

Risk management

Risk management system

In 2019, FESCO continued to develop its risk management system (RMS). The following steps were taken to improve the efficiency of risk management and introduce a comprehensive risk-based approach to decision-making:

- the Regulations on Risk Management developed and approved;
- risk experts selected from among the Company's employees;
- automated risk management database launched.

Key stages of the risk management system

Stage	Process	RMS participants
Risk identification	Initial risk identification in business processes	All employees
	Risk confirmation	Risk expert
	Preparation of risk profiles, specifying the following: <ul style="list-style-type: none"> • business process; • risk type; • risk owner; • person in charge of assessment; • risk coordinator 	Risk expert; risk owner
Risk assessment	Probability and impact assessment (qualitative or quantitative)	Risk owner
	Approval of risk profile	Risk expert; chief risk manager
Development of risk management measures	Development of action plan, determination of indicators and persons responsible for monitoring them	Risk owner
	Approval of risk management action plan	Chief risk manager
Monitoring and reporting	Preparation of quarterly risk management reports, including: <ul style="list-style-type: none"> • recording the indicators; • updating the status of initiatives; • updating risk assessment scores. 	Person responsible for monitoring
	Approval of risk management report	Risk owner
	Preparation of risk maps	Chief risk manager

To improve the efficiency of the risk management system, in 2019 FESCO developed and launched an automated risk management database. The first three stages of the RMS have been automated, with the fourth stage automation planned for 2020.

In line with the Company's policy, the Group's consolidated corporate risk map is subject to annual review by the Executive Board and the Audit Committee followed by consideration and approval by the Board of Directors.

FESCO's corporate risk map includes:

- assessment of materialised risks;
- assessment of budget target achievement probability under materialised risks;
- losses forecasts in optimistic and pessimistic risk materialisation scenarios;
- analysis of the changes in the risk management system.

The approved risk map is made available to the Company's executive bodies and business units responsible for risk management.

FESCO identifies and monitors risks on an ongoing basis, assessing the effectiveness of its risk management measures and using the emerging opportunities for business development and value growth. The Group informs its shareholders and regulators that certain risks with significant potential impact on the Company's financial results and valuation cannot be managed.

Description of material risks

Detailed description	Impact assessment / probability	Comment	Risk management
Financial risks			
The most material financial risks for FESCO are liquidity and credit risks. Other financial risks have limited impact on the Company's business	High/low	The risk did not materialise in 2019. It continues into 2020 with a higher probability	The cash flow budget, including short- and medium-term planning tools, is the key instrument for managing liquidity risks. Credit risks are managed by capping new receivables and analysing counterparty contract risks
Commercial risks			
FESCO's commercial risks are risks of losses arising from external (demand, competition, market changes, etc.) and internal (quality and price of services provided, etc.) volatility	High/medium	In 2019, these risks did not have a significant impact on the Group's operating results. In 2020, the risks remain due to the volatility of target markets and bigger macroeconomic threats, especially the global ones	The Group mitigates commercial risks through a balanced pricing policy with discounts and preferences to reliable counterparties. The management of commercial risks is based on long-term partnerships with counterparties designed to increase the Company's financial stability in the hostile economic environment. Another tool is optimisation of internal business processes in order to respond efficiently to market changes
Political risks			
Political risks are associated with the internal government policies in the regions of operations, which can impact the Group's companies and potentially hurt the Group's business	Medium/medium	In 2019, the impact of risk materialisation was assessed as insignificant	The Company operates in strict compliance with the applicable laws of the Russian Federation and keeps track of all regulatory changes which affect its operations. The Company is able to adjust its operations in a timely manner, and seeks to maintain an ongoing dialogue with regulatory authorities on compliance-related matters
Operational risks			
Given the Group's significant transport assets (rail cars, containers, ships), the management of operational risks was one of the key priorities in 2019 due to their sheer number	Medium/high	In 2019, the impact of risk materialisation was assessed as insignificant. The risk remains in 2020	As part of its risk mitigation initiatives, FESCO upgrades container terminals, invests in repairs and new equipment, streamlines shipment structure and refines its management and control quality system