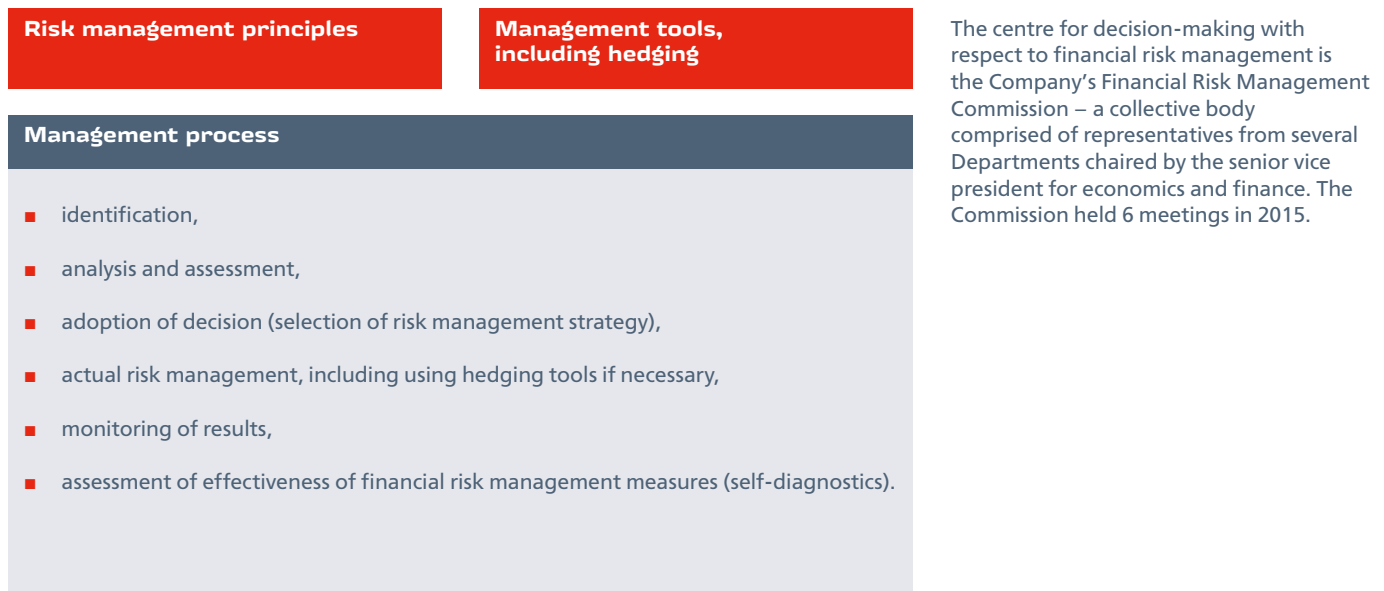


Financial risk management

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

The Company's financial risk management system



The Company focuses on managing the following key 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, interest and price 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.

In addition, given the Company's foreign currency-denominated assets and liabilities, Russian Railways has used hedge accounting since 16 July 2015 for liabilities denominated in foreign currency. An example of a hedged item is revenue from transit operations denominated in Swiss francs as well as investments in GEFCO denominated in euros.

Hedging tools include loans in Swiss francs and U.S. dollars (with conversion into Swiss francs) and partial loans in euros, i.e. the corresponding amount of net investments in GEFCO. Hedge accounting reflects the effect of the currency risk management policy and reduces the volatility of the Group's financial results given the changes in foreign exchange rates. In particular, the exchange rate differences on loans involved in hedging are recognised as equity and then re-classified under the profit and loss statement based on the receipt of foreign currency earnings and/or the sale of a foreign currency-denominated asset.

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.

As regards price risk, the Company seeks to establish settlement and indexation terms in contracts with counterparties that mitigate this risk as much as possible.

Insurance

The Company has insurance for its real estate, rolling stock (locomotives, electric, rapid-transit and high-speed trains) and employees, liability insurance as a railway infrastructure owner and carrier as well as liability insurance for the directors and officers of the Company in addition to 77 subsidiaries and affiliates.

A number of open competitions were held in 2015 and the following types of contracts were concluded:

- mandatory civil liability insurance of the carrier for harm to the life, health or property of railway passengers;
- mandatory civil liability insurance for the owner of a hazardous facility for damages as a result of an accident at the hazardous facility;
- liability insurance for the Company's directors and officers;
- personal insurance;

- mandatory civil liability insurance for an owner of transportation vehicles;
- transport vehicle (automobile) insurance.

A total of 513 insurance claims were settled in the reporting year. Total insurance compensation received in 2015 amounted to more than RUB 614 mln.

In order to ensure a unified approach to organising insurance protection for subsidiaries, the Unified Corporate Framework of Insurance Protection for Subsidiaries and Affiliates of Russian Railways has been in effect since 2010. It establishes the general principles for organising the insurance protection of Russian Railways S&A, the procedure for the interaction of S&A with insurance market participants and the procedure for planning insurance protection as well as concluding and servicing insurance contracts in accordance with the legislation of the Russian Federation and the Group's regulatory acts.

As part of work conducted regularly to improve the parameters of the insurance protection of Russian Railways property and to ensure the highest level of insurance coverage, the most expensive and high-risk facilities have been identified from among the overall number of the Company's insurable properties for which a separate limit has been set for a single insurance event in the amount of RUB 22.5 bln. The combined value of these facilities is more than RUB 390 bln. The Company performs work each year to provide special facultative reinsurance at leading foreign reinsurance companies. In particular, the reinsurance of risks for these facilities is provided by such major reinsurance companies as Swiss Re, Munich Re, Allianz and Zurich Insurance Company, among others.