

RISK MANAGEMENT SYSTEM



FPC's risk management process is governed by the Company's Risk Management Policy as approved by its Board of Directors.

FPC is governed by the following fundamental risk management principles:

- holistic approach to risk management
- continuity of the risk management process
- involvement of all employees in risk management as part of their duties
- the risk management framework covers all FPC's activities
- the risk management process is based on uniform principles and approaches
- division of roles among the risk management actors
- making management decisions with due regard to risks
- balanced criteria for making decisions on risk handling – striking the right balance between potential losses and opportunities, as well as between risk management costs and potential damages if the risk occurs.

FPC's risk management framework aims to address the following tasks:

- identification, analysis, assessment, selection, preparation, and implementation of risk mitigation plans considering the cost vs benefit balance
- integration of the risk management process into FPC's management and operational processes and regulation of interactions between the risk management process participants
- ensuring integrity, reliability, and effectiveness of risk management at FPC
- development and maintenance of a uniform, methodology-based approach to risk management across FPC

- allocation of risk management responsibilities among FPC's personnel and inclusion of these in corporate regulations
- development of FPC employees' skills to ensure successful performance of risk management roles and responsibilities
- allocation of required and sufficient resources to support risk management
- creation and maintenance of effective communication channels to support engaging internal and external stakeholders in risk management
- development of risk management reporting mechanisms, ensuring the completeness, reliability, and timeliness of reporting
- continuous improvement of the risk management infrastructure and process.

Central decision-making bodies for risk management at FPC are its Board of Directors and the General Director. The Company has the Audit and Risk Committee and the Risk Management Committee to prepare recommendations for management decision making.

The Risk Management Unit coordinates and improves risk management processes and enhances internal controls.

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The Company took the following steps to improve its risk management framework in 2018:

- as recommended by the Audit and Risk Committee, the Board of Directors meeting reviewed the set-up of the risk management system and approved the new version of the Risk Management Policy
- a risk management framework was built in FPC's branches, and the Company continued to roll out the framework across its subsidiaries.

JSC FPC's Key Risk Map was reviewed by the Board of Directors and referred back for further development

Plans for 2019 include further improvements to risk management at FPC and aligning it with a project to improve and further develop the integrated risk management framework at the parent company – Russian Railways.

Key risk factors

Key risks factors associated with FPC's operations are:

- lower GDP growth
- higher CPI growth
- significant fluctuations in inventory and fuel and energy prices
- increased competition (adjustments to pricing policy and dumping by FPC's competitors, expansion of air transport infrastructure)
- lower or no price indexation
- changes in the economic and political environment in Russia

- deteriorating social and demographic situation in urban and rural areas
- lower household purchasing power and real disposable income
- FX rate fluctuations
- increased governmental support for air transport.

Risk mitigation approaches

FPC uses six risk mitigation approaches:

- Risk avoidance – changing strategic, tactical, or operational goals.
- Risk acceptance (conscious risk retention) – risk monitoring without any active treatment of such risks, where the risks are at an acceptable level or where risk treatment is impossible or makes no economic sense. This approach is also used where all risk mitigation methods available are economically unviable compared to the potential damage of the risk occurrence.
- Removing the risk source – addressing the source of risk through actions that mitigate its adverse effects.
- Mitigating the possibility (likelihood) of risk occurrence (reducing the likelihood of risk occurrence) – actions to reduce the likelihood of risk occurring.
- Mitigating risk consequences (reducing the severity of risk consequences) – loss minimisation through appropriate actions.
- Risk sharing with another party (parties) – reducing the risk likelihood and/or impacts through risk transfer or any other partial risk reallocation. Conventional risk sharing methods are as follows: insurance, liability sharing, outsourcing, and hedging.

FPC's risk management structure

Our risk management structure involves 13 key actors with a mandate to manage risks.

RISK MANAGEMENT STRUCTURE OF FPK JSC

FPC's Board of Directors	<ul style="list-style-type: none"> • Approves internal regulations on fundamental risk management principles • Determines the principles of, and approaches to, setting up risk management and internal control systems at FPC • Establishes acceptable risk levels (risk appetite)
FPC's Audit Commission	<ul style="list-style-type: none"> • Controls financial and business activities of FPC • Provides an independent assessment of the information on FPC's financial position and performs other roles in accordance with the Regulations on JSC FPC's Audit Commission
The Audit and Risk Committee of FPC's Board of Directors	<ul style="list-style-type: none"> • A consultative and advisory body of the Board of Directors established to monitor the risk management and internal control system for reliability and effectiveness and perform other roles in accordance with the Regulations on the Audit and Risk Committee of JSC FPC's Board of Directors
The Strategic Planning Committee of FPC's Board of Directors	<ul style="list-style-type: none"> • Reviews the Company's financial model and valuation model for its business and business segments • Considers matters related to business process redesign in the Company and its controlled entities
The Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors	<ul style="list-style-type: none"> • A consultative and advisory body of the Board of Directors established to monitor reliability and effectiveness of the corporate governance system, review the effectiveness of the corporate governance practice and make proposals for its improvement, and perform other roles in accordance with the Regulations on the Human Resources, Remuneration, and Corporate Governance Committee of JSC FPC's Board of Directors
FPC's General Director	<ul style="list-style-type: none"> • Ensures the efficiency, reliability, and effectiveness of the risk management system, the implementation of resolutions on risk management and internal control systems passed by FPC's Board of Directors, and performs other roles • Approves key risks comprising the risk map
FPC's committees	<ul style="list-style-type: none"> • FPC's Risk Management Committee Coordinates the overall management process for identified corporate risks and performs other roles in accordance with the Regulations on the Risk Management Committee • FPC's Anti-Corruption Committee Coordinates the overall risk management process in anti-corruption efforts at FPC
FPC's Financial Risk Management Commission	<ul style="list-style-type: none"> • Helps standardise FPC's principles and practices for obtaining financial services, ensures compliance with Russian laws on securities and financial markets, and performs other roles in accordance with the Regulations on the Financial Risk Management Commission
FPC's Deputy General Director responsible for the risk management system	<ul style="list-style-type: none"> • Designs FPC's risk management system • Coordinates efforts related to maintaining FPC's risk management system and improving its performance
FPC's Risk Management Team	<ul style="list-style-type: none"> • Coordinates the overall risk management processes • Develops risk management guidelines and performs other roles in accordance with the Regulations on the Risk Management Team
FPC's Control and Audit Centre	<ul style="list-style-type: none"> • Conducts inspections and audits of FPC's operating, financial, and business activities
Internal Audit Unit	<ul style="list-style-type: none"> • Monitors and assesses the status, reliability, and performance of internal control and risk management systems
FPC's structural units (risk owners)	<ul style="list-style-type: none"> • Manage risks within their scope of responsibility and authority

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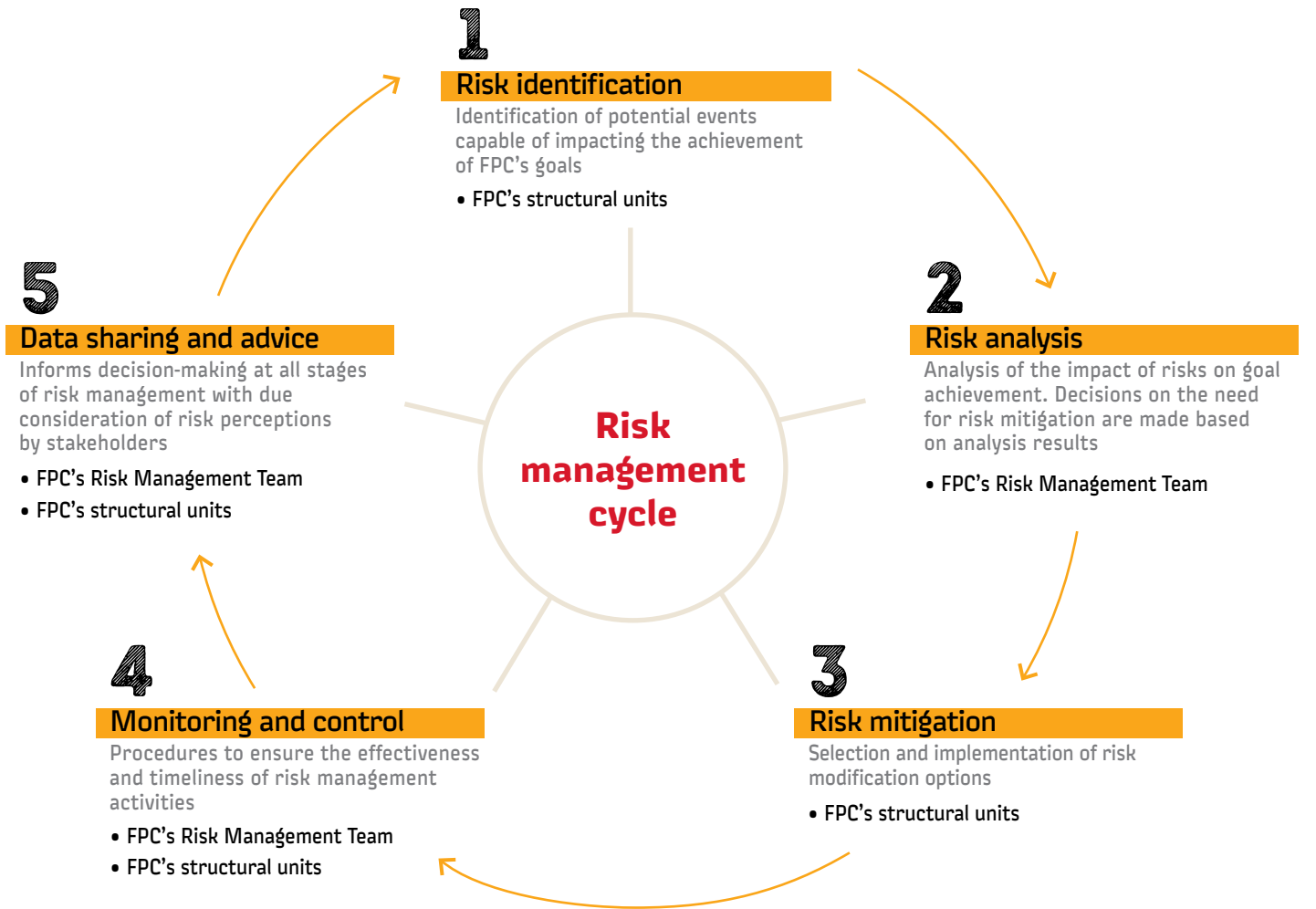
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RISK MANAGEMENT CYCLE



Stage outputs				
1	2	3	4	5
Risk identification	Risk analysis	Risk mitigation	Monitoring and control	Data sharing and advice
Risk analysis, assessment, and identification form	Risk map Risk matrix Risk matrix model	Risk management plan Plan of activities to mitigate consequences should the risk occur	Updated risk map Updated risk matrix Updated risk matrix model Risk occurrence report	Throughout the entire risk management cycle Outputs are documented