

Risk appetite

Risk appetite is set by the Company's Board of Directors. It is defined as an acceptable level of risks and is used for making decisions on mitigation methods and measures.

Risk appetite is shaped by the Company's goals, targets, target benchmarks, the requirements and resolutions of the General Meeting of Shareholders and the Board of Directors, as well as the Company's key performance indicators and risk portfolio.

The procedure for setting, approving and revising the risk appetite is guided by the Company's by-laws.

RMICS assessment

Russian Railways conducts internal and external assessments of RMICS.

The internal assessment is carried out at least once a year by Zheldoraudit Internal Audit Centre.

In 2018, the internal assessment focused on compliance with the established requirements and involved a selective assessment of the efficiency of specific

risk management initiatives and control procedures.

The current status and improvement of the RMICS were considered at the meeting of the Management Board of Russian Railways, with the results reported to the Board of Directors' Audit and Risk Committee. According to the audit report, in 2018 Russian Railways took a number of measures

to organise and ensure the efficient functioning of RMICS resulting in its ability to meet higher requirements and demonstrate a positive development trend.

The external assessment is carried out by an independent expert. Its frequency is set by the Russian Railways' Board of Directors as recommended by its Audit and Risk Committee.

Improvement of the risk management system in 2018

In 2018, efforts were made to improve the existing risk management and internal control system (by creating an integrated RMICS). This was partly driven by the release of updated COSO Enterprise Risk Management – Integrating with Strategy and Performance and a new version of ISO 31000.

In the reporting period, the following initiatives were launched to enhance the risk management system:

- › analysis of the peers' best practices in risk management and internal control;
- › continued improvement of the RMICS policies and guidelines;

- › seminars for the employees of the divisions in charge of the RMICS;
- › development of the target model of the integrated RMICS until 2021.

As part of the target model integration, an independent consultant was engaged to benchmark the implemented initiatives against the best risk management practices.

In 2019, the Company plans to continue RMICS development by further updating the applicable policies and guidelines, developing and running training programmes, improving approaches

to risk assessment with an emphasis on their modelling, as well as conducting a comprehensive risk analysis and using its results in decision-making processes and further integration of the RMICS into the process-based management model. A special focus will be given to the uniformity and consistency of processes applied across Group to be ensured by RMICS improvement in the Russian Railways' subsidiaries and affiliates. The Company also plans to consider options available for RMICS automation and creation of a single information platform.

Key risks associated with the Long-Term Development Programme until 2025

The key risks associated with the Long-Term Development Programme until 2025 are identified based on their impact on the Company's performance, and are grouped by source as follows:

- › macroeconomic;
- › state regulation;
- › market;
- › investment;
- › tax;
- › management;
- › HR;
- › R&D and technology;
- › technology.

Key risks

Risk category	Risk description	Impact	Mitigants
Macroeconomic	Weaker than forecasted macroeconomic performance and lower freight volumes, including as a result of more rigorous sanctions	High impact	<p>Keeping in constant touch with the Government and key customers to provide them with complete and objective information about potential adverse effects of the adopted decisions</p> <p>Efficiency improvement initiatives, long-term contracts with suppliers</p> <p>Resolutions to provide development institutions with additional liquidity</p>
	Higher than expected growth of prices for consumed products, including petroleum products and electricity		
State regulation	No government resolutions on long-term financing of the railway transport development or a failure to implement such resolutions	Critical with high probability	<p>Searching for alternative sources and tools of financing</p> <p>Optimising technical solutions for capital investment projects</p> <p>Breaking down projects into stages with their subsequent implementation in the order of priority</p> <p>Keeping in constant touch with the Government and key customers to provide them with complete and objective information about potential adverse effects of the adopted decisions for Russian Railways</p>
	Changes in the regulatory framework / regulations providing support to other transport modes	Could make railway sector less competitive	
	Liberalisation of the railway freight transportation market	Critical with low probability	
	Reduced public financing	Triggers the need to raise and service debt, and to cut the investment programme	
	A gap between the existing regulatory framework and ongoing railway transformations	Significant with high probability	
Market	Significant changes in cargo types and transportation routes versus the forecast	Slower freight turnover growth will render relevant projects proportionally infeasible while also reducing Russian Railways' net profit used to finance such projects	<p>Building long-term relations with customers and improving consumer feedback strategies</p> <p>Enhancing market flexibility and expanding business in deregulated segments</p> <p>Strengthening logistics capacities to satisfy customer demand for comprehensive services</p> <p>Implementing the initiatives included in the Comprehensive Plan for Upgrading and Expanding Core Infrastructure</p>
Investment	Insufficient investment in infrastructure development	Critical with medium probability	Optimising technical solutions.
	Failure to comply with the investment programme implementation schedule		Improving the investment project management framework
Tax	Higher tax burden driven by tighter fiscal policies in Russia amidst social and economic uncertainties	Critical with high probability	Staying in constant contact with the federal and regional tax authorities
Management	Insufficient management competencies	Insignificant with low probability	Improving the management framework

Risk category	Risk description	Impact	Mitigants
HR	<p>Deficit of qualified staff due to the insufficient competitiveness of Russian Railways as an employer</p> <p>Stronger competition in the labour market on the back of a decrease in Russia's working population in the medium term</p>	Significant with medium probability	<p>Keeping compensation on a level above the Russian average for a competitive employee value proposition</p> <p>Offering staff development opportunities in line with best practices in training</p> <p>Implementing dedicated social programmes</p> <p>Developing a compensation and benefits package that meets employee needs</p>
R&D and technology	<p>Weaker competitiveness of the railway transport due to a technology gap with other modes of transport</p> <p>Underperformance in adoption and utilisation of innovative R&D solutions</p> <p>Insufficient cooperation with global railway engineering leaders</p>	Low with low probability	Implementing the Comprehensive Innovative Development Programme of Russian Railways Group
Technology	<p>Slower debottlenecking at associated transport facilities (port capacities, warehouse terminals) vs the forecasts contained in the Company's investment programme</p> <p>Failure to meet the freight transportation market needs due to the inefficient freight railcar fleet</p>	Adjusting the timing of Russian Railways' investment programme where necessary	<p>Keeping in constant touch with the operators of associated transport modes to synchronise the investment programmes</p> <p>Cooperating with rolling stock operators to improve railcar fleet management efficiency</p>