Financial Risk Management

The Russian Railways Financial Risk Management Policy is approved by Russian Railways Group. The Risk Management Committee is working and financial risk management procedures and guidelines have been implemented.

The Company Financial Risk Management Policy defines the following:

- Company financial risks;
- Financial risk management principles;
- Management process:
  - identification
  - analysis and assessment
  - comparing risk scope with risk appetite
  - decision-making (selection of risk management strategy)
  - risk management including hedging, if necessary
  - monitoring of results;
  - assessment of efficiency of financial risk management activities (self-diagnostics);
- Management instruments including hedging;
- Understanding the risk appetite to take a decisions about risk management.

The decision-making centre on financial risks is the Risk Management Committee of the Company, headed by the senior Vice President of Economics and Finance.

The Company is focused on management of the following financial risks:

Financial Consequences of Property Risks

Property risks are transferred to large Russian insurance companies and reinsured in the largest international insurance companies. The single policy and principles of Russian Railways Group insurance protection are defined by the corporate insurance concept for Russian Railways subsidiaries and affiliated companies. The concept stipulated the united approach to building insurance protection of Group companies;

Credit Risks

To manage credit risks, the Company has approved the methodology of calculating credit limits for partner banks, with normative documents regulating activity with bank guarantees. On the basis of this methodology, the Company evaluates financial institutions and calculates the corresponding loan limits that restrict bank operations to place deposits and accept bank guarantees depending on the state of a corresponding financial institution. When working with real sector companies to protect Russian Railways against counterparty default risk (improper or incomplete fulfillment) of its obligations, banking guarantees of intention criticality, performance guarantees are used (including the guarantee period under supply contracts), return of advance guarantees, parental surety. For financial institutes, the emitters of bank guarantees are selected taking into account the credit policy and active credit limits;

Liquidity Risks

The operative liquidity management of the Company is assessed on the balance of payments, the payment schedule and the payment position formed based on the information received from subdivisions about planned receipts for the calendar months by days. If necessary, the Company operatively raises money under the best conditions. Operative liquidity management is conducted on the basis of Reuters terminal and other automated electronic systems;

Market Risks (currency, interest and commodity risks)

To assess these risks, procedures are used that calculate risk size and compare them with values of established risk appetites.

Assessment of currency risk size and selection of management tool of currency risk is based on the analysis of the open currency position of the Company on the horizon up to 4 years, which is the difference between incoming and outgoing money flows.

Hedging deals are used as a basic tool in the market risk management.

In particular, swaps in Swiss francs are made as part of the currency risk management. This approach allows to reduce the currency risk by reducing the open foreign currency position of the Company, a significant proportion of which is part of the operating income denominated in Swiss francs.