

Anti-corruption

The Company has established a Conflict of Interest Commission (the "Commission") to facilitate coordination between the Executive Office, branches and business units of Russian Railways, improve the anti-corruption mechanisms, identify and eliminate causes of and conditions conducive to the emergence of conflicts of interest in the Company, and enhance personal liability of the Company's employees and officers for breaching the anti-corruption laws.

The Commission works in close collaboration with the Anti-Corruption Centre and other units responsible for resolving

conflicts of interest in Russian Railways, as well as with the relevant unit officers handling any such conflicts of interest.

Key functions of the Anti-Corruption Centre include organising and coordinating anti-corruption processes and procedures across Russian Railways Group, making arrangements for corruption risk assessment, developing relevant anti-corruption measures and monitoring compliance in the Company's business units.

Risk management system

Highlights

Risk monitoring and forecasting is an integral part of the strategic and operational management at Russian Railways. The Company has an effective risk management system to identify, handle and mitigate risks.

Russian Railways complies with the risk management principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO ERM: Enterprise Risk Management – Integrated Framework), ISO 31000 (Risk Management – Principles and Guidelines) and the relevant provisions of the Corporate Governance Code (Bank of Russia's Letter No. 06-52/2463 dated 10 April 2014).

The risk management system seeks to:

- ensure uninterrupted operations of Russian Railways by limiting its exposure to negative external and internal factors;
- provide a reasonable level of assurance about achieving the target benchmarks envisaged by the by-laws of Russian






- Railways in the view of the Company's exposure to the external and internal factors;
- promote harmonisation based on a common methodology and unified principles taking into account the interconnectedness of risks, their mutual influences and possible implications;
- ensure integration of risk management practices as an essential part of all management processes, including strategic and operational planning;
- provide continuity by conducting regular monitoring and updating inputs for Russian Railways' risk management system;
- cover all business lines by integrating risk management procedures in all functional areas of the Company's operations, including as part of the Company's process approach to management;
- strike a reasonable balance between criteria determining the risk response, including the balance between potential losses and growth opportunities or the balance between risk management costs and potential damage caused by a risk.

Key risks of the Group






The following external risks may have the greatest impact on the Company's performance:

- weaker macroeconomic environment as compared to the outlook embedded in the Long-Term Development Programme of Russian Railways;
- insufficient indexation of tariffs against 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;
- liberalisation of the freight and passenger transportation markets.





To prevent these risks and timely respond to them, Russian Railways stays in regular contact with the Government and key customers keeping them informed about potential adverse effects of the adopted decisions. To mitigate potential risk impacts, Russian Railways enhances its customer focus and the quality of its services while also running an efficiency improvement programme.

Risk category	Risk description	Probability	Impact ¹	Mitigants
 Macroeconomic	Weaker than forecasted macroeconomic performance	20–50%	4	Implementing a set of efficiency improvement measures such as enhancing energy efficiency, introducing resource-saving technologies, curbing price growth, and launching various organisational and technical initiatives
	Insufficient indexation of tariffs against growing prices for products consumed by Russian Railways	20–50%	4	Keeping in constant touch with the Government and key customers to provide the stakeholders with complete and objective information about potential adverse effects of the adopted decisions for Russian Railways. Implementing a set of efficiency improvement measures
 State regulation	No government resolutions on long-term financing of the railway transport development or a failure to implement such resolutions	20–50%	3	Searching for alternative sources of financing. Optimising technical solutions for capital investment projects. Breaking down projects into stages with their subsequent implementation in the order of priority
	Changes in the regulatory framework, including regulations providing support to other transport modes and weakening the competitiveness of railway transport	20–50%	3	Keeping in constant touch with the Government and key customers to provide the stakeholders with complete and objective information about potential adverse effects of the adopted decisions for Russian Railways
	Liberalisation of the railway passenger transportation market	5–20%	4	
	Liberalisation of the railway freight transportation market	5–20%	4	
	A gap between the existing regulatory framework and ongoing railway transformations	5–20%	3	
Submitting timely proposals on regulatory amendments to the Government with a detailed explanation of economic and safety concerns and best global practices behind them				
 Market	Significant changes in cargo types and transportation routes versus the forecast	5–10%	2	Building long-term relations with customers and improving consumer feedback strategies. Enhancing market flexibility and expanding business in deregulated segments. Strengthening logistics capacities to satisfy customer demand for comprehensive services
	Aggressive pricing policies from operators of other transport modes	5–20%	3	Building long-term relations with customers and improving consumer feedback strategies
 Investment	Insufficient investment in infrastructure development	5–20%	4	Optimising technical solutions. Breaking down projects into stages with their subsequent implementation in the order of priority
	Failure to comply with the investment programme implementation schedule	5–20%	2	Improving the management framework and project management competencies. Breaking down implementation plans into project roadmaps.
 Tax	Higher tax burden driven by tighter fiscal policies in Russia amidst social and economic uncertainties	20–50%	4	Staying in constant contact with the federal and regional tax authorities

¹ From the point of view of achieving the Company's objectives:
 1 – no threat;
 2 – could have impact if combined with other adverse factors;
 3 – has significant impact;
 4 – could lead to a failure to achieve goals.

Risk category	Risk description	Probability	Impact ¹	Mitigants
Management 	Insufficient management competencies	5–10%	2	Improving the management framework by consolidating and streamlining organisational and functional structures and developing efficient management procedures and methods
HR 	Deficit of qualified staff due to the insufficient competitiveness of Russian Railways as an employer	5–10%	3	Keeping compensation on a level above the Russian average. Offering staff development opportunities in line with best practices in professional training. Building a stronger employer brand
	Stronger competition in the labour market on the back of a decrease in Russia's working population in the medium term	5–10%	3	Offering professional guidance for young talents from educational institutions and pre-university education facilities, including at children's railways. Organising sponsored education programmes and building partnerships with universities and vocational schools. Implementing the Russian Railways' Youth target programme to train and retain young talent. Taking consistent steps to offer competitive employee compensation. Developing a compensation and benefits package that meets employee needs
R&D and technology 	Weaker competitiveness of the railway transport due to a technology gap with other modes of transport	5–20%	3	Implementing the Comprehensive Innovative Development Programme of Russian Railways Group for 2016–2020
	Underperformance in adoption and utilisation of innovative R&D solutions	5–20%	2	
	Insufficient cooperation with global railway engineering leaders	5–20%	2	
Technology (internal) 	Poorer traffic safety due to: a) deterioration in rolling stock reliability; b) deterioration in infrastructure reliability	5–20%	2	Conducting timely overhauls, upgrades and reconstruction of infrastructure facilities, performing repairs and maintenance on the rolling stock. Implementing the investment programme
Technology (external) 	Slower debottlenecking at associated transport facilities (port capacities, warehouse terminals) versus the forecasts contained in the Company's investment programme	5–20%	2	Keeping in constant touch with the operators of associated transport modes to synchronise the investment programmes and adjust the timing of Russian Railways' investment programme where necessary
	Failure to meet the freight transportation market needs due to the inefficient freight railcar fleet	5–20%	3	Cooperating with rolling stock operators to improve railcar fleet management efficiency

Risks associated with dedicated business lines

Business line	Risks	Mitigants
Passenger transportation 	<ul style="list-style-type: none"> • Risk of lower passenger turnover; • higher service costs per pkm; • lower than expected reimbursement of expenses and lost income by the federal and regional governments; • other 	<ul style="list-style-type: none"> • Improving the tariff policy, using promo opportunities across passenger transportation segments; • enhancing customer relations through the loyalty programme; • improving train service schedules, including by offering faster train services; • developing and promoting new routes; • renewing the rolling stock; • assessing progress on initiatives and targets envisaged by the Passenger Transport Service Improvement Programme for 2017–2019, enhancing passenger experience; • monitoring and improving technical characteristics of the train station infrastructure and rolling stock on an ongoing basis; • monitoring the quality of passenger services on an ongoing basis; • enhancing personal and collective responsibility of the business line's employees for traffic safety
Freight transportation and logistics 	<ul style="list-style-type: none"> • Flagging global economy; • geopolitical tensions; • potential deterioration of the operational environment across Russian Railways' network; • discontinuation of incentive (subsidy) programmes targeting railway container shipments in China; • rivalry with other transport modes and stronger competition in the railway container transportation market; • risk of rolling stock shortage 	<ul style="list-style-type: none"> • 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; • enhancing customer focus and service excellence; • building long-term relations with customers and improving consumer feedback strategies: <ul style="list-style-type: none"> – enhancing market flexibility and expanding business in deregulated segments; – extending the scope of flexible tariff policies; – strengthening logistics capacities to satisfy customer demand for comprehensive services; • searching for alternative sources of financing for the terminal infrastructure development projects; • taking consistent steps to develop the infrastructure of international transport corridors and boost container-based freight flows; • strengthening intermodal logistics capacities and boosting cooperation with seaports; • cooperating with rolling stock operators to improve railcar fleet management efficiency; • diversifying business through the use of Internet of Things and high-quality provider services
Railway transportation and infrastructure 	<ul style="list-style-type: none"> • Poorer safety; • delivery delays; • deficit of operable locomotive fleet; • increasing number of technical failures 	<ul style="list-style-type: none"> • Rehabilitating and developing railway infrastructure; • renewing the traction stock; • switching to the purchase of locomotives under life cycle contracts
International operations 	<ul style="list-style-type: none"> • Waning presence in the global markets; • insufficient competencies for tapping into new prospective markets; • stronger competition from foreign engineering companies 	<ul style="list-style-type: none"> • Participating in partnerships and consortia; • participating in joint projects with foreign companies having the required competencies; • exchanging experience with the leading foreign manufacturers and R&D institutions; • training personnel to upgrade the existing and develop new competencies

Financial risk management

The Company lays a special emphasis on managing financial risks and insuring its property and liability. All related decisions are made by the Financial Risk Management Commission, a collective body comprised of dedicated department employees and headed by the First Deputy CEO of the Company.

Credit risks

To manage its credit risks, Russian Railways approved methods 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 uses the credit limit calculation methods to assess financial institutions and calculate relevant credit limits so as to manage bank transactions involving deposits and bank guarantees based on the assessment of the respective financial institution.

In its dealings with the real sector companies, Russian Railways

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

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

Insurance

The Company insures its real estate, rolling stock, employees, liability of a railway infrastructure owner, carrier liability, and also liability of directors and officers working in the Company and its 73 subsidiaries and affiliates.

682 insurance claims were settled in the reporting year, with total insurance compensation exceeding RUB 1 bn.

To ensure a common approach to subsidiary insurance, in 2010, the Company put in place a single corporate framework for insuring subsidiaries and affiliates of Russian Railways.

In 2017, key objectives in the realm of financial risk management included adjustment of the system to external pressures such as international sanctions, strong financial market volatility and increased uncertainty, and application of single financial risk management principles across the Group.

relies on a system of management standards that include standard terms of settlement with counterparties, provisional remedies, treasury control, limitation of receivables and payables, bank guarantees underpinning the parties' commitment, proper performance (including over the warranty periods for supply contracts) and repayment of advances, and sureties from the parent companies. These tools help to protect Russian Railways against the risk of counterparty default (improper or delayed fulfilment of obligations). Financial institutions that issue bank guarantees and sureties are selected based on their credit record and existing credit limits.

situation, the Company promptly raises or deposits funds under the best available market conditions.

to estimate the foreign currency exposure, the Company's operations are broken down into and analysed by investment, operating and financial activities. The amount and structure of the estimated foreign currency exposure have further implications for the Company's borrowing policy and hedging approach.

As part of its ongoing push to improve the insurance of Russian Railways' property and provide the strongest possible insurance coverage, the Company selected the most expensive and riskiest property items subject to insurance. The total value of these facilities exceeds RUB 407 bn. Each year, the Company purchases facultative reinsurance policies for said items from the leading global reinsurance companies, including Swiss Re, Munich Re, Allianz, Zurich Insurance Company, etc.