

Risk Management

Global Ports is exposed to a variety of risks and opportunities that can have commercial, financial, operational and compliance impacts on its business performance, reputation and licence to operate. The Board recognises that creating shareholder value involves the acceptance of risk. Effective management of risk is therefore critical to achieving the corporate objective of delivering long-term growth and added value to our shareholders.

Global Ports bases its risk management activities on a series of well-defined risk management principles, derived from experience, best practice, and corporate governance regimes. The Group's enterprise risk management processes (ERM) are designed to identify, assess, respond, monitor and, where possible, mitigate or eliminate threats to the business caused by changes in the business, financial, regulatory and operating environment.

The Board has overall oversight responsibility for GPI's risk management and for the establishment of the framework of prudent and effective controls. As such, it systematically monitors and assesses the risks attributable to the Group's performance and delivery of the GPI strategy. Where a risk has been identified and assessed, the Group selects the most appropriate risk measure available in order to reduce the likelihood of its occurrence and mitigate any potential adverse impact.

The Board delegates to the Chief Executive Officer of LLC Global Ports Management LLC the responsibility for the effective implementation and maintenance of the risk management system. Day-to-day responsibility for risk management lies with the management team. The Audit and Risk Committee is authorised by the Board to monitor, review and report on the organisation, functionality and effectiveness of the Group's Enterprise Risk Management (ERM) system.

Global Ports is exposed to a variety of risks which are listed below. The order in which these risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.

Not all of these risks are within the Group's control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing external and internal environment that could have a material adverse effect on the Group's ability to achieve its business objectives and deliver its overall strategy.

Further information on our risk management system, including a detailed description of identified risk factors, is in the notes to the Consolidated Financial Statements attached to this report.

The Group's financial risk management and critical accounting estimates and judgments are disclosed in Notes 3 and 4 to the Consolidated Financial Statements.

The Group's contingencies are disclosed in Note 28 to the Consolidated Financial Statements.

Risk factor	Risk management approach
<p>Strategic risks</p> <p>Market conditions: Global Ports' operations are dependent on the global macroeconomic environment and resulting trade flows, including in particular container volumes. Container market throughput is closely correlated to the volume of imported goods, which is driven by domestic consumer demand, and influenced by RUB currency fluctuations against USD/Euro, and exported goods, which in turn correlate with the Russian rouble exchange rate fluctuations and global commodity markets' trends. The Group remains exposed to the risk of contraction in the Russian and world economy which, if it were to occur, could further dampen consumer demand and lead to a disruption in the container market which could have an adverse impact on the Group. At the same time being part of Russian and world logistics chains, the terminals of the Group are exposed and feel the impact of the disruptions and disbalances in these logistics chains caused by COVID-19 and such cases like Ever Given accident.</p> <p>Competition: Barriers to entry are typically high in the container terminal industry due to the capital-intensive nature of the business. However, challenging market trading conditions mean that competition from other container terminals continues to be a significant factor, which is also supported by the existing excess capacity in the market, i.e., in the North-West of Russia. Further consolidation between container terminal operators and container shipping companies, the creation of new strategic alliances, the introduction of new/upgraded capacity and carrier consolidation could result in greater price competition, lower utilisation, and potential deterioration in profitability. Strategic international investors may develop or acquire stakes in existing competitor Russian container terminals, which could bring new expertise into the market and divert clients and cargoes away from the Group. Also, Beneficial Cargo Owners may optimise their logistics chains and decide to control them, which may lead to changes in the competitive environment. Given the historically high margins in the Russian container handling industry, this trend may continue, which is demonstrated by growing competition in the Russian Far-East where a number of new projects were announced at the Far-Eastern Economic Forum in September 2021. Though we do not expect new major capacity to come to the market in the next 3–4 years, the conversion of some of the existing terminals into the handling of containers already started.</p>	<p>The Group has responded to throughput volatility in the container market by:</p> <ul style="list-style-type: none"> • Focusing on quality and value-driven services (getting closer to the customer) • Greater focus on balancing export and import container flows as well as the cargo mix • Offering operational flexibility to all clients via operational excellence • Investments in infrastructure development and equipment • Termination of handling coal at VSC to optimise the handling of containers • Effective cost containment • Development of IT solutions • Adopting new revenue streams and attracting new cargoes <p>The Group actively monitors the competitive landscape and adjusts its strategy accordingly, i.e., the Group prioritises building close long-term strategic relationships with its leading customers (locally, regionally and with headquarters). The Group's focus on service quality is a key differentiator from its competition and the Group believes this is one of its key competitive advantages. The Group continues to invest in its terminals and infrastructure to ensure competitive levels of service. It takes a long-term approach to managing its network of terminals that represent core infrastructure assets in Russia with an expected operating lifespan of 10 to 20 years and beyond. The Group owns a significant land bank giving it flexibility should market conditions require it. The Group maintains level of capital expenditure in line with the requirements needed to maintain effective development of its existing capacity. The Group has developed long-term operating master plans for each of its terminals that enable it to react quickly in the case of additional market demands being placed on its facilities' infrastructure and equipment. The Group's healthy cash flow generation and decreasing leverage allow financial flexibility in terms of timing and size of the required capital expenditure programme.</p>

Risk factor**Political, Geopolitical, military conflicts and economic and social instability:**

Russian foreign affairs and geopolitics could lead to instability in the Russian economy. Therefore, uncertain operating environment and decreasing, as a result of social and political instability, could affect the Group's profitability and ability to sell its services due to significant economic and political risks.

Certain government policies or the selective and arbitrary enforcement of such policies could make it more difficult for the Group to compete effectively and/or impact its profitability.

The current geopolitical situation and conflict surrounding Russia and Ukraine will adversely affect operations of the Group, i.e. the management of the Group is aware of the fact that some shipping lines have announced that they temporarily suspend shipments to and from Russian Federation. It is possible that other shipping lines will follow with similar restrictions. The Group may also be adversely indirectly affected by US, EU, UK and other jurisdictions sanctions against Russian business/companies – measures that have had and may continue to have an adverse effect on the Russian economy and demand for goods, commodities and services as well as supply of equipment and spare parts, interest rates and RUB/USD exchange rate. Ongoing sanctions could also slow down or make it very challenging to process the settlements with clients and suppliers and to deal with certain persons and entities in Russia or in other countries.

Following already imposed sanctions on Russian Central Bank, its restrictions for capital movements outside Russian Federation and other developments of the confrontation, there is an uncertainty about the availability of the options for refinancing in 2023 when principal payments of Eurobonds 2023 fall due. The situation is largely dependent on actions of Russian Government and Central Bank that are difficult to foresee.

Coronavirus (COVID-19):

The global coronavirus (COVID-19) pandemic that emerged during 2020 impacted the container ports industry and Global Ports own operations, resulting in significant interruption to global trade, disruption to supply chains, reshuffling of vessel calls, and high FX volatility.

Despite the introduction of vaccination programmes, visibility remains low, new strains of virus are emerging, and the risk of future outbreaks and disruption to business operations remains. Risks include:

- personnel shortages due to COVID-19 related illness
- inability to deliver contracted services due to regulatory or safety requirements
- loss of revenue due to business interruption, loss of customer volumes or customer withdrawals
- additional process steps or safety measures
- liquidity issues associated with delays in customer payments, potential customer failures or availability of financing.

Risk management approach

In light of the geopolitical and macroeconomic challenges faced by the ports industry in recent years, the Group has focused on improving its resilience, in particular its ability to withstand short-term economic fluctuations in Russia, as well as the wider regional and global environment. This has included a strong focus on cost containment measures, and on strengthening its financial position by refinancing its debt, switching to longer maturities at fixed rates, execute the investment programmes ahead of time and increase the resilience of its treasury operations. In addition, the Group has developed its growth strategy to embrace exports and new revenue streams to counteract the impact of any fall in consumer sentiment or any macro-economic downturn.

The Group has strengthened its system to monitor compliance with restrictions posed by international sanctions and fend off the risk of secondary sanctions.

The Group continues to maintain an international base of shareholders, bondholders and business partners.

The Group's management is closely monitoring events in Russia and Ukraine, as well as the possibility of the imposition of further sanctions in connection with the escalating confrontation and any resulting increase of tensions between Russia, and the US, UK and/or the EU. The management understands what needs to be done under current circumstances and believes that it has required resources to lead the Group through these difficult times.

The Group has a strong track record in promptly meeting all its debt obligations, successful refinancing and deleveraging and enjoys high credibility in local and international banking and capital markets that we expect should support the Group in its efforts to refinance in September 2023 or earlier.

The Group is not aware of any specific sanctions related to its ownership or operations.

The authorities in Russia demanded that the transport industry enterprises ensure that at least 80% of employees are vaccinated, which the Group's terminals completed within the required time frame.

Group measures to mitigate risk are grouped under/focused on four main priorities:

- **Protecting all employees (operations and admin) and communities:** including on-site vaccination at the terminals, medical examinations, restrictions on travelling and external/internal meetings, social distancing, additional disinfection according to the schedule, personal protective equipment provided for personnel, improved cleaning, purchasing protective masks, gloves and COVID-19 tests for the local hospital in Nakhodka, Far East. Administrative staff had been either recommended or moved to work from home. The Group tried to establish the maximum comfort for its employees during remote work. The IT infrastructure was adapted to new challenges and was working without major failures. As of the date of signing the financial statements, the employees were not fully returned from working from home. The Group has not taken a final decision, on whether some of the employees shall continue working from home going forward. Any return to the office is and will be accompanied by following the strict safety protocols including social distancing, disinfection, use of masks, limitation of external contacts.
- **Supporting customers:** uninterrupted 24/7 operations (quay, yard and gates), to support and protect customers' supply chains in Russia, improved commercial and operational flexibility;
- **Strengthening online channels,** including maximum digitalisation of documentation and customer integration, further development of online solutions to decrease the necessity of client's presence at the terminal, improvement of resilience of IT systems to external shocks and cyber attacks;
- **Ensuring financial stability and cash preservation,** including proactive management of costs, receivables and capacity for effective adaptation to crisis and its consequences, Stress testing of financial performance and liquidity position, revisiting financial plans.

All these measures implemented ensured that the terminals of the Group (quay, yard and gates) remained 100% operational to service vessels/handle cargoes throughout the pandemic as well as the call and service centres of the Group were working without interruption.

Operational risks**Leases of terminal land:**

The Group leases a significant amount of the land and quays required to operate its terminals from government agencies and to a lesser extent from private entities.

Any revision or alteration to the terms of these leases or the termination of these leases, or changes to the underlying property rights under these leases, could adversely affect the Group's business.

Customer Profile and Concentration:

The Group is dependent on a relatively limited number of major customers (shipping lines, freight forwarders etc.) for a significant portion of its business.

These customers are affected by conditions in their market sector which can result in contract changes and renegotiations as well as spending constraints, and this is further exacerbated by carrier consolidation.

The Group believes it has a stable situation at present regarding its land leases and its terminals have been in operation for a number of years. The Group owns the freehold on 66% of the total land of its terminals and 70% of the land of its container and inland terminals in Russia. The remainder is held under short and long-term leases routinely renewable at immaterial costs.

The Group conducts extensive and regular dialogue with key customers and actively monitors changes that might affect our customers' demand for our services.

The Group has a clear strategy to reduce its dependence on its major customers, by targeting new customers, increasing the share of business from other existing global customers, and new cargo segments.

The Group is also relying on the contribution from non-container revenues through building its presence in marine bulk cargoes like coal and scrap metal (share of non-container revenue was 22% and 17% in 2020 and 2021 respectively).

Risk factor	Risk management approach
<p>Reliance on third parties: The Group is dependent on the performance of services by third parties outside its control, including all those other participants in the logistics chain, such as customs inspectors, supervisory authorities, Russian Railways, rolling stock operators and others, and the performance of security procedures carried out at other port facilities and by its shipping line customers.</p>	<p>The Group strives to maintain a continuous dialogue and cooperation with third parties across the supply chain. In addition, its geographic diversification provides it with some flexibility in its logistics, should bottlenecks develop in one area.</p>
<p>Tariff regulation: Tariffs for certain services at certain of the Group's terminals have in the past, been regulated by the Russian Federal Antimonopoly Service (FAS). As a result, the tariffs charged for such services were, and may potentially in the future be, subject to a maximum tariff rate and/or fixed in Russian roubles as PLP, VSC, and FCT, like many other Russian seaport operators, are classified as natural monopolies under Russian law.</p>	<p>All tariffs are set in Russian roubles. To the best of the knowledge of the Group's management, the Group is in full compliance with the tariff legislation. The Group continues to monitor for any legislative proposals and regulatory actions that could lead to changes to the existing tariff regulations and its natural monopoly status. It seeks a proactive dialogue with the relevant Russian federal authorities. It believes it is as well placed as any market participant to adapt to any future changes in tariff regulation.</p>
<p>Human resources management: The Group's competitive position and prospects depend on the expertise and experience of its key management team and its ability to continue to attract, retain and motivate qualified personnel. Lack of qualified workers in the market and active competitions can lead to a deficiency of human resources. Industrial action or adverse labour relations could disrupt the Group's operating activities and have an adverse effect on performance results. Changes in work conditions as well as growing competition on the labour market may lead to higher staff turnover.</p>	<p>The Group annually reviews labour market trends and aligns employee salaries and benefits at all levels to foster and retain skilled labour. The Group invests in the professional development of its staff at all levels, including international best practices implementation and internal development/ training programmes. The Group engages in socially responsible business practices and the support of local communities. The Group is regularly exploring employee's satisfaction and loyalty and provide measures to keep a sufficient level of these metrics. The Group strives to maintain a positive working relationship with labour unions at its facilities. Moreover, it pursues overall labour policies designed to provide a salary and COVID support benefit package in line with the expectations of our employees.</p>
<p>Health, safety, security: Accidents involving the handling of hazardous materials at the Group's terminals could disrupt its business and operations and/or subject the Group to environmental and other liabilities. The risk of safety incidents is inherent in the Group's businesses. The Group's operations could be adversely affected by terrorist attacks, natural disasters or other catastrophic events beyond its control.</p>	<p>The Group has implemented clear safety policies designed around international best practices and benchmarks using such measures as GPI Global Minimum Requirements. Safety is one of the Group's top priorities. A safety strategy and annual action plans have been developed and are being implemented, to build a sustainable safety culture across the whole Group. The detailed roadmap is designed to ensure sustainable implementation of safety culture over the medium term. GPI is constantly improving its safety practices by involving the employees in identifying and mitigating potential safety risks. Similarly, GPI works with all its stakeholders to maintain high level of physical security around port facilities and vessel operations to minimise the risk of terrorist attacks.</p>
<p>Environment: Degradation of the environment and the consequences from stringent environmental regulations and investor sustainability expectations may influence the profitability of the business.</p>	<p>The Group constantly monitors the environmental, legislation changes and expectations and in response is developing its ESG targets which will be aligned with its business strategy, governance and risk management processes. In 2021, the coal handling operations were ceased in one of the Company's subsidiaries.</p>
<p>Information technology and security: The Group's container terminals rely on IT and technology systems to keep their operations running efficiently, prevent disruptions to logistic supply chains, and monitor and control all aspects of their operations. Any IT glitches or incidents can create major disruptions for complex logistic supply chains. Any prolonged failure or disruption of these IT systems, whether a result of a human error, a deliberate data breach or an external cyber threat could create major disruptions in terminal operations. This could dramatically affect the Group's ability to render its services to customers, leading to reputational damage, disruption to business operations and an inability to meet its contractual obligations.</p>	<p>The Group has centralised its IT function in recent years which is an important step in ensuring both the efficiency and consistency of the Group's security protocols implementation. We are continuing to align our IT strategy with the business objectives. We regularly review, update and evaluate all software, applications, systems, infrastructure and security, i.e., in November 2021 VSC and Solvo completed testing and commissioning of a new terminal operating system (TOS). The new TOS enables real-time tracking of all ship and container handling procedures at the terminal and critical functions like operational accounting, warehouse management, railhead container handling and planning, vehicle handling, and oversight of containers during customs clearance. All software and systems are upgraded or patched regularly to ensure that we minimise vulnerabilities. Each of our business units has an IT disaster recovery plan. Our security policies and infrastructure tools are updated or replaced regularly to keep pace with changing and growing threats. Our security infrastructure is updated regularly and employs multiple layers of defence. Connectivity to our partners' systems is controlled, monitored and logged.</p>
Regulatory and compliance risks	
<p>Regulatory compliance: The Group is subject to a wide variety of regulations, standards and requirements and may face substantial liability if it fails to comply with existing regulations applicable to its businesses. The Group's terminal operations are subject to extensive laws and regulations governing, among other things, the loading, unloading and storage of hazardous materials, environmental protection and health and safety.</p>	<p>The Group strives to be in compliance at all times with all regulations governing its activities and devotes considerable management and financial resources to ensure compliance.</p>
<p>Changes in regulations: Changes to existing regulations or the introduction of new regulations, procedures or licensing requirements are beyond the Group's control and may be influenced by political or commercial considerations not aligned with the Group's interests. Any expansion of the scope of the regulations governing the Group's environmental obligations, in particular, would likely involve substantial additional costs, including costs relating to maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of its ability to address environmental incidents or external threats.</p>	<p>The Group maintains a constructive dialogue with relevant federal, regional and local authorities regarding existing and planned regulations. The Group does not have the power to block any or all regulations it may judge to be harmful, but this dialogue should ensure it has time to react to changes in the regulatory environment.</p>

Risk factor**Conflict of interests:**

The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs or notes. The major implications of this risk are that (i) co-controlling shareholders pursue other businesses not related to GPI and hence may not be deeply involved with developing GPI and (ii) one of the major shareholders is also a major customer of the Group. The employees of the Group may have interests in the companies, that may or potentially may have the business with the Group.

Legal and tax risks:

An adverse determination of pending and potential legal actions involving the Group's subsidiaries could have an adverse effect on the Group's business, revenues and cash flows and the price of the GDRs. Weaknesses relating to the Russian legal and tax system and appropriate Russian law create an uncertain environment for investment and business activity and legislation may not adequately protect against expropriation and nationalisation. The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion claims could prevent the Group from obtaining effective redress in court proceedings.

Financial risks**Foreign exchange risks:**

The Group is subject to foreign-exchange risk arising from various currency exposures, primarily the Russian rouble and the US dollar. Foreign-exchange risk is the risk of fluctuations in profits and cash flows of the Group arising from the movement of foreign-exchange rates. Risk also arises from the revaluation of assets and liabilities denominated in foreign currency.

Credit risk:

The Group may be subject to credit risk, arising primarily from trade and other receivables, loans receivable and cash and its equivalents and derivative financial instruments.

The Group's business is also dependent on several large key customers.

Debt, leverage and liquidity:

The Group's indebtedness or the enforcement of certain provisions of its financing arrangements could affect its business or growth prospects.

Failure to promptly monitor and forecast compliance with loan covenants both at the Group and individual terminal levels may result in covenant breaches and technical defaults.

If the Group is unable to access funds (liquidity) it may be unable to meet financial obligations when they fall due, or on an ongoing basis, to borrow funds in the market at an acceptable price to fund its commitments.

Risk management approach

The Group's corporate governance system is designed to maximise the company's value for all shareholders and ensure the interests of all stakeholders are taken into account. The Group's LSE listing ensures our compliance with the highest international standards. In addition, the Board consists of highly experienced individuals including strong independent directors. In 2020, the Group adopted the Policy on Conflicts of Interest regulating the potential conflicts of interest by the employees of the Group and updated it in 2021.

The Group maintains a strong and professional legal function designed to monitor legal risks, avoid legal actions where possible and carefully oversee any changes in applicable legislation that may occur.

The Group performs ongoing monitoring of changes in relevant tax legislation and court practice in the countries where its companies are located and develops the Group's legal and tax position accordingly.

As of 2021, all Group tariffs are denominated in Russian roubles, and part of the Group's debt is denominated in US Dollars. Most of the Group's operating expenses, on the other hand, are and will continue to be denominated and settled in Russian roubles. In order to mitigate the possibility of foreign exchange risks arising from a significant mismatch between the currency of revenue and the currency of debt ('open FX position'), the Group is converting part of its existing USD debt into RUB, the currency of revenue. During 2018–2022, the Group bought back and / or redeemed part of its USD denominated Eurobonds exposure and currently~57% of the total issued Eurobonds have been bought back and/or fully redeemed.

New debt in 2020–2021 was attracted/raised only in Russian rouble, i.e., VSC bonds in the amount of 12.5 billion RUB—USD equivalent of USD 168.25 mln.

In addition, the Group has negotiated with some of its customers the right to change its Russian rouble tariffs in conjunction with RUB/USD exchange rate fluctuations within a range of +/- 15% each time when the average RUB/USD exchange rate for a given month falls beyond 5% from the base exchange rate used for translating original USD tariffs to RUB, however, the risk above the levels of these currency moves remains.

The Group closely tracks its accounts receivable overall and the creditworthiness of key customers and suppliers.

The Group has been able to reduce its total debt level. FCT Series 2–3 Bonds were repaid in 2021 using their own funds. Debt reduction beyond minimum repayment requirements remains a management priority in 2022.

Liquidity risk is carefully monitored, with regular forecasts prepared for the Group and its operating entities.

As of the end of 2021 Group Net debt/EBITDA ratio reached 2.0x.

The Group deleveraging strategy together with the better business development outlook led to Moody's upgrade rating of the Company and the Group financial instruments by 1 notch to Ba1, RA Expert by 2 notches to ruAA, Fitch Ratings affirmation at BB+ in 2021.

The risk of liquidity has been significantly reduced via extensions of debt maturities through public debt issuance in 2021:

VSC issued Russian rouble bonds in the amount of 7.5 billion RUB – USD equivalent of USD 100.95 mln, which is a part of the rouble-denominated Bond Programme of VSC with Moscow Exchange which provides VSC with the potential to issue additional bonds of RUB 17.5 billion – USD equivalent of USD 235.56 mln, over an unlimited period of time with a maturity of up to 10 years. FCT has a similar Bond Programme for RUB 50 billion – USD equivalent of USD 673.01 mln. In addition, the Group has over USD 300 million of open uncommitted limits for credit line facilities from the banks which in combination with VSC and FCT bonds can facilitate financial flexibility and diversification of the debt portfolio of the Group and the refinancing of the existing debt of the Group and ensure all obligations of the Group falling due in the next 12 months are met. The Group regularly stress tests scenarios when different negative trends that could affect cash flows are identified. The liquidity position is carefully monitored in case of further deterioration of financial performance.