

Liquidity risk

The Company manages its liquidity based on the balance of payments, payment schedule and payment position as per the approved budgets.

Depending on the current liquidity situation, the Company promptly raises or deposits funds under the best market conditions. The Company manages its liquidity based on Reuters and Bloomberg systems.

The Company is also promoting the use of cash pooling for intercompany liquidity management purposes.

Currency and interest risks

To assess this category of risks, the Company builds models and evaluates budget parameters factoring in potential volatility of the relevant market indicators.

Assessment of Russian Railways' currency risks and selection of a currency risk management tool are based on the analysis of the Company's foreign currency exposure. In order to estimate the foreign currency exposure, the Company's operations are broken down into and analysed by investment, operating and financial activities.

The amount and structure of the estimated foreign currency exposure have further implications for the Company's borrowing policy and hedging approach.

Russian Railways regularly revises its foreign currency exposure and adjusts its approach to managing currency risk and FX-denominated loan portfolio. The Company minimises its currency risks by reducing its foreign currency exposure, including by utilising derivative

financial instruments and seeks to maintain its foreign currency exposure close to neutral with cash inflows and outflows in foreign currencies offsetting each other.

The assessment of interest risk is based on the analysis of the floating interest rate volatility and its impact on Russian Railways' loan portfolio.

The Company also develops and reviews the foreign currency exposure of the Russian Railways Group in order to assess its risk profile and coordinate solutions across the Group.

Taking into account the heightened risk of changes in the Russian rouble exchange rate, starting from 15 July 2015, Russian Railways has been applying hedge accounting model to liabilities denominated in foreign currencies in line with its approved foreign currency risk management policy.

The Company hedges revenue from transit shipments through the Russian Federation denominated in Swiss francs,

as well as euro-denominated investments in GEFCO.

The hedging tools include loans and borrowings in Swiss francs and US dollars (after conversion into Swiss francs) and a portion of the euro-denominated loan corresponding to the net investment in GEFCO.

Hedge accounting allows the Company to recognise the effect of the currency risk management policy and reduce volatility of its financial results caused by movements in the currency exchange rates. As a result, translation differences on hedged loans are recognised in equity and later reclassified to profit or loss when FX revenue is received and/or FX asset is disposed of.

Each case of foreign currency exposure is analysed for applicability of hedge accounting under the Russian and international financial reporting standards. As at 31 December 2018, over 70% of the Company's borrowings denominated in foreign currencies were subject to hedge accounting.

Insurance

The Company insures its real estate, rolling stock, employees, liability of a railway infrastructure owner, carrier liability, and also liability of directors and officers working in the Company and its 73 subsidiaries and affiliates.

625 insurance claims were settled in the reporting year, with total insurance compensation exceeding RUB 874 m.

To ensure a common approach to subsidiary insurance, in 2010, the Company put in place a single corporate framework to insure subsidiaries and affiliates of Russian Railways. It was updated in 2018 to unify approaches to the Russian Railways Group's insurance, taking into account best practices and current trends in the insurance segment.

A great deal of attention is paid to the reinsurance policies, which are provided by the leading global reinsurance companies, including Swiss Re, Munich Re, Hannover Re, AIG Europe, etc.