control, must identify:

- o Description of the control activity.
- o Frequency
- o Identification of the person responsible for the execution.
- o Evidence that supports each control.
- o Type of control (manual or automatic).

Once the control activities have been identified, the Risk Manager will evaluate the level of effectiveness of these, to determine the level of residual risk. For this, the following parameters of effectiveness and effect on the probability of risk will be considered:

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Effectiveness Level		Action in Probability
High	Consistent in effectiveness and design, with the risk mitigated	Probability is decreased by two points or is equal to 1.
Medium	Inconsistent in effectiveness and design, although the risk is mitigated	Probability decreases at a point or becomes equal to 1.
Low	Inconsistent in effectiveness and design and the risk is not mitigated.	Probability is maintained

After determining the level of effectiveness of the control activities, the level of residual risk will be determined, through the product between the impact and the new probability. The levels of residual risk may be the following:

Impacto ↑						
Alto	5	5	10	15	20	25
Mayor	4	4	8	12	16	20
Medio	3	3	6	9	12	15
Leve	2	2	4	6	8	10
Bajo	1	1	2	3	4	5
		1	2	3	4	5
		Raro	Improbable	Moderado	Probable	Casi Cierta
		→ Probabilidad				

The risk matrix prepared by each Risk Manager must be sent to the Risk Coordinator for validation and consolidation.

The Risk Coordinator will take each risk matrix sent by the Risk Manager and request approval from the General Manager, to subsequently implement the implementation of the action plans.


With this information, each Risk Manager will determine the risks that have greater exposure, allowing you to prioritize the efforts.

Risk analysis

After evaluating the critical risks, the actions to be taken regarding the determined residual risk will be analyzed.

Depending on the level of residual risk:

- o For those risks that present a level between 6 and 25, the Risk Manager shall require the

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owners of the corresponding risks to determine the action plans to be implemented for their mitigation.

o For those risks that present a level between 1 and 5, the Risk Manager will agree with the corresponding risk owner if an action plan is taken for mitigation or the level of exposed risk is assumed.

For those risks that exceed the level of acceptable risk and a plan of action to be determined is determined, the Risk Manager will define the person responsible for the action plan, the action program, the expected results of the treatments, the implementation dates and all other information considered necessary, these being documented in the risk matrix.

On the other hand, the organization could also determine other techniques for managing its risks, these being:

o Avoid: Avoid the risk by deciding not to proceed with the activity that would probably generate the critical risk (when this is practicable and if from the point of view of cost / benefit is justified).

o Outsource and / or Transfer: For example, developing contractual relationships with third parties or contracting insurance.

Monitoring

The purpose of this stage is to monitor the critical risks evaluated and follow up on the action plans committed by each Risk Officer.

Critical risks, control activities and action plans need to be reviewed to ensure that changing circumstances do not alter the prioritization of the critical risks evaluated, the control activities and the effectiveness of the actions. To this end, the Risk Coordinator will annually ask the Risk Managers to update their risk matrices, incorporating new risks, reassessing the inherent level of risks, defining new control activities, reassessing the residual risk and determining action plans, if applicable. .

It is the responsibility of each Risk Manager to inform the Risk Coordinator about any relevant changes in their risk matrix in their area. On the other hand, the Risk Coordinator will monitor the compliance of the action plans committed by the Risk Managers in each risk assessment carried out.

On the other hand, the Risk Committee will quarterly monitor the Company's risk management and monitor the implementation process of the action plans. In addition, it may propose improvements to the Company's risk management process.

It is important to highlight that the monitoring of controls, programs and actions must be continuous over time and is the responsibility of the Risk Manager, the Risk Coordinator and the General Manager, who must ensure compliance with these.

Audits (internal or external) to the risk management process may be carried out, in order to evaluate the process and propose recommendations for improvement, if applicable.

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Comunication

In this stage, the Company's risk management will be informed and communicated to the different instances.

The reports to be issued and communicated are the following:

- The Risk Manager must send his risk matrix to the Risk Coordinator and committed action plans, as a result of the evaluation carried out.
- The Risk Coordinator must report to the Risk Committee of the Company's risk management in a unified manner, as well as the progress of the action plans.
- The Risk Committee will meet at least quarterly to review the status of the Company's risk management.
- The Chairman of the Risk Committee will present quarterly to the Board of Directors of Sigdo Koppers S.A. regarding the risk management of the Company and, in particular, about:
 - Operation of the Risk Management process of Sigdo Koppers S.A.
 - Risk Matrix used, main sources of risks of Sigdo Koppers S.A. and methodology for detecting new risks
 - Probability and impact of the occurrence of the most relevant risks of Sigdo Koppers S.A.
 - Recommendations and improvements that the Committee deems pertinent to improve the Company's Risk Management
 - Contingency plans designed to react to the materialization of critical events, including the continuity of the Board in crisis situations
 - Relevant information on the critical risks identified and managed by the main subsidiaries of Sigdo Koppers S.A.
- One of the quarterly presentations to the Board of Directors of Sigdo Koppers S.A. It will be carried out without the presence of the General Manager of the Company by the person appointed by the Risk Committee.

9. STATE OF BEING IN FORCE

This policy will become effective upon approval by the Board of Directors of Sigdo Koppers S.A. and it will be revised according to the needs.