

Internal Risks of Russian Railways

Risk category	Risks
Production and technology risks	<ul style="list-style-type: none"> ▶ Infrastructure development gap with cargo and passenger traffic flow. ▶ Failures in cargo delivery logistics. ▶ Violation of train makeup schedules and train times. ▶ Violation of transport safety. ▶ Less efficiency in usage of rolling stock. ▶ Unreliability of forecasting data in terms of cargo traffic volume, directions and structure. ▶ Noncompliance of transport management technology and processes with the quality of transport product. ▶ Risk of quality and service assortment noncompliance with new requirements of clients. ▶ Risk of IT system quality noncompliance with growing demand in terms of transportation scope and quality.
Technical and resource risks	<ul style="list-style-type: none"> ▶ Noncompliance of Russian Railways Group fleet of cars with the structure of cargos. ▶ High level of consumption of fixed capital. ▶ Deficit of loading and unloading equipment corresponding to parameters of new transportation means. ▶ Deficit of maintenance and repair facilities. ▶ Risk of incorrect (unjustified) selection of product and service suppliers for Russian Railways Group. ▶ Violation of deadlines and conditions of material resources delivery. ▶ Receipt and use of unreliable information from shippers regarding transportation problems and structure. ▶ Risk of using low quality and incomplete information about Russian Railways Group service customers. ▶ Risk of unauthorised use of Russian Railways Group confidential information and intellectual property.
Investment risks	<ul style="list-style-type: none"> ▶ Incorrect substantiation and selection of new investment projects. ▶ Lower profitability and unprovided planned profitability of invested funds. ▶ Lack of clear guarantees of transportation scope from cargo owners during infrastructure investment projects.
Structure transformation risks	<ul style="list-style-type: none"> ▶ Threat of disturbance of Russian Railways Group technology processes and, consequently, considerable financial losses. ▶ Price increase for Russian Railways Group goods and services provided by detached subsidiaries and affiliated companies. ▶ Threat to lose financial stability and bankruptcy risk for subsidiaries and affiliated companies. ▶ Less profitability of Russian Railways Group due to non-recompensable withdrawal of highly profitable subsidiaries and affiliated companies. ▶ Reduction of asset value and capitalisation of Russian Railways Group in case of inefficient activity of subsidiaries and affiliated companies. ▶ Monopolisation of certain market segments. ▶ Risk of inefficient adaptation of dedicated subsidiary or affiliated company to market conditions.
Financial risks	<ul style="list-style-type: none"> ▶ Liquidity risk. ▶ Property risk. ▶ Operations risk. ▶ Accounting risk. ▶ Budget risk.

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Human resource risks	<ul style="list-style-type: none"> ▶ Lack of compliance of personnel at a professional level with Russian Railways Group needs. ▶ Risk of further growth in number of preretirement age employees. ▶ Highly qualified staff outflow due to lack of motivation and noncompetitive salary of RZD Group employees versus other industries. ▶ Violation of occupational safety rules due to employee fault. ▶ Violation of safe railway operation due to employee fault.
Management risks	<ul style="list-style-type: none"> ▶ Less controllability of Russian Railways Group structures. ▶ Risk of inefficient selection, placement and management of human resources. ▶ Violation of labour discipline. ▶ Making unreasoned management decisions. ▶ Failure to fulfill made decisions within the established deadlines. ▶ Failure to achieve target economic and production results of Russian Railways Group activity. ▶ Lack of information to support management decision-making. ▶ Problems and failures in management information systems. ▶ Failure to achieve target parameters of projects (budget deficit, noncompliance with deadlines, failure to achieve project goals).

Risk Management and its Mitigation is Carried Out According to Several Scenarios

RISK PREVENTION

Implementation of management decisions prevent risk occurrence (active risk management). This activity envisages prevention of risk occurrence through efficiently neutralising its sources, mainly for Russian Railways Group internal risks.

MITIGATION OF DAMAGE IN CASE OF RISK OCCURRENCE

Activities to reduce damage in case of risk occurrence without influencing its probability. This activity envisages development of certain measures to mitigate damage in case of unfavourable events and is aimed mainly at Russian Railways Group external risks

KEEPING THE RISK

Making a decision to keep a risk and not to use counter-control measures. This activity is justified if costs to remove the risk are much higher than the damage caused by it.

The portfolio of potential risks for Russian Railways Group is identified and evaluated within the analytical unit of the Russian Railways Group corporate management system. The evaluation and consideration of any impact of identified risks on Russian Railways Group at this stage is the basis for working out and implement strategic activities to improve the work of Russian Railways Group.

Risk management and mitigation in order to achieve the Group strategic targets and mitigate their influence in the overall efficiency of Russian Railways Group activity is made within the management decision unit. Its main tasks are to work out activities to reduce risk influence on the efficiency of the Group activity and the achievement of Russian Railways strategic targets.

The task of active risk management is to minimise possible damage and the probability of risk occurrence due to systematic influence on reasons and the consequences of risk occurrence when passive risk management usually suggests waiving of risky projects or deliberate keeping of risks if its probability is low or its influence on Russian Railways Group activity is low.