

# Financial risks

The Company's Financial Risk Management Policy is the framework document of the financial risk management system.

## Financial risk management concept of the Company

Risk management principles

Management tools

The centre for decision-making with respect to financial risk management is the Company's Financial Risk Management Commission – a collective body comprised of representatives from several departments chaired by the senior vice president for economics and finance. The Commission held 12 meetings in 2016.

### MANAGEMENT PROCESS

- identification,
- analysis and assessment,
- adoption of decision (selection of risk management strategy),
- risk management,
- monitoring of results,
- assessment of effectiveness of financial risk management measures (self-diagnostics).

## Types of financial risks

### Credit risks

- In order to manage credit risks, Russian Railways has approved methods for calculating credit limits and regulatory documents that govern work with bank guarantees and sureties, including the unified corporate standard of the Russian Railways Group for work with collateral instruments. Based on the credit limit calculation methods, the Company conducts an assessment of financial institutions and calculates the relevant credit limits to regulate transactions with banks involving deposits and the receipt of bank guarantees depending on the assessment of the condition of the corresponding financial institution.
- When interacting with companies in the real sector, Russian Railways employs a system of management standards that includes standard settlement terms with counterparties, interim measures, treasury control, rate setting of receivables and payables, commitment bank guarantees for the proper performance of obligations (including over warranty periods for supply contracts), repayment of advances and sureties of parent companies in order to ensure that Russian Railways is protected against risks of counterparties failing to execute (improperly executing or late execution of) their obligations. Financial institutions that issue bank guarantees and sureties are selected taking into account credit history and the existing credit limits.

## Liquidity

- The Company performs operational management of liquidity based on the balance of payments, payment schedule and payment positions within

the limits of the approved budgets. Depending on current liquidity, the Company promptly attracts or deposits funds under the best

market conditions. Operational management of liquidity is performed based on the systems of Reuters and Bloomberg.

## Currency and interest risks

- In order to assess these risks, the Company utilises modelling and an assessment of budget parameters taking into account potential volatility in the relevant market indicators.
- The assessment of the currency risks faced by Russian Railways and the selection of a currency risk management tool is based on an analysis of the Company's foreign currency exposure.

- In order to estimate foreign currency exposure, the Company's transactions are analysed and categorised in terms of investment, operating and financial activities. The amount and structure of the estimated foreign currency exposure impacts the Company's borrowing policy and determines the hedging approaches. The Company regularly reviews its foreign currency exposure and makes the relevant adjustments to manage foreign currency risks and the foreign currency

borrowing portfolio.

- The Company minimises its currency risks by reducing its foreign currency exposure, including by utilising derivative financial instruments.
- The interest risk is assessed based on an analysis of the volatility of floating interest rates and the corresponding effect on the borrowing portfolio of Russian Railways.

## Assessment of financial risk management mechanisms in the context of external sanctions

The financial risk management system in effect at Russian Railways has demonstrated its effectiveness amidst considerable external pressure (international sanctions, a high level of volatility on financial markets and a heightened level of uncertainty).

Last year the Company devoted special attention to assessing the credit risk of financial institutions that are counterparties of Russian Railways. Given the negative trends in the global economy and the Russian economy in particular as well as the growing

level of volatility on financial markets, the Company updated its model for assessing the credit risk of financial institutions (expanded its set of indicators and took a more conservative approach to assessment).

