

# TYPE OF RISKS

## Key risks

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### **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.

The most significant of them are:

insufficient revenue rate growth below the indexation of tariffs amid growing prices for products consumed by Russian Railways; no government resolutions on long-term financing of the railway transport development or a failure to implement such resolutions; significant changes in freight and passenger transportation markets with a contracting share of the Russian Railways Group across transportation segments.

To prevent these risks and respond to them in a timely manner, Russian Railways maintains an ongoing dialogue with government authorities and key customers keeping them informed about potential adverse effects of the adopted decisions. To mitigate potential negative risk impacts, the Company enhances its customer focus and the quality of services while also running an efficiency improvement programme.

## Risks by business line

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Russian Railways' risk profile reflects its strong focus on key business lines and continuous improvement of risk management practices to ensure the Company's ability to work towards its ambitious goals amid constantly changing external environment. In 2019, Russian Railways managed to meet its overall targets, despite materialised risks across the following business lines:

freight transportation;  
traffic management;  
capital construction, upgrade and overhaul;  
legal support and compliance;  
rolling stock operation, maintenance and repairs;  
international operations.

Key measures to mitigate risks implemented in 2019 included:

review and improvement of internal processes for identifying key gaps, developing and implementing systematic mitigants to reduce risk impact and prevent future negative developments (including enhancement of the Company's internal regulations), based, among other things, on the best market practices;  
automation and digitisation, including measures to improve the reliability and efficiency of data, reduce the human factor and manual labour, and increase the speed of management decision-making;  
legislative initiatives aimed at increasing the transparency of the Company's operations, including through implementing the regulatory guillotine mechanism to eliminate outdated regulations;  
employee training and increasing the level of employee competencies.

## **Risks requiring particular attention**

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Russian Railways pays particular attention to certain types of risks.

## Corruption risks



The Anti-Corruption Centre is the Company's authorised unit for combating corruption and improving anti-corruption policies in accordance with the laws of the Russian Federation.

A single approach to anti-corruption management is implemented across the Company, covering central, regional and line management levels of corporate governance.

## Cybersecurity risks



If they materialise, information security threats may disrupt or suspend IT services, the process flow and operations of the Company, and cause leakage of restricted information.

In 2019, Russian Railways took steps to implement and maintain an automated information security management system, a centralised access node for information systems, a solution for monitoring and controlling information transmission channels, hardware and software for controlling access of privileged users, a system for evaluating the security of automated information and telecommunication systems of Russian Railways, and a system for detecting and preventing cyberattacks on information infrastructure.

The Company also assessed the security of its web portal, information infrastructure (with external users connected), Internet access nodes and a single customer mobile application. Plans for 2020 include further development of information security control and monitoring systems and enhancement of the Company's information security regulations and guidelines.

## Climate change risks



The Company pays great attention to climate change risks, analysing the climate change impact and taking it into account when planning its activities. The key threat that can potentially affect the Company's business is the growing number of meteorological hazards. Railway operations can be jeopardised due to higher precipitation (especially in liquid and mixed forms) and increasing number of dangerous natural phenomena such as fog, heavy rains and others. To address these risks to infrastructure, the Company implements various strengthening solutions (anti-washout slab covers, rock dumping, rock anchorage) and builds structures for protection of the track bed from natural hazards (such as mudflows, landslides, avalanches and rockfalls).

## Financial risk management

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The Company lays a strong emphasis on managing financial risks and insuring its property and liability. Since 2010, Russian Railways has been implementing and improving an efficient financial risk management framework, using the Financial Risk Management Policy as the key regulatory document.

In 2019, key objectives in the realm of financial risk management included framework adjustment to potential adverse geopolitical and macroeconomic factors, and further efforts to ensure implementation of uniform financial risk management principles across the Group.

The key internal regulation governing financial risk management at Russian Railways is the Company's Financial Risk Management Policy. All related decisions are made by the Financial Risk Management Commission, a collective body headed by the First Deputy CEO of the Company.

Russian Railways approaches to financial risk management are based on best practices in financial risk management, principles of diversification through the use of various risk management tools and reliable counterparties.

The risk management policy excludes speculative risk management tools, as well as operations with unreliable counterparties.

Credit risks



To manage its credit risks, Russian Railways has put in place procedures to calculate credit limits and regulatory documents governing operations with bank guarantees and sureties, including the unified corporate standard of Russian Railways Group for dealing with collateral instruments. The Company assesses financial institutions and calculates relevant credit limits so as to manage bank transactions involving deposits and bank guarantees based on the financial standing of the financial institution.

## Liquidity risk



The Company manages its liquidity based on the balance of payments, payment schedule and payment position as per the approved budgets. Depending on the current liquidity situation, the Company promptly raises or deposits funds under the best market conditions. The Company manages its liquidity based on Reuters and Bloomberg systems. The Company is also promoting the use of cash pooling for intercompany liquidity management purposes.

## Currency and interest risks



To assess this category of risks, the Company builds models and evaluates budget parameters factoring in potential volatility of the relevant market indicators.

Assessment of Russian Railways' currency risks and

selection of a currency risk management tool are based on the analysis of the Company's foreign currency exposure. In order to estimate the foreign currency exposure, the Company's operations are broken down into and analysed by investment, operating and financial activities.

The Company minimises its foreign currency risks by reducing its foreign currency exposure, which includes the use of financial derivatives, and seeks to keep it close to neutral with cash inflows and outflows in foreign currencies offsetting each other.

The Company also develops and reviews the foreign currency exposure of the Russian Railways Group in order to assess its risk profile and coordinate solutions across the Group.

Taking into account the heightened risk of changes in the Russian rouble exchange rate, starting from 15 July 2015, Russian Railways has been applying hedge accounting model to liabilities denominated in foreign currencies in line with its approved foreign currency risk management policy.

The Company hedges revenue from transit shipments through the Russian Federation denominated in Swiss francs, as well as euro-denominated investments in GEFCO.

The hedging tools include loans and borrowings in Swiss francs and US dollars (after conversion into Swiss francs) and a portion of the euro-denominated loan corresponding to the net investment in GEFCO.

Hedge accounting allows the Company to recognise the effect of the currency risk management policy and reduce volatility of its financial results caused by movements in the currency exchange rates. As a result, translation differences on hedged loans are recognised in equity and later reclassified to profit or loss when FX revenue is received and/or FX asset is disposed of.

Each case of foreign currency exposure is analysed for applicability of hedge accounting under the Russian and international financial reporting standards. As at 31 December 2019, over 70% of the Company's borrowings denominated in foreign currencies were subject to hedge accounting.