

A map of Russia is shown in a light blue color, overlaid with a complex network of glowing blue lines that represent a digital or communication network. The map is set against a dark background with abstract light patterns.

# VISION AHEAD

Condensed Annual report  
2018

# AGENDA

2/ **ABOUT THE COMPANY**

Key performance indicators for 2018.....	4
Business model.....	6
Key performance indicators.....	8

10/ **VISION AHEAD**

Vision ahead.....	12
Russian Railways' Long-Term Development Programme until 2025.....	14
Russian Railways today and tomorrow.....	16

28/ **STRATEGIC REPORT**

Letter from the Chairman of the Board of Directors.....	30
Letter from the CEO and Chairman of the Management Board.....	32
Strategy.....	34
Development prospects.....	36

38/ **PERFORMANCE OVERVIEW**

Market overview.....	40
Transportation and logistics.....	42
Passenger transportation.....	52
Railway transportation and infrastructure.....	62
Foreign projects and international cooperation.....	68
Traffic safety.....	73
Investment activities.....	74
Innovation driven development.....	80
Analysis of financial results.....	82
Securities.....	94

98/ **SUSTAINABLE DEVELOPMENT**

Social policy.....	100
Stakeholder engagement.....	102
HR management.....	108
Health and safety.....	111
Environmental protection.....	111
Energy efficiency and conservation.....	113
Charity.....	113

116/ **CORPORATE GOVERNANCE**

Corporate governance system.....	118
General Meeting of Shareholders.....	120
Board of Directors.....	121
Management Board.....	124
Audit and control.....	128
Risk management.....	133

140/ **APPENDICES**

# COMPANY PROFILE

**RUSSIAN RAILWAYS** IS RUSSIA'S LARGEST RAILWAY COMPANY ENGAGED IN OWNING AND BUILDING PUBLIC RAILWAY INFRASTRUCTURE. THE COMPANY RANKS AMONG THE WORLD'S LEADING RAILWAY CARRIERS BY FREIGHT AND PASSENGER TRANSPORTATION VOLUMES AND LENGTH OF THE RAILWAY INFRASTRUCTURE NETWORK. THE RUSSIAN FEDERATION IS THE FOUNDER AND SOLE SHAREHOLDER OF RUSSIAN RAILWAYS.

RUSSIAN RAILWAYS PROVIDES A FULL RANGE OF SERVICES INCLUDING:

1

FREIGHT OPERATIONS, LOCOMOTIVE TRACTION AND INFRASTRUCTURE

2

ROLLING STOCK REPAIRS

3

LONG-HAUL AND SUBURBAN PASSENGER TRANSPORTATION

4

CONTAINER SOLUTIONS

5

LOGISTICS

6

ENGINEERING

7

RAILWAY R&D



# ABOUT THE COMPANY

Russian Railways is a unique and highly diversified group owning rail infrastructure and rolling stock to transport freight and passengers, provide transportation, logistics, terminal, warehousing, and freight forwarding services. The Company carries nearly 1.3 billion tonnes of freight and nearly 1.2 billion of passengers annually.

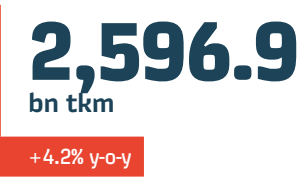
1.5 bn  
tonnes

of freight  
handled  
in 2025<sup>1</sup>

<sup>1</sup> Target indicators under the base case scenario of Russian Railways' Long-Term Development Programme until 2025.

# Key performance indicators for 2018

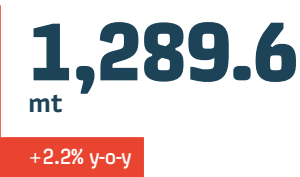
LOADED FREIGHT TURNOVER:  
ALL-TIME HIGH OF



PASSENGERS TRANSPORTED:  
TEN-YEAR HIGH OF



FREIGHT HANDLING



INVESTMENT PROGRAMME



ENVIRONMENTAL  
COSTS



REAL SALARY GROWTH  
ACROSS THE COMPANY



LABOUR PRODUCTIVITY  
GROWTH IN TRANSPORTATION  
OPERATIONS



LOWER  
WORKPLACE  
INJURY RATE



Indicator	Measurement unit	<div><div></div>2018</div> <div><div></div>2017</div>	Change 2018/2017	
			+/-	%
Handling	mt	<div><div></div>1,289.6</div> <div><div></div>1,261.3</div>	28.3	2.2
Total freight turnover within the infrastructure of Russian Railways and Yakutia Railways	bn tkm	<div><div></div>3,304.8</div> <div><div></div>3,176.7</div>	128.2	4.0
Including:				
net of empty runs of third-party railcars <sup>1</sup>	bn tkm	<div><div></div>2,596.9</div> <div><div></div>2,491.9</div>	105.0	4.2
empty third-party railcars <sup>2</sup>	bn tkm	<div><div></div>708.0</div> <div><div></div>684.8</div>	23.2	3.4
Passenger turnover	bn pkm	<div><div></div>129.4</div> <div><div></div>122.9</div>	6.4	5.2
Including:				
long-haul	bn pkm	<div><div></div>96.3</div> <div><div></div>91.1</div>	5.2	5.7
suburban	bn pkm	<div><div></div>33.1</div> <div><div></div>31.9</div>	1.2	3.9
Passengers transported	m people	<div><div></div>1,157.2</div> <div><div></div>1,117.9</div>	39.3	3.5
Including:				
long-haul	m people	<div><div></div>110.3</div> <div><div></div>102.2</div>	8.1	7.9
suburban	m people	<div><div></div>1,046.9</div> <div><div></div>1,015.7</div>	31.2	3.1
Average daily performance of freight locomotive	thousand gross tkm	<div><div></div>2,136</div> <div><div></div>2,135</div>	1	0.05
Average loaded freight car delivery speed	km/day	<div><div></div>390</div> <div><div></div>386</div>	3	0.9
Average freight and empty car delivery speed	km/day	<div><div></div>370</div> <div><div></div>362</div>	8	2.2
Transportation of container freight, net of empty containers	thousand TEU	<div><div></div>2,988.1</div> <div><div></div>2,623.1</div>	365.1	13.9
Transit, net of empty railcars	mt	<div><div></div>23.8</div> <div><div></div>21.7</div>	2.1	9.7

<sup>1</sup> Hereinafter referred to as “loaded freight turnover”.  
<sup>2</sup> Hereinafter referred to as “empty freight turnover”.

# Business model

GOVERNMENT

→ Regulation of joint stock companies

→ Tariff regulation

→ Antimonopoly regulation

→ Drafting of the Transport Industry Development Strategy

→ Approval of the Russian Railways Group's Long-Term Development Programme until 2025

BUSINESS LINES

Freight transportation

1,971

mt

of transported freight

3,305

bn tkm

of freight turnover

167

thousand

freight cars

Subsidiaries

Federal Freight Company  
(provision of railcars for freight transportation)

Passenger transportation

1,157

m

transported passengers

2,407

thousand scheduled runs made

by passenger trains

15

thousand

passenger cars

Subsidiaries

Federal Passenger Company  
(long-haul routes)

Suburban passenger companies

Logistics services

Subsidiaries and controlled companies

GEFCO  
(Europe's Top 5 logistics operator)

UTLC ERA  
(transit railway container services)

RZD Logistics (the largest multimodal logistics operator in the CIS and the Baltics)

Other businesses

RRC-1, RRC-2, RRC-3  
(railcar repair companies)

Company TransTeleCom  
(telecommunications)

RZDstroy  
(infrastructure construction)

PRICES

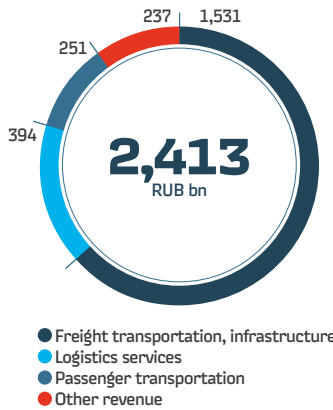
Regulated tariffs

- Freight transportation
- III and IV class long-haul passenger transportation

Market-based pricing

- Use of tariff corridor in freight transportation
- Income of railcar operators
- Unregulated passenger transportation segment

REVENUE GENERATION, RUB bn



DISTRIBUTION OF KEY FINANCIAL FLOWS<sup>3</sup>

INVESTMENT ACTIVITIES

**Financing of capex**  
(through Government-allocated resources, the Company's own funds and borrowings), including RUB 83.3 bn to purchase locomotives

RUB **617** bn

Intangible asset and R&D expenses

RUB **8** bn

OPERATING ACTIVITIES

**Payroll expenses**  
(including salaries, pension plan payments, payments under the Collective Bargaining Agreement, leave expenses, bonuses, voluntary health insurance expenses)

RUB **562** bn

**Tax expenses**  
(including personal income tax, VAT, insurance contributions, corporate income tax and other taxes paid to the budget and extra-budgetary funds of the Russian Federation)

RUB **359** bn

Maintenance, repair and operating supply

RUB **287** bn

Forwarding and logistics services

RUB **274** bn

Power supply

RUB **172** bn

Fuel

RUB **122** bn

**Other operating expenses**  
(security, communications, operating lease of rolling stock, road transportation services)

RUB **191** bn

FINANCIAL ACTIVITIES

**Debt service**  
(interest paid)

RUB **77** bn

**Dividend payouts**  
(with the Russian Federation as the beneficiary)

RUB **9** bn

VALUE CREATION

The Group is implementing large-scale railway development projects of national significance

→ For more details see the Investment Activities section

Russian Railways participates in the Digital Economy of the Russian Federation programme

→ For more details see the Innovation Driven Development section

The Company is Russia's largest employer

→ For more details see the HR Management section

The Group is one of Russia's major taxpayers

→ For more details see the Analysis of Financial Results section

Russian Railways develops and maintains Russian railway infrastructure

→ For more details see the Railway Transportation and Infrastructure section

The Company provides comprehensive freight transportation services leveraging the advanced 2PL, 3PL and 4PL technologies

→ For more details see the Transportation and Logistics section

Russian Railways maintains leadership in energy efficiency among global railway companies

→ For more details see the Energy Efficiency and Energy Savings section

The Group is implementing an Energy Efficiency Programme seeking to reduce the consumption of energy

→ For more details see the Energy Efficiency and Energy Savings section

The Company ensures uninterrupted and efficient operation of its facilities offering high-quality services across its consumer base

The Company is a responsible capital markets borrower

→ For more details see the Securities section

The Group's dividend policy seeks to protect the shareholder rights as prescribed by the applicable laws of the Russian Federation

→ For more details see the Securities section

The revenue data are reported as per the IFRS statements for 2018.

Government

Charter capital contributions<sup>1</sup>

RUB **79** bn

Subsidies<sup>2</sup>

RUB **57** bn

<sup>1</sup>Including contributions in the form of real estate owned by the Federal Government.  
<sup>2</sup>Data for the Russian Railways Group.  
<sup>3</sup>The financing items of Russian Railways Group are stated on an amalgamated basis. For more details see the IFRS statements for 2018 at [http://eng.rzd.ru/static/public/en?STRUCTURE\\_ID=4224](http://eng.rzd.ru/static/public/en?STRUCTURE_ID=4224)

Headcount

**911,000**  
employees<sup>2</sup>

Innovations



Key performance indicators

KPIs – progress in 2018

Indicator	Measurement unit	Actual for 2017	Target for 2018 <sup>1</sup>	Actual for 2018	Performance against the target, %
Dividend amount	RUB bn	5.147	8.755	8.755	100.0
Russian Railways' EBITDA <sup>2</sup>	RUB bn	353.9	376.5	380.2	101.0
Reduction of operating costs (expenses)	%	3.0	≥2.0	3.1	–
Russian Railways Group's ROIC for unregulated types of activities <sup>3</sup>	%	18.2	10.0	19.0	+9 pp
Traffic safety across the Group	accidents per million train kilometres	1.174	≤1.28	0.98	–
Virtual performance of Russian Railways' infrastructure	bn virtual tkm	3,299.6	3,420.8	3,438.2	100.5

Targets for Group-wide KPIs for 2019  
(approved by Russian Railways' Board of Directors on 25 December 2018, Minutes No. 9)

Indicator	Target
Russian Railways Group's EBITDA <sup>1</sup> , RUB bn	502
Reduction of operating costs (expenses), %	≥2
Russian Railways Group's ROIC for unregulated types of activities, %	≥10
Dividend amount, RUB bn	As per the Russian Government's order
Virtual performance of Russian Railways' infrastructure, bn virtual tkm	3,504.7
Traffic safety (across the Russian Railways Group), accidents per million train kilometres	1.094

<sup>1</sup> Financial KPI targets have been adjusted to reflect the updated financial plan (Minutes No. 4 dated 20 November 2018).  
<sup>2</sup> Under RAS.  
<sup>3</sup> Under IFRS.

<sup>1</sup> Under RAS.



# VISION AHEAD

The Long-Term Development Programme of Russian Railways until 2025 will help to develop Russian Railways and the sector at large, delivering tangible results through synergies for all the stakeholders: government, industry, people, and regions. The Programme transcends the Company itself and helps to boost the entire national economy, fosters demand for innovative products of businesses in the real sector, and contributes to import substitution.

RUB  
+2.8<sup>tn</sup>

GDP share  
of the railway  
sector by 2025<sup>1</sup>

<sup>1</sup>Target indicators under the base case scenario of Russian Railways' Long-Term Development Programme until 2025.



# Vision ahead

THE LONG-TERM DEVELOPMENT PROGRAMME OF RUSSIAN RAILWAYS UNTIL 2025 OUTLINES A VISION AHEAD FOR THE NATIONAL ECONOMY THROUGH THE LENS OF THE TRANSPORT INDUSTRY.



AMBITIOUS AIMS CAN ONLY BE ATTAINED THROUGH RAPID ADVANCES IN TRANSPORT TECHNOLOGY AND INFRASTRUCTURE, AND ABOVE ALL THE RAILWAY INFRASTRUCTURE.

In May 2018, the Decree of the President of the Russian Federation No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 stated priority aims to step up R&D efforts and social and economic development across the nation.

Today, the railway industry faces new challenges outlined in the above-mentioned President’s Decree, as well as in the President’s Address to the Federal Assembly dated 20 February 2019, Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024, and the action plan to expedite capital investment growth and increase its share to 25% of the GDP. These challenges include:

- › creating transport that will help Russia evolve into one of the world’s five largest economies;
- › ensuring economic growth at rates above global;
- › fostering strong export-focused sectors in all the core industries driven by the latest technologies.

**To respond to the challenges, by its Order No. 466-r dated 19 March 2019, the Russian Government approved the Long-Term Development Programme of Russian Railways until 2025.**

The programme covers a variety of future scenarios based on social and economic growth forecasts, inflation and producer price growth, projected indexation of railway tariffs, and other factors.

This annual report relies on the base case scenario of social and economic development in Russia, which includes projections for GDP and industrial production volumes and is based on the conservative scenario by the Ministry of Economic Development and inflation and producer price growth as per the base case scenario. The models built under the Long-Term Development Programme are based on the projections of relevant indicators for 2018.

The Programme outlines the growth areas and target state of the Russian railway industry by 2025. Designed to be a major driver behind GDP growth and industries allied with railway transportation, the Programme is also expected to make a meaningful contribution to addressing government priorities and improving the quality of life in Russia.



THE LONG-TERM DEVELOPMENT PROGRAMME OF RUSSIAN RAILWAYS UNTIL 2025 WILL BE DRIVING FASTER GROWTH OF BUSINESS ACROSS ALL RELATED INDUSTRIES.

2025 TARGET RESULTS



FOR RUSSIAN RAILWAYS

- › Greater reliability of transportation processes  
**+24%** traffic safety
- › Lower costs  
**-13%** against 2018 (in 2018 prices)
- › Higher energy efficiency:  
**-7.5%** – fuel consumption  
**-2.8%** – electricity consumption
- › Improved labour productivity  
**+5%** (annual average) while maintaining social stability
- › Return on assets to ensure return on investment



FOR THE GOVERNMENT

- › Meeting demand for transportation to foster economic growth  
**RUB +2.8 tn** increase in the industry's share of the GDP (from RUB 5.5 tn to RUB 8.3 tn)
- › Greater contribution to the GDP  
**7%** of annual growth
- › Making the Russian economy more competitive  
**Inflation minus 0.1 pp** as the long-term tariff model
- › Tax payments taking into account contracts for Russian industries  
**RUB 5 tn**



FOR CUSTOMERS

- › Availability of transportation services  
**+21%** growth in freight turnover
- › Reduced costs of transportation as a share of the end price of cargo  
**-1 pp**
- › Improved quality for shippers:  
**+35 km/day** delivery speed
- › Improved quality for passengers:  
**+20%** passenger turnover  
**+4,200-4,300** new passenger cars
- › More rewarding customer experience as a result of improved quality and comfort of travelling



FOR OPERATORS

- › Increased performance of the railcar fleet  
Better operational performance
- › Improved profitability per car  
Higher car turnaround
- › Strong competitive edge of railway transport  
**+18%** growth in freight volumes



FOR MANUFACTURERS OF ROLLING STOCK AND OTHER RESOURCES

- › Building effective demand for:
  - materials and services for the infrastructure and rolling stock (up 20% by 2025)
  - new vehicles and equipment



FOR INFRASTRUCTURE INVESTORS

- › Effective ways to secure returns from public-private partnership  
**+RUB 4 tn** of private investment

FINAL OUTCOME

1.5x

RISE IN THE GDP SHARE OF THE RAILWAY SECTOR (base case scenario)

INVESTMENTS, A TOTAL OF

RUB 8.7<sup>1</sup> tn<sup>1</sup>  
(base case scenario)

RUB 4.7<sup>1</sup> tn

INVESTMENTS BY RUSSIAN RAILWAYS (base case scenario)

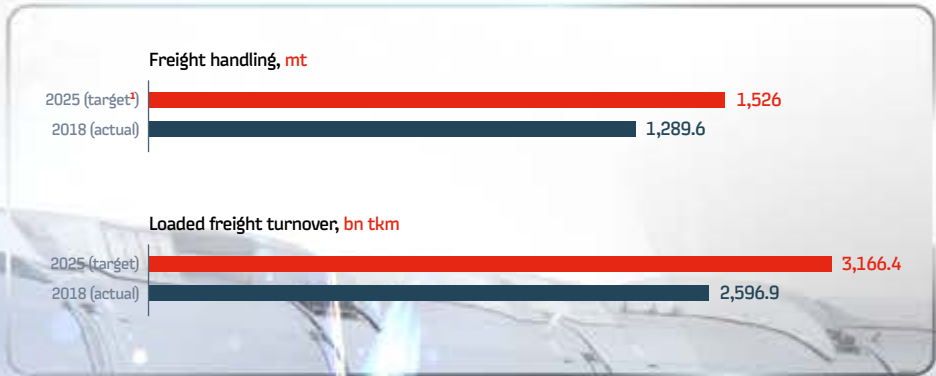
<sup>1</sup>Including private investments.

# Russian Railways today and tomorrow

## DIVERSIFIED TRANSPORTATION GROUP

RUSSIAN RAILWAYS OWNS RAILWAY INFRASTRUCTURE AND ROLLING STOCK TO PROVIDE ALL TYPES OF FREIGHT TRANSPORTATION SERVICES, LOGISTICS, TERMINAL, WAREHOUSING, AND FREIGHT FORWARDING SERVICES. THE COMPANY KEEPS EXPANDING ITS PRODUCT RANGE TO FULLY MEET CUSTOMER NEEDS ACROSS REGIONS OF PRESENCE.

Highlights of freight transportation<sup>1</sup>



→ For more details see the Transportation and Logistics section on page 42

KEY INITIATIVES UNTIL 2025:

- Building long-term relations with customers, improving consumer feedback strategies and enhancing loyalty;
- Strengthening logistics capabilities to satisfy the customer demand for comprehensive services, including as part of global transportation chains and logistics outsourcing for industrial undertakings (potential RUB 27.4 bn programme to develop and upgrade freight yards);
- Fine-tuning transportation products and services to meet the shippers' needs and developing new products and services;
- Improving the system of shipments with fixed departure and arrival times and reducing delivery time (by 2025, under the base case scenario of the Long-Term Development Programme, the average loaded freight car delivery speed will grow to 420 km/day);
- Introducing a uniform transportation catalogue and high standards of transportation services.

WITH THESE INITIATIVES, HANDLING VOLUMES UNDER THE BASE CASE SCENARIO WILL GROW BY 18% BY 2025 AND FREIGHT TURNOVER, BY 21%.

<sup>1</sup> Hereinafter, target indicators are under the base case scenario of Russian Railways' Long-Term Development Programme until 2025.



Russian Railways today and tomorrow

# ENSURING COMFORT AND AVAILABILITY OF PASSENGER SERVICES

RUSSIAN RAILWAYS AIMS TO PROVIDE A REWARDING PASSENGER EXPERIENCE ACROSS ALL REGIONS OF PRESENCE IN RUSSIA. A MAJOR PRIORITY IS MAKING RAILWAY INFRASTRUCTURE ACCESSIBLE TO ALL PASSENGERS.

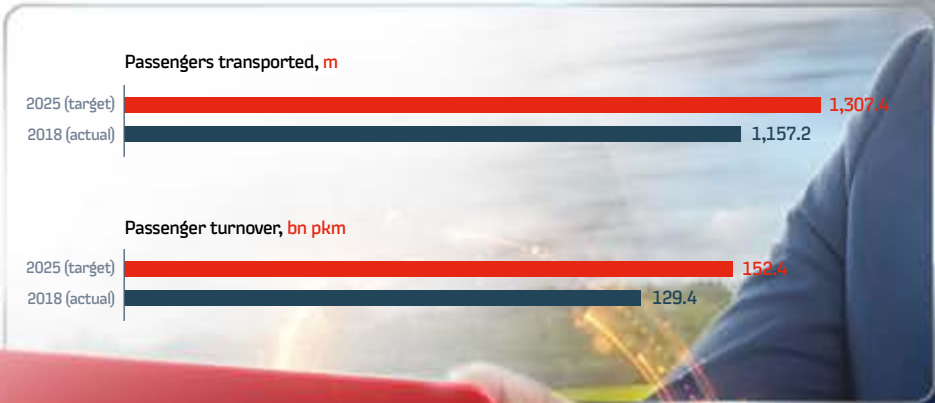
→ For more details see the Passenger Transportation section on page 52

## KEY INITIATIVES UNTIL 2025:

- Building an efficient route network and train schedule;
- Promoting high-speed and ultra high-speed railway transport (up to 600 new passenger cars planned to be purchased annually);
- Improving passenger experience, introducing innovations and quality standards (by 2025, the share of e-tickets for long-haul trains will reach 70%);
- Introducing the world's best practices for the development of multimodal transport;
- Introducing standards to provide services to passengers with reduced mobility.

WITH THESE INITIATIVES, PASSENGER TURNOVER UNDER THE BASE CASE SCENARIO WILL GROW TO 152.4 BN PKM BY 2025. THE NUMBER OF TRANSPORTED PASSENGERS WILL RISE TO 1,307.4 M BY 2025.

### Highlights of passenger transportation





Russian Railways today and tomorrow

# PROMINENT PLAYER IN GLOBAL RAILWAY MARKET

RUSSIAN RAILWAYS OPERATES IN EUROPE, ASIA, MIDDLE EAST, AFRICA, AND LATIN AMERICA. THE COMPANY CREATES EFFECTIVE INTERNATIONAL ROUTES, BUILDS INFRASTRUCTURE, MANAGES RAILWAY ASSETS ABROAD, WORKS WITH INTERNATIONAL PARTNERS TO PROMOTE ULTRA HIGH-SPEED TRANSPORTATION, LOGISTICS, MACHINE BUILDING, KNOWLEDGE SHARING, AND PERSONNEL TRAINING.

## KEY INITIATIVES UNTIL 2025:

New integrated international projects of railway financing, design, construction (upgrade), and subsequent operation;

Expanding international transportation routes;

Supplies of railway machinery, equipment and materials;

Transit freight transportation to key international destinations (transit container traffic is expected to see a fourfold increase);

Railway facility management and consulting.

### Highlights of foreign operations



For more details see the Foreign Projects and International Cooperation section on page 68

WITH THESE INITIATIVES, THE REVENUE OF RUSSIAN RAILWAYS FROM TRANSIT FREIGHT TRANSPORTATION WILL GROW TO RUB 152.7 BN AND REVENUE FROM FOREIGN PROJECTS WILL GO UP TO RUB 61.7 BN.

<sup>1</sup> Including the results of RZD Logistics (container shipment and international transport corridor logistics), TransContainer (international transportation), UTLC ERA, GEFCO, RasonConTrans, South Caucasus Railway, and RZD International, as well as income from transit shipments generated by the Centre for Corporate Transport Services, a branch of Russian Railways.



Russian Railways today and tomorrow

# EFFICIENT AND PROFITABLE OPERATIONS

DUE TO ITS ONGOING EFFORTS TO INCREASE EFFICIENCY, RUSSIAN RAILWAYS IS QUICKLY IMPROVING ITS FINANCIAL PERFORMANCE AND OPERATING AT HEALTHY MARGINS.

→ For more details see the Analysis of Financial Results section on page 82

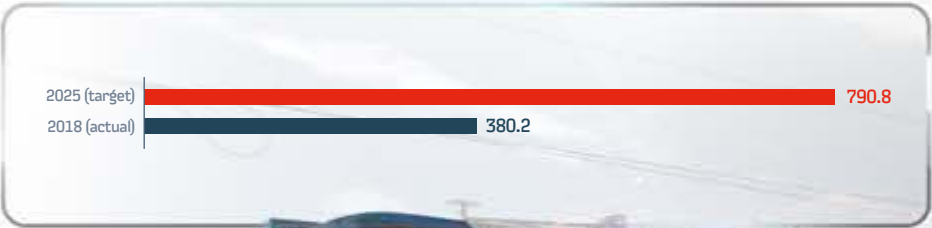
## KEY INITIATIVES UNTIL 2025:

Expanding revenue sources by bringing in additional freight and passenger volumes (by 2025, under the base case scenario of the Long-Term Development Programme, EBITDA is expected to grow to RUB 790.8 bn compared to RUB 380.2 bn in 2018);

Improving internal efficiency and optimising operating expenses (the programme to optimise expenses will total RUB 1 tn);

Using the net profit of Russian Railways to finance investments (up to RUB 138.6 bn by 2025 under the base case scenario).

### EBITDA of Russian Railways, RUB bn<sup>1</sup>



<sup>1</sup> Under RAS.

Russian Railways today and tomorrow

# UNIQUE EXPERIENCE IN LARGE-SCALE PROJECTS

THE COMPANY AIMS TO MEET TARGETS UNDER ITS LONG-TERM DEVELOPMENT PROGRAMME BY IMPLEMENTING PRIORITY INVESTMENT PROJECTS AND COMPREHENSIVE INITIATIVES TO INTRODUCE TECHNOLOGY SOLUTIONS LINKED TO INFRASTRUCTURE DEVELOPMENT AND ROLLING STOCK UPGRADE PLANS, ALONG WITH MEASURES TO SECURE CUSTOMER-FOCUSED TARGETS IN TERMS OF FREIGHT DELIVERY TIME AND SPEED. OVERALL, THE INVESTMENT PROGRAMME WILL BE DRIVING THE RUSSIAN ECONOMY WHILE ALSO ENABLING THE COMPANY TO DELIVER ON ITS TECHNOLOGY AND EFFICIENCY, LABOUR PRODUCTIVITY, AND COST CUTTING TARGETS.

→  
For more details see the Investment Activities section on page 74

Investment programme of Russian Railways, RUB bn



## KEY INITIATIVES UNTIL 2025:

Delivering on targets under the Comprehensive Plan for Upgrading and Expanding Core Infrastructure and the Decree of the President of the Russian Federation No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018 (under the base case scenario, total investments of Russian Railways in 2019–2025 will stand at RUB 4,671.4 bn);

Measures to eliminate infrastructure limitations and increase carrying capacities of the Baikal–Amur and Trans-Siberian main lines to 210 mt by 2025, and also of approaches to the ports of the Azov and Black Seas (some RUB 2.4 tn planned to be allocated by 2025);

Laying the foundation to create a network of high-speed and ultra high-speed railway transport;

Ensuring a balanced traction mix in line with transportation volume forecasts (some RUB 497 bn planned to be allocated by 2025);

Developing schemes of public–private partnership in railway transportation (including concessions) as a way to finance new lines.



Russian Railways today and tomorrow

# CONSISTENT AND FOCUSED ENVIRONMENTAL PROTECTION

RAILWAYS EXCEL IN ENVIRONMENTAL PERFORMANCE AND ENERGY EFFICIENCY. ONE OF KEY PRIORITIES FOR RUSSIAN RAILWAYS IS TO ENSURE ENVIRONMENTAL SAFETY, SUSTAINABLE USE OF WATER RESOURCES, AND CONSERVATION OF THE WILDLIFE.

→  
For more details see the Environmental protection  
on page 111

## KEY INITIATIVES UNTIL 2025:

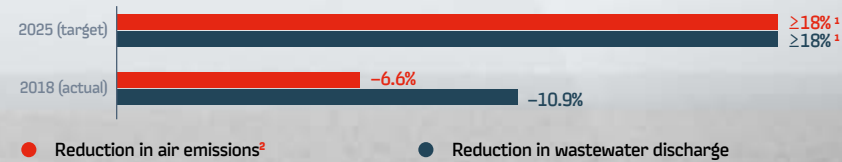
Reducing the use of water resources  
(a decrease of at least 20% by 2025);

Cutting down on pollutant emissions  
(a minimum 18% reduction by 2025);

Ongoing reductions in wastewater discharge  
(a decrease of at least 18% by 2025);

Increasing energy efficiency of operations  
(growth of 4% or more by 2025).

## Environmental protection highlights



<sup>1</sup> Against 2018.  
<sup>2</sup> From stationary sources.



# STRATEGIC REPORT

Today, the Company faces large-scale tasks envisaged by the Long-Term Development Programme of Russian Railways until 2025. They include development of high-speed communications, advanced development of the railway infrastructure, improvement and expansion of the services range for customers, continuous improvement of transport security. The final result is the Company's contribution to the achievement of national development goals.

RUB  
8.7  
tn

Investment<sup>1</sup>  
by 2025<sup>2</sup>

<sup>1</sup> The volume of investments on development railway infrastructure with regard to private investment.  
<sup>2</sup> Targets according to with a long-term baseline scenario development program of Russian Railways until 2025.



# Letter from the Chairman of the Board of Directors



Dear Colleagues, Partners, Clients and Investors,

In 2018, Russian Railways celebrated its 15th anniversary. In this fairly short span of time, we implemented multiple initiatives seeking to introduce cutting-edge technologies and run massive infrastructural projects, even by global standards. We worked daily to boost labour productivity and financial performance, and to build a well-balanced portfolio of high-quality assets. These efforts shaped Russian Railways as one of the leaders in the world's transportation and logistics market. Today, the Russian Railways Group is a Top 2 player globally by freight turnover and speed of freight

movement, and ranks 4th by passenger turnover and service speed, leading the pack in terms of traffic safety, energy efficiency and environmental protection.

In 2018, such fundamental documents came into effect as the Decree of the President of the Russian Federation No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018 and the Comprehensive Plan for Upgrading and Expanding Core Infrastructure through 2024 developed in its pursuance by the Government.

They determine the key focus areas of development for the country's railway transport.

The ultimate goal of this plan is to bring about innovative transformation of the railway industry, including introduction and broad application of advanced technologies, digitalisation of the transport industry and logistics processes. With this in mind, the Government supported the main approaches developed by the Company jointly with other market players to sustain

profitability of freight transportation in the long run.

That said, a major redesign of the management processes to incorporate digital technologies is a considerable challenge for the Company. Still, I am convinced we have everything we need to make such a crucial breakthrough. This will require not only a great concentration of resources of Russian Railways and the entire railway industry but also closer cooperation between shippers, consignees, railcar

fleet owners, rolling stock operators and freight forwarders. I hope Russian Railways will become the cornerstone for the development of end-to-end, seamless transportation, creation of modern digital services to carry freight and sell all-in-one tickets for passengers valid on various types of public transport.

The completion of these assignments set for Russian Railways by the President and the Government will facilitate a well-balanced, sustainable development of the Company and drive additional demand

for innovative products of businesses in the real sector, as Russian Railways is not merely a provider of transport services but also the largest consumer of industrial and other goods.

I would like to thank our team, partners and customers for their dedicated work and cooperation in 2018. I am confident that this year we will be able to address yet many more tough but equally exciting challenges, developing the transport industry for the benefit of the Russian people and our country.

**Maxim Akimov**  
Chairman of the Russian Railways Board of Directors

# Letter from the CEO and Chairman of the Management Board



Dear Partners and Colleagues,

2018 marked the 15th anniversary of Russian Railways. Over these years, we have come to rank among world’s leaders by key operational metrics, including traffic density, freight and passenger transportation volumes, energy efficiency, environmental performance and safety. A stable and rapidly evolving group of companies, we are a reliable partner to passengers, shippers and regions, and a major employer committed to high social security standards for employees.

In 2018, railway transport accounted for over 87% of the country’s freight turnover, climbing to a 15-year high. We also set an absolute record in traffic volumes: freight turnover beat the peak of the Soviet period seen in 1988 by 2.5%.

In passenger transportation, we also hit a new record: we carried more than 1.157 billion passengers, the highest number in the last 10 years. Behind this growth is an ever-improving customer service, increased 90-day advance booking horizon, and new rolling stock, including modern double-decker railcars and high-speed Lastochka trains made in Russia. Top-notch transportation service we provided for the 2018 FIFA World Cup Russia™ was yet another strong contributor to this success.

In May 2018, the Decree of the President of the Russian Federation determined the key goals for the country’s scientific, technological, social and economic development in the near future, such

as growing faster than the global economy, maintaining macroeconomic stability, introducing state-of-the-art technologies. These goals can hardly be delivered without fast modernisation of the transportation industry, improvement of transportation technologies and upgrade of infrastructure.

The Long-Term Development Programme of Russian Railways developed in 2018 sets the path for our further development. The programme defines the target state of the nation’s railways by 2025, and its implementation will foster GDP growth and improve the quality of life in Russia.

The bedrock of the programme is the infrastructure development fuelling the economy and benefiting the society.

In 2018, Russian Railways’ investment programme totalled RUB 530 bn, including projects set to upgrade the Baikal–Amur and Trans-Siberian main lines and to develop infrastructure serving the ports in the South and North-West, and the Central Transport Hub.

Responding to customer requests, we decided to embark on the Company’s digital transformation. In today’s global competitive environment, strong performance is unattainable without modern technology and business models being fully redesigned to capitalise on the opportunities of the digital economy.

In 2018, the share of long-distance train tickets purchased online exceeded 50%

and tends to grow further. This service has become available for suburban passengers in the mobile app.

Solid operating performance brought about strong financial and economic results. In 2018, the Company’s net profit amounted to RUB 18.4 bn. In a comparable environment, we kept cost growth below 1% – much lower than the average annual inflation rate. To this end, we implemented a number of optimisation initiatives for a total of about RUB 45 bn during the year. Labour productivity across transportation segments rose by 6.8%, hence we were able to index wages by 3.7%.

Importantly, through all these years the Company particularly valued its large

team, delivering on all of its obligations under the Collective Bargaining Agreement and doing business as a responsible employer. All this helped drive the perception of employment with Russian Railways as stable and prestigious.

Dear Partners and Colleagues, The Russian Railways Long-Term Development Programme and digital transformation plans set new challenges for our Company. I am confident that, as in 2018, we will make every effort to bring these plans to life going forward.

Oleg Belozеров  
CEO, Chairman of the Management Board



# Strategy

## Mission

The mission of the Russian Railways Group is to develop an efficient transportation business that will be competitive on the Russian and international markets and focus on effectively meeting the Group's objectives as a national freight and passenger carrier and owner of the public railway infrastructure.

## Development Strategy until 2030

The Russian Railways Group's 2030 Development Strategy sets out the Group's goals and objectives, outlines its key priorities and long-term development projects. The Strategy was approved by the Russian Railways' Board of Directors in December 2013. Accomplishment of the Group's mission will rely on the achievement of the 2030 strategic goals in five focus areas:

- › transportation and logistics services;
- › passenger transportation;
- › railway transportation and infrastructure;
- › international operations;
- › social policy.

## Strategy in action

The Action Plan to implement the Russian Railways Group's Development Strategy until 2030, which has been approved to facilitate efforts in this domain, features three major types of initiatives: Group-wide, regional and those focused on the Group's core business lines. The Plan covers strategic initiatives and projects broken down into individual actions.

### Strategic priorities and goals across focus areas

#### TRANSPORTATION AND LOGISTICS SERVICES

The strategic priorities for development in this focus area are to build a diversified product portfolio shifting the focus from transportation

services to comprehensive door-to-door solutions, consistent expansion of the offering to include 2PL, 3PL and 4PL services, and creation of global logistics chains.

#### PASSENGER TRANSPORTATION

The strategic priorities for development in this focus area are to streamline the route network and train schedules, increase speeds, use cutting-edge rolling stock, improve the product offering,

digitalise customer services and business processes, and enhance the quality of traditional on-train and other related services.

Another key objective is to expand the operating domain of high-speed and ultra high-speed transportation between the country's largest metropolitan areas leveraging efficient state-of-the-art solutions.

#### RAILWAY TRANSPORTATION AND INFRASTRUCTURE

In addition to the railway infrastructure, this focus area covers traffic management, operating and traction maintenance units. The Company's strategic priorities in developing infrastructure are defined by its natural monopoly status and include

cost cutting, unlocking of the potential to create new transportation and logistics products, upgrade of the existing network, and construction of additional profitable main tracks to meet the growing transportation

needs. The need to maintain service availability to the general public, comply with government regulations on natural monopolies and provide equal opportunities to consumers distinguishes this focus area from the others.

#### INTERNATIONAL OPERATIONS

The strategic priorities in this focus area are to consolidate and enhance the Group's presence in the international railway engineering and infrastructure construction market, and set the stage for expansion of the Group's

other businesses in the markets where it operates as a contractor for the construction of infrastructure facilities. Growth in this area is expected to rely on unique competencies in the design and construction of railway

facilities, development of sophisticated infrastructure and transportation management systems, train service management, and railway economics and finances.

#### SOCIAL POLICY

Russian Railways' employees are the Company's key asset instrumental in achieving its long-term growth objectives and securing a strong competitive edge. Development

in this focus area builds on the unbiased assessment of added value created through employee support initiatives and efficient management of resources to provide market services. This

focus area also covers social and public policies of the Group stretching beyond the workforce matters.

IN 2018, THE RUSSIAN RAILWAYS GROUP'S DEVELOPMENT STRATEGY UNTIL 2030 WAS IMPLEMENTED IN LINE WITH RUSSIAN RAILWAYS' LONG-TERM DEVELOPMENT PROGRAMME UNTIL 2025 AND THE ACTION PLAN TO IMPLEMENT THE RUSSIAN RAILWAYS GROUP'S DEVELOPMENT STRATEGY UNTIL 2030.

### Strategic goals until 2030:

- › maintain leadership in Europe's rail freight transportation and enhance the appeal of rail transport to customers;
- › become one of Europe's Top 5 companies in terms of logistics volumes;
- › improve customer satisfaction by enhancing the quality of services while also maintaining competitive transportation prices;
- › provide high-quality services for the global supply chains of major Russian and international customers and expand the transportation and logistics business in Eurasia;

- › maintain the existing share in Russia's overall passenger turnover;
- › develop high-speed and ultra high-speed transportation;

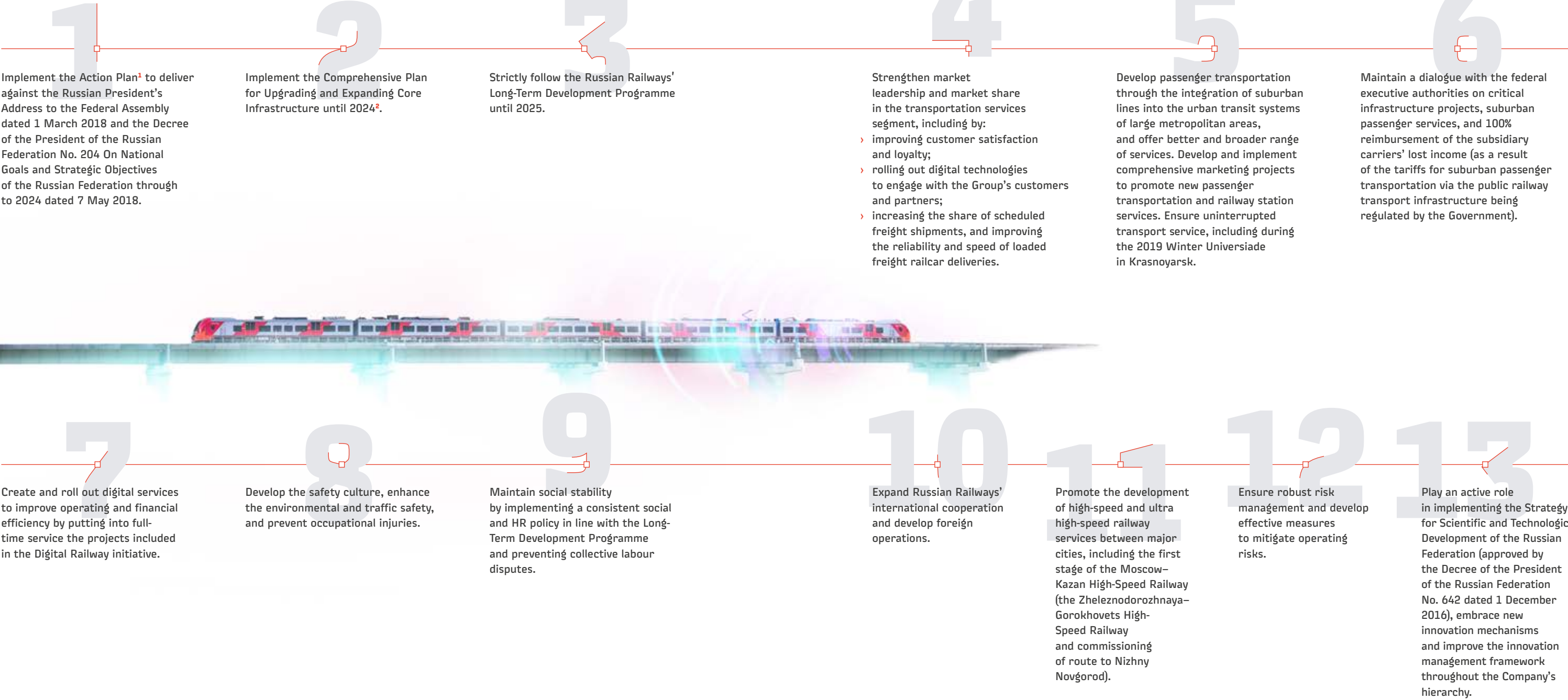
- › maintain global leadership in efficiency, safety and the quality of infrastructure operation;
- › ensure consistent asset upgrade through cutting-edge technologies and solutions relying on the efficient life cycle cost management and availability/reliability of fixed assets;

- › become one of the leading global infrastructure construction companies;
- › build a long-term order portfolio and ensure implementation excellence;

- › make it to the Top 5 of Russia's most attractive employers;
- › engage the top talent by offering competitive salaries, better working conditions and best-in-class social benefits.

# Development prospects

THE COMPANY'S DEVELOPMENT PROSPECTS WERE ASSESSED TAKING INTO ACCOUNT THE FOLLOWING KEY OBJECTIVES:



<sup>1</sup> Russian Railways' Action Plan to Deliver against the Russian President's Address to the Federal Assembly dated 1 March 2018 and the Decree of the President of the Russian Federation No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018 was approved by Order No. 1465 of the Company's CEO and Chairman of the Management Board Oleg Belozero on 29 December 2018.

<sup>2</sup> Approved by the Russian Government's Order No. 2101-r dated 30 September 2018.



# PERFORMANCE OVERVIEW

Key focus areas under Russian Railways’ Long-Term Development Programme until 2025 include an increase in freight turnover, improvement of the reliability and speed of deliveries, integration of the suburban and urban transit systems, large-scale infrastructure construction and upgrade projects, and broad deployment of digital services.

+21%

in freight turnover  
by 2025<sup>1</sup>

<sup>1</sup> Target indicators under the base case scenario of Russian Railways’ Long-Term Development Programme until 2025.



Market overview

Russian economy in 2018

In 2018, Russia saw a number of macroeconomic improvements, with the GDP growth rising to 2.3% from 1.6% in 2017 (the data is hereinafter stated according to the information provided by the Russian Federal State Statistics Service).

The expansion was driven by an increase in Russian export prices against stronger market performance in 1H 2018 and growth in domestic demand. In 2018, key GDP drivers included:

- › the mining industry;
- › transportation and storage services;
- › construction;
- › financial and insurance services.

Industrial production growth, which is crucial for the rail freight sector, increased to 2.9% in 2018 (compared to 2.1% in 2017), in no small part thanks to:

- › 4.1% growth in the mining industry (vs 2.1% in 2017);
- › 2.6% growth in the manufacturing sector (vs 2.5% in 2017).

There was also a rise in the domestic consumer demand in 2018, with retail trade growing by 2.8% (vs 1.3% in 2017). Overall, the consumer market was boosted by high retail lending and an increase in real salaries. Capital investments kept growing relatively fast and were up 4.3% by the end of 2018 (vs 4.8% in 2017).

External demand had a significant impact on the Russian economy in 2018. Exports continued to be the key economic driver in Russia, with the y-o-y growth rates remaining practically unchanged y-o-y (25.3% in 2018 vs 25.5% in 2017).

Freight transportation market

Freight turnover

According to the Russian Federal State Statistics Service, in 2018, freight turnover in Russia increased by 2.8 % y-o-y to 5,640 bn tkm. Growth was reported across the transport modes,

except for the sea (-10.3%) and air (-0.7%) transport and inland waterways (-6.8%).

Loaded freight turnover in the railway segment added 4.2%. Railway transport accounted for 46.1% of total freight turnover (up 0.7 pp vs 2017) or 87.4% (up 0.6 pp vs 2017) with the pipeline transport excluded.

Freight transportation market outlook according to the Long-Term Development Programme

Under the Programme's base case scenario, freight turnover in 2019–2025 is set to increase by 21% from the 2018 level<sup>1</sup>, with the average annual growth rate remaining the same as in 2018 – 2.8%.

Under the base case scenario, handling volumes are expected to grow at a moderate average annual rate of 2.4% and add 18% by 2025 driven by an increase in coal shipments

Russia's freight turnover by transport mode, bn tkm

Transport mode	2018	Y-o-y change, %	Share in total freight turnover, %	
			2017	2018
All transport modes	5,640.0	2.8	100	100
Railway <sup>2</sup>	2,597.8	4.2	45.4	46.1
Including the infrastructure of Russian Railways and Yakutia Railways	2,596.9	4.2	45.4	46.1
Road	259.1	2.3	4.6	4.6
Sea <sup>3</sup>	44.9	–10.3	0.9	0.8
Inland waterways <sup>3</sup>	62.6	–6.8	1.2	1.1
Air (transport aviation)	7.8	–0.7	0.1	0.1
Pipeline	2,667.8	2.0	47.7	47.3
For reference:				
Share of railway transport excluding pipelines			86.8	87.4
Share of Russian Railways excluding pipelines			86.8	87.4

<sup>1</sup> Based on economic outlook for 2018 used in drafting the Long-Term Development Programme.  
<sup>2</sup> Excluding empty runs of own railcars.  
<sup>3</sup> For reference: freight transportation by sea and internal waterways includes shipments made under freight transportation contracts by the company's own and/or leased (chartered) vessels (including vessels leased to foreign companies (charterers) under time charter arrangements) flying the flag of the Russian Federation with the relevant shipping documents in place.



Passenger transportation market

Passenger turnover

In 2018, Russia's passenger turnover increased by 6.6 % y-o-y to 531.9 bn pkm, including:

- › 129.5 bn pkm in railway transport;
- › 114.8 bn pkm in road transport;
- › 286.9 bn pkm in air transport.

Passenger turnover growth in the public transport segment was mainly driven by a 10.6% increase in air transportation. Air transport accounted for 53.9% of total public transport passenger turnover (up 1.9 pp vs 2017). Despite a 5.2% y-o-y

growth, the share of railway transport in total passenger turnover went down by 0.3 pp to 24.4%. Passenger turnover in the road transport (bus service) segment decreased by 1%, with this segment's share in total public transport passenger turnover amounting to 21.6% (down 1.6 pp vs 2017).

Passenger transportation market outlook according to the Long-Term Development Programme

Under the Programme's base case scenario, by 2025 passenger turnover in Russia is set

to increase by 20% if compared to the 2018 level<sup>1</sup>. The growth is expected to be driven by expansion of the procurement programme for new passenger railcars to an average of 600 railcars per year, introduction of new marketing initiatives, further development of the Central Transport Hub, and income growth stimulating increased mobility.

According to the base case scenario, passenger traffic is set to grow by 15%.

Passenger turnover by transport mode in 2018, bn pkm

Transport mode	2018	Y-o-y change, %	Share in total passenger turnover, %	
			2017	2018
Public transport <sup>4</sup> , total	531.9	6.6	100.0	100.0
Railway	129.5	5.2	24.7	24.4
Including Russian Railways' infrastructure <sup>5</sup>	129.4	5.2	24.6	24.3
Road (bus service)	114.8	–1.0	23.2	21.6
Inland waterways	0.6	–1.5	0.1	0.1
Air	286.9	10.6	52.0	53.9

<sup>4</sup> Excluding intra-urban transport.  
<sup>5</sup> Russian Railways' data.



# TRANSPORTATION AND LOGISTICS

In the transportation and logistics segment, Russian Railways is shifting the focus from basic freight transportation services to comprehensive door-to-door solutions and creation of global logistics chains. The Company is applying advanced logistics technologies, implementing an automated customer relationship management system and a uniform freight transportation service catalogue, and expanding its geography, while also continuing to develop and introduce new services for shippers.

## 2018 HIGHLIGHTS:

### AVERAGE HAUL OF

**1,835**  
km

+1,9%

### LOADED FREIGHT TURNOVER OF

**2,596.9**  
bn tkm

+4,2%

### AVERAGE LOADED FREIGHT CAR DELIVERY SPEED OF

**390**  
km/day

+0,9%

# Transportation and logistics

This business line of Russian Railways focuses on transportation and infrastructure services, including operation of rolling stock, creation of logistics chains with varying degrees of complexity (i.e. those involving several transport modes), contract logistics, warehousing, and transit freight shipments via international routes.

## Key growth areas under the Long-Term Development Programme

The Programme’s key initiatives in the realm of transportation and logistics services focus on:

- › building long-term relations with customers, including by linking guaranteed freight volumes to infrastructure, organisational and technical initiatives designed to fully meet the customers’ transportation needs;
- › improving customer feedback and ensuring high client loyalty, including by putting in place an automated customer relationship management system in the freight transportation segment in Russian Railways and across its subsidiaries and affiliates;
- › creating an automated tool to maintain a uniform freight transportation service catalogue giving customers access to the entire range of freight transportation

- › services, offerings and specifications;
- › strengthening logistics capabilities to satisfy the customer demand for comprehensive services, including use of global transportation chains and outsourcing logistics for industrial facilities;
- › enhancing accuracy of freight shipment schedules by improving the system of shipments with fixed departure and arrival times and reducing delivery time;
- › fine-tuning transportation products and services to meet the shippers’ needs and developing new products and services;
- › developing freight transportation quality standards based on availability, timeliness and reliability of transportation services, cargo safety, choice of logistics, terminal and warehousing services, and delivery speed;

- › developing the RZD Express service for small and medium-sized cargo batches;
- › introducing RoLa services;
- › conducting a dedicated analysis and, if economically feasible, initiating gradual abolition of tariff regulation in certain sufficiently competitive transportation market segments (including container (RoLa) shipping, transportation of light petroleum products, fish, fish products, etc.);
- › enhancing coordination within the Group in order to improve the performance of transportation and logistics subsidiaries and business units;
- › launching electronic workflow as a tool to facilitate communication between all participants of the transportation process (including the federal executive authorities and international multimodal freight transportation players).

## Key achievements in 2018

- › Loaded freight turnover reached an all-time high of 2,596.9 bn tkm (up 4.2% vs 2017).
- › Handling volumes increased by 2.2% y-o-y to 1,289.6 mt (an average of 3,533.2 kt per day).
- › The strongest growth was recorded in the volumes of hard coal (up 4.6%), iron and manganese ore (up 5.7%), ferrous metals (up 7%) and grain (up 22.6%).
- › The average haul increased by 35 km (up 1.9%) to 1,835 km<sup>1</sup>.
- › 32,870 trains were dispatched as part of the fixed schedule freight transportation service delivering 72.59 mt of cargo (up 21.9% y-o-y).

- › In 2018, the number of registered users at the Freight Transportation electronic trading platform (FT ETP) increased 1.9 times to 3,522.
- › The first phase of the project was completed to establish the Kaliningrad transportation and logistics centre and its satellite facility at Chernyakhovsk station for transshipping transit containers between the 1,520 mm and 1,435 mm gauge flatcars.
- › The Company expanded the geography of its transportation and logistics operations, having launched grain shipments from Russia to Turkey via the Baku–Tbilisi–Kars international route.

- › The Company developed and rolled out new container-based transit services along the China–Europe–China axis using the port of Kaliningrad and along the South Korea–Finland–South Korea axis via the Vostochny port.
- › As part of developing the International North–South Transport Corridor (INSTC), pilot container-based shipments were made from India to Russia and Belarus.
- › Two pilot RoLa shipments were organised on the Kaliningrad–Moscow–Kaliningrad route through the territory of Lithuania and Belarus. Another pilot shipment was made from Moscow to Novosibirsk in association with Federal Freight Company and Magnit.

<sup>1</sup> Including freight luggage.



« We reach mutually beneficial solutions to tackle the most complicated issues through an ongoing dialogue with our clients. We build effective relationships with our partners and offer them flexible tariff policies. Last but not least, we remain committed to further coordinating and developing our transportation and logistics services»

Alexey Shilo  
Deputy CEO, Head of the Centre for Corporate Transport Services

## Freight transportation using Russian Railways’ infrastructure

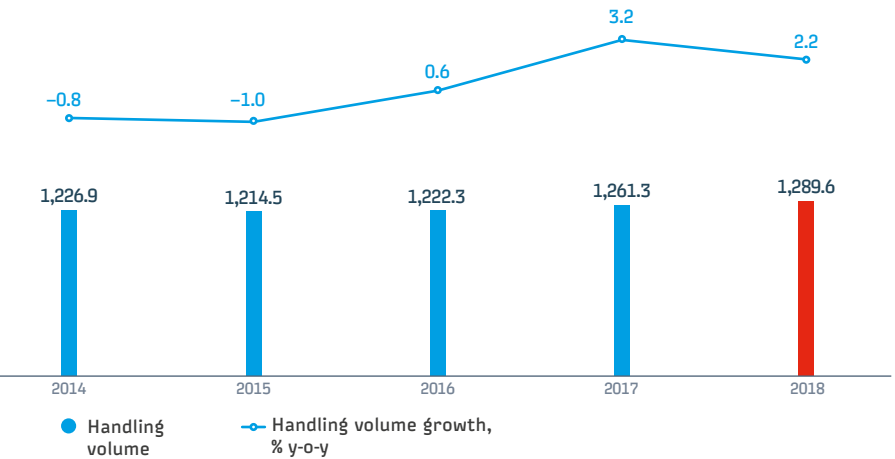
### Highlights of freight transportation using Russian Railways’ infrastructure

Item	Measurement unit	2014	2015	2016	2017	2018	
						Value	Change vs 2017, %
Handling volumes, total	mt	1,226.9	1,214.5	1,222.3	1,261.3	1,289.6	2.2
Daily average	kt	3,361.5	3,327.3	3,339.5	3,455.7	3,533.2	2.2
Total freight turnover	bn tkm	2,954.5	2,954.9	2,997.8	3,176.7	3,304.8	4.0
Including:							
loaded turnover	bn tkm	2,298.6	2,304.8	2,342.6	2,491.9	2,596.9	4.2
empty turnover	bn tkm	655.9	650.1	655.2	684.8	708.0	3.4
Share of shipments delivered within required (contractual) period	%	87.1	92.9	96.1	96.7	97.1	0.4 pp
Average freight and empty car delivery speed	km/day	299	341	361	362	370	2.2
Average loaded freight car delivery speed	km/day	372	381	380	386	390	0.9

### Handling

Russian Railways’ performance reflects general situation in the Russian industry and economy. According to the Russian Federal State Statistics Service, the Industrial Production Index came in at 102.9% in 2018. Handling volumes across Russia’s railways went up accordingly, adding 2.2% and amounting to 1,289.6 mt (an average of 3,533.2 kt per day). This was primarily due to increases in shipments of hard coal, iron and manganese ore, ferrous metals and grain.

### Handling volumes evolution, mt





Handling by transportation type

Item	2017		2018		Change in volume, %
	mt	Share, %	mt	Share, %	
Handling	1,261.3	100.0	1,289.6	100.0	2.2
Domestic	791.5	62.8	797.6	61.8	0.8
Export	460.0	36.5	482.3	37.4	4.8
Including:					
via ports	291.2	23.1	306.3	23.8	5.2
via border crossings	168.8	13.4	176.0	13.6	4.3
Import and transit	9.8	0.8	9.8	0.8	-0.3

In 2018, growth was recorded across the board. Domestic and export handling volumes increased by 0.8% (to 797.6 mt) and 4.8% (to 482.3 mt), respectively. As a result of strong growth in export shipments, the share of domestic services in handling volumes decreased from 62.8% to 61.8%, while the share of exports moved up from 36.5% to 37.4%.

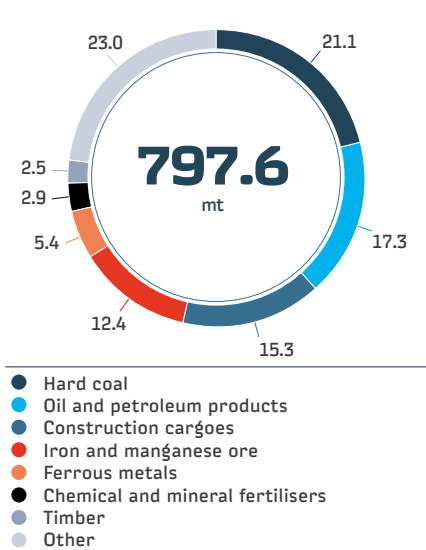
Shipments of hard coal, bulk oil, construction materials and ores made up the largest part of handling volumes, with their aggregate share amounting to 66.1% (down 0.3 pp y-o-y).

In 2018, handling volumes also showed growth across tariff classes. In contrast to 2017 when the cheapest Class I freights demonstrated the strongest growth, 2018 saw the most expensive Class III cargoes as the obvious outperformer. Class I, Class II and Class III freight shipments increased by 1.6%, 2.9% and 4.2%, respectively.

Hard coal (up 4.6%), iron and manganese ore (up 5.7%) and timber (up 5.6%) were the main drivers of Class I growth, while handling of construction cargoes continued to decrease for the second year in a row (down 6.8% in 2018 after a drop of 5.7% in 2017).

In Class II, the strongest performers included grain (up 22.6%), containerised

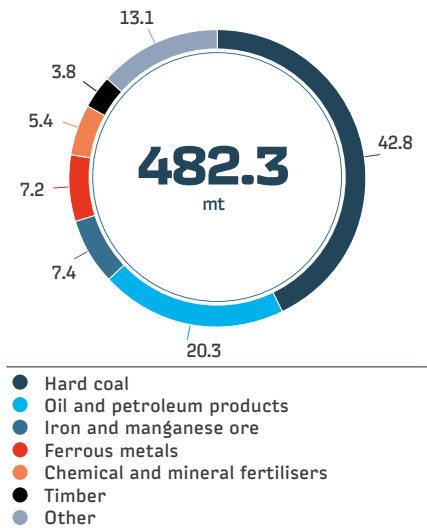
Domestic handling by cargo type in 2018, %



cargoes (up 12.1%) and fertilisers (up 3.7%). The y-o-y surge in grain handling volumes (22.6% growth in 2018 vs 16.4% in 2017) reflects the increasingly active role of grain suppliers, especially on the export markets.

Ferrous metals led the pack in Class III (up 7%). With handling volumes in this category adding 4.3 pp (vs 2.8% growth rate

Export handling by cargo type in 2018, %



in 2017), ferrous metals seem to be gaining significant market traction.

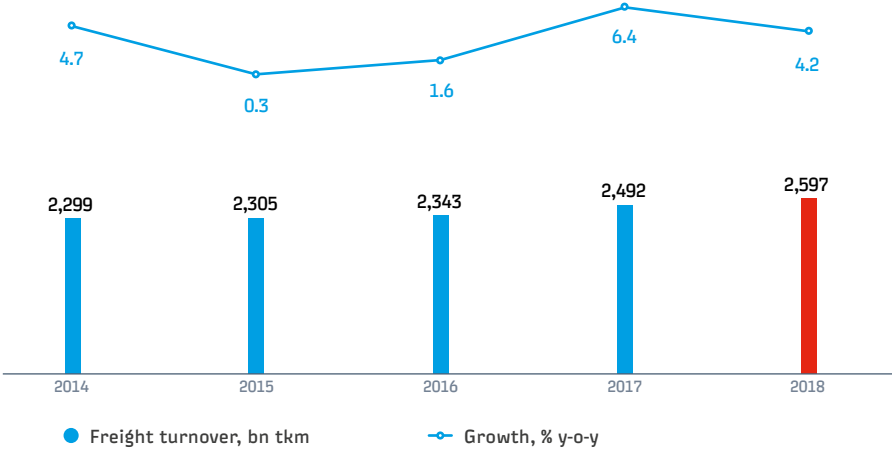
In 2018, low-margin cargoes dominated the freight shipment structure with a share of 59.9% compared to 60.2% in 2017. The shares of mid- and high-margin cargoes increased only slightly to 29.5% (vs 29.3% in 2017) and 10.6% (vs 10.4% in 2017), respectively.

Freight turnover

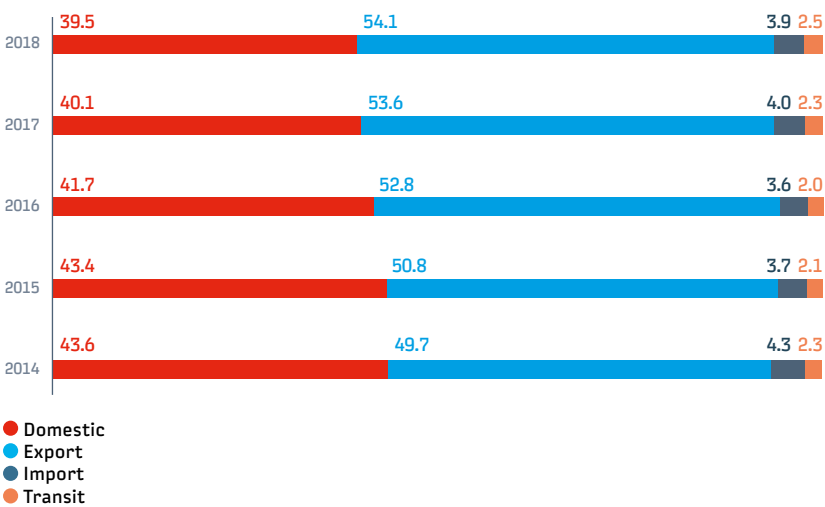
In 2018, loaded railway freight turnover grew by 4.2% y-o-y to 2,596.9 bn tkm, hitting an all-time high.

Total freight turnover (including the empty run of third-party cars) within Russian Railways' infrastructure increased by 4 % y-o-y to 3,304.8 bn tkm. Growing transportation volumes (primarily, coal shipments) were the main driver behind the rise in freight turnover. The 1.9% increase in the average haul also contributed to the positive result. Empty freight turnover added 3.4 % in 2018 to reach 708 bn tkm.

Loaded freight turnover evolution



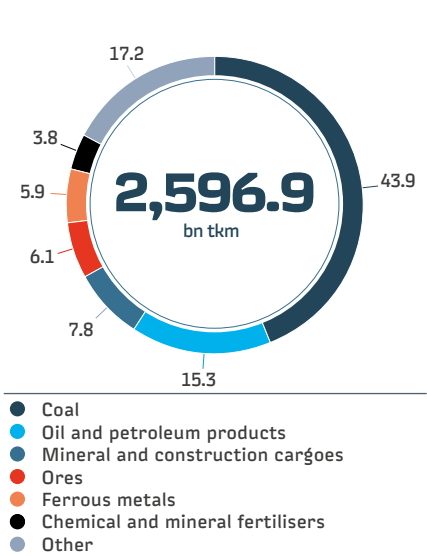
Loaded freight turnover breakdown, %



2018 saw loaded freight turnover rise across transportation types, with domestic, export, import and transit lines registering increases of 2,6% (to 1,025.8 bn tkm), 5.3% (to 1,405.2 bn tkm), 2.1% (to 101.4 bn tkm) and 10.5% (to 64.5 bn tkm), respectively.

The dramatic growth in exports further reduced the share of domestic shipments

Loaded freight turnover breakdown, %



IN 2018, LOADED FREIGHT TURNOVER REACHED A 15-YEAR HIGH OF

2,596.9 bn tkm

in overall loaded freight turnover. Over the past five years, it went down by 4.1 pp, while the share of export shipments rose by 4.4 pp.

In terms of cargo types, in 2018, coal's share grew the most – up 0.8 pp, while the share of oil and petroleum products dropped by 0.4 pp and that of mineral and construction cargoes by 0.6 pp.

Transportation and logistics services

In the transportation and logistics segment, Russian Railways is shifting the focus from basic freight transportation services to comprehensive door-to-door solutions and creation of global logistics chains. The Company is busy introducing advanced 3PL/4PL logistics technologies.

In 2018, Russian Railways updated its unified register of freight transportation services. The Company continues migrating to the uniform service catalogue as part of an effort to put in place an automated customer relationship management system.

The strongest growth in 2018 was demonstrated by container-based transit services, which rose 33% y-o-y to 553,000 TEU.

In 2018, Russian Railways continued to diversify container delivery routes on the East–West axis. For instance, the Company launched a new container-based transit service from Finland to South Korea through the Vostochny port. As part of developing the International North–South Transport Corridor (INSTC), pilot container-based shipments were made from India to Russia and Belarus.

The Company continued working on the Mail project, which provides for international container-based parcel transportation and door-to-door delivery services. These services operate under specifically designed logistics schemes on the Harbin–Moscow, Suzhou–Moscow and Chongqing–Europe routes.

Customers were also offered new types of services. One of them is rolling highway, or RoLa, a form of combined transport with trailers, semi-trailers, swap bodies or even entire road trains placed on specialised flatcars for transportation. Rolling highways decrease road traffic density and help reduce damage caused by heavy trucks to the environment and motor roads.

In 1H 2018, two pilot RoLa shipments were organised on the Kaliningrad–Moscow–Kaliningrad route through the territory of Lithuania and Belarus. Another pilot shipment was made from Moscow to Novosibirsk in association with Federal Freight Company and Magnit. Based on the lessons learnt, a plan was drafted to put in place regular RoLa services in 2019.

Performance highlights of major transportation and logistics subsidiaries

GEFCO

GEFCO (a France-based subsidiary of Russian Railways Group) is a global provider of 3PL/4PL logistics solutions and services. With 350 operational sites all over the world and a footprint spanning over 150 countries, the company is Europe's Top 10 logistics operator. Russian Railways holds a 75% stake in GEFCO.

In 2018, GEFCO celebrated the 15th anniversary of its Russian operations. Over this period, the company:

- › had grown to become a leading automobile logistics player in Russia;
- › obtained a customs broker licence;
- › expanded the range of its services from transporting cars and components to establishing end-to-end supply chains for the leading Russian manufacturers;

- › diversified its customer base by acquiring customers in many key industries.

In partnership with Russian Railways, GEFCO launched a number of projects in Russia to improve efficiency of the Group's supply chains and use its assets in joint activities. One of the key projects is multimodal transportation of oversized coal mining machinery and equipment from Europe to Russia. Another major project is transportation of copper and iron ore concentrates from Russia to China. In 2018 alone, a total of 6,419 gondola cars were loaded with 358.3 kt of iron ore concentrate and 77.039 kt of copper concentrate.

The company's revenue in 2018 grew 4.6% y-o-y to EUR 4.647 bn. Net profit for the same period totalled EUR 96.7 m, up 24% y-o-y.



Learn more about the company at:  
<https://www.gefco.net/en/>

IN 2018, TOTAL CONTAINER TRANSIT THROUGH RUSSIAN RAILWAYS' NETWORK ROSE BY

+33%



UTLC ERA

In April 2018, United Transport and Logistics Company (UTLC) was reorganised into UTLC Eurasian Rail Alliance (UTLC ERA). The company continued working on the development of container-based transit services in Russia, Kazakhstan and Belarus. UTLC ERA is a joint venture of Russian Railways, Belarusian Railway and Kazakhstan Temir Zholy, with each founder having an equal share of 33.33%.

2018 performance highlights:

- › transit services along the China–Europe–China axis through Kazakhstan, Russia and Belarus amounted to 280,500 TEU (up 60% y-o-y), with UTLC ERA accounting for 239,100 TEU of this amount;
- › 3,342 container trains were dispatched. UTLC ERA accounted for 76% of all container-based transit services on the 1,520 mm gauge network along the China–Europe–China axis (including freight shipments to Belarus);
- › the number of regular routes operated by UTLC ERA reached 57;
- › transit services connect over 20 terminals in the European Union.

Revenue of UTLC ERA for eight months of 2018 reached RUB 19.745 bn. Its net profit for 2018 amounted to RUB 2.824 bn.

Federal Freight Company

Federal Freight Company (FFC) is a network-wide operator of freight rolling stock. The company is a subsidiary of Russian Railways and one of the largest freight railway operators in Russia. FFC runs 12 branches and transport service agencies and has representative offices in Moscow and Kazakhstan.

In 2018, INFOLine Rail Russia TOP ranked FFC first among Russian railway operators for its operational and financial performance.

The company continued to be a leader of the freight rolling stock market in terms of:

- › the share in freight turnover (13.1%);
- › the average annual size of fleet under management (138,500 units);

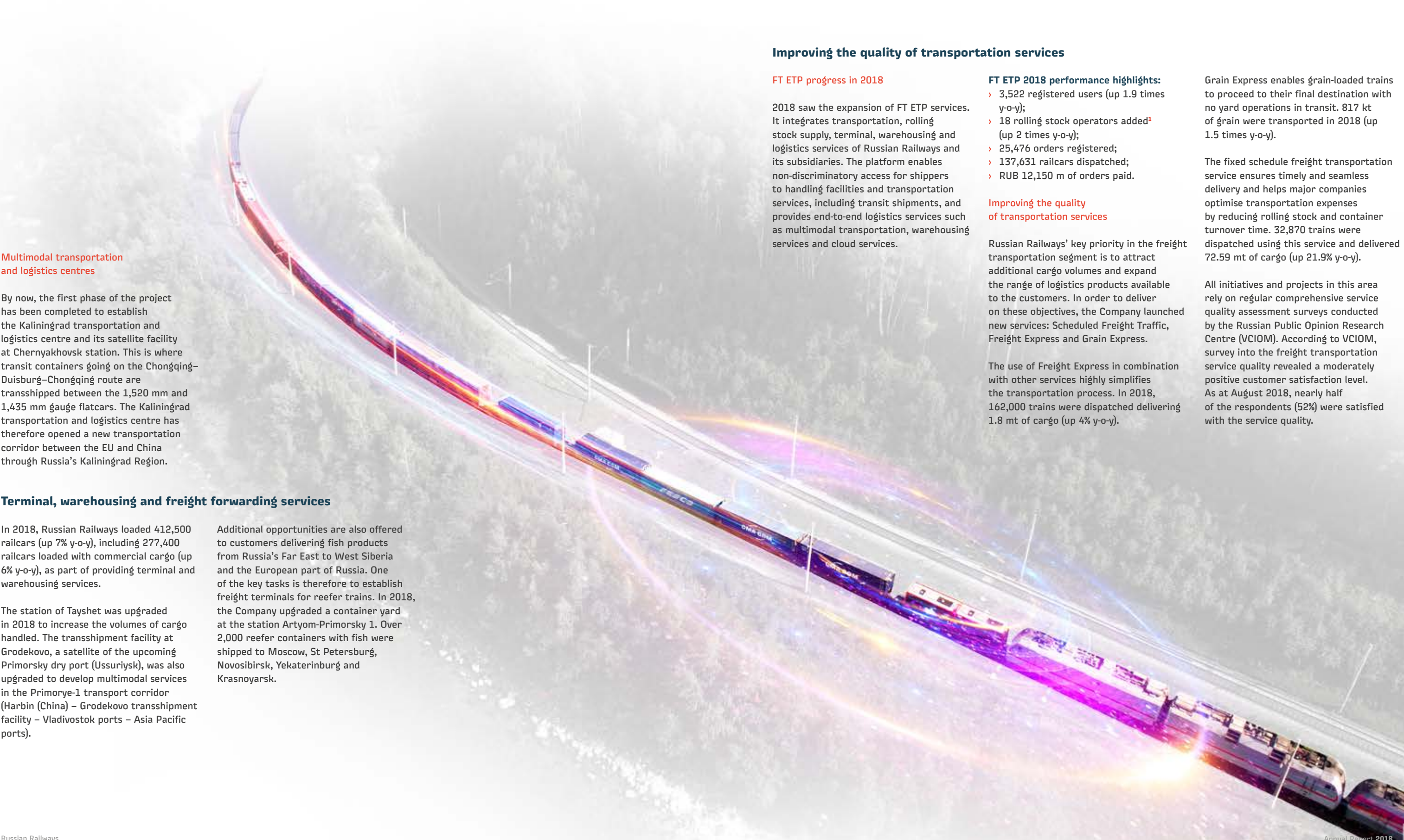
- › the share in the Russian railcar fleet (12.2%).

The company's sales revenue in 2018 grew 7% y-o-y to RUB 23.7 bn. For the first time in the last five years, net profit hit the RUB 21 bn threshold increasing 1.3 times compared to 2017.



Learn more about the company at:  
<https://utlc.com/en/>





Multimodal transportation and logistics centres

By now, the first phase of the project has been completed to establish the Kaliningrad transportation and logistics centre and its satellite facility at Chernyakhovsk station. This is where transit containers going on the Chongqing–Duisburg–Chongqing route are transshipped between the 1,520 mm and 1,435 mm gauge flatcars. The Kaliningrad transportation and logistics centre has therefore opened a new transportation corridor between the EU and China through Russia’s Kaliningrad Region.

Terminal, warehousing and freight forwarding services

In 2018, Russian Railways loaded 412,500 railcars (up 7% y-o-y), including 277,400 railcars loaded with commercial cargo (up 6% y-o-y), as part of providing terminal and warehousing services.

The station of Tayshet was upgraded in 2018 to increase the volumes of cargo handled. The transshipment facility at Grodekovo, a satellite of the upcoming Primorsky dry port (Ussuriysk), was also upgraded to develop multimodal services in the Primorye-1 transport corridor (Harbin (China) – Grodekovo transshipment facility – Vladivostok ports – Asia Pacific ports).

Additional opportunities are also offered to customers delivering fish products from Russia’s Far East to West Siberia and the European part of Russia. One of the key tasks is therefore to establish freight terminals for reefer trains. In 2018, the Company upgraded a container yard at the station Artyom-Primorsky 1. Over 2,000 reefer containers with fish were shipped to Moscow, St Petersburg, Novosibirsk, Yekaterinburg and Krasnoyarsk.

Improving the quality of transportation services

FT ETP progress in 2018

2018 saw the expansion of FT ETP services. It integrates transportation, rolling stock supply, terminal, warehousing and logistics services of Russian Railways and its subsidiaries. The platform enables non-discriminatory access for shippers to handling facilities and transportation services, including transit shipments, and provides end-to-end logistics services such as multimodal transportation, warehousing services and cloud services.

FT ETP 2018 performance highlights:

- › 3,522 registered users (up 1.9 times y-o-y);
- › 18 rolling stock operators added<sup>1</sup> (up 2 times y-o-y);
- › 25,476 orders registered;
- › 137,631 railcars dispatched;
- › RUB 12,150 m of orders paid.

Improving the quality of transportation services

Russian Railways’ key priority in the freight transportation segment is to attract additional cargo volumes and expand the range of logistics products available to the customers. In order to deliver on these objectives, the Company launched new services: Scheduled Freight Traffic, Freight Express and Grain Express.

The use of Freight Express in combination with other services highly simplifies the transportation process. In 2018, 162,000 trains were dispatched delivering 1.8 mt of cargo (up 4% y-o-y).

Grain Express enables grain-loaded trains to proceed to their final destination with no yard operations in transit. 817 kt of grain were transported in 2018 (up 1.5 times y-o-y).

The fixed schedule freight transportation service ensures timely and seamless delivery and helps major companies optimise transportation expenses by reducing rolling stock and container turnover time. 32,870 trains were dispatched using this service and delivered 72.59 mt of cargo (up 21.9% y-o-y).

All initiatives and projects in this area rely on regular comprehensive service quality assessment surveys conducted by the Russian Public Opinion Research Centre (VCIOM). According to VCIOM, survey into the freight transportation service quality revealed a moderately positive customer satisfaction level. As at August 2018, nearly half of the respondents (52%) were satisfied with the service quality.



# PASSENGER TRANSPORTATION

The primary objective of Russian Railways is to provide all Russian regions with affordable passenger transportation. Along with suburban transportation comprising multimodal routes, the Company is developing long-haul passenger transportation, including high-speed and ultra high-speed transportation between the metropolitan areas. The Company's priorities include continuous improvement of customer experience, development of new products and services, digitalisation, and creation of a comfortable transport environment affordable to all categories of passengers.

IN 2018:

PASSENGERS  
TRANSPORTED

**1,157.2**

m

+3,5%

PASSENGER TURNOVER IN HIGH-SPEED AND ULTRA  
HIGH-SPEED TRANSPORTATION SEGMENTS

**7.3**

bn PKM

+19,9%

LONG-HAUL TICKETS SOLD ONLINE

**> 50 %**



# Passenger transportation

Russian Railways carries out long-haul and suburban transportation in 77 and 66<sup>1</sup> regions of Russia, respectively.

## Key focus areas of Long-Term Development Programme

In line with the Long-Term Development Programme until 2025, Russian Railways intends to fully maintain the volume of socially significant transportation (including through implementing initiatives in the Far East).

### The key initiatives for the development of the long-haul passenger transportation include:

- › building an efficient route network and train schedule;
- › developing high-speed rail transportation with Lastochka and Strizh trains as well as trains with double-decker railcars;
- › providing customers with high-quality product offerings;
- › digitalising customer services and business processes;
- › offering innovative products in trains;
- › improving the customer experience;
- › introducing the world's best practices

## Key achievements in 2018

- › In 2018, passenger transportation volumes reached a ten-year high of 1.157 billion people (up 3.5% y-o-y).
- › The Urban Commuter Train project encompassed 11 metropolitan areas: Moscow, Krasnoyarsk, Ufa, Rostov-on-Don, Tambov, Voronezh, Volgograd, Kaliningrad, Kazan, Yaroslavl and Yekaterinburg.
- › During the 2018 FIFA World Cup Russia™, 734 additional trains were scheduled to transport fans and client groups, with 383,900 tickets sold and

for the development of multimodal transport.

### The key initiatives for the development of the suburban passenger transportation include:

- › integrating suburban transport into the urban transport environment of the city areas;
- › ensuring the long-term mutual obligations of all participants of suburban transit systems under the regional tariff and budgetary policies of the Russian Federation;
- › adopting regulatory decisions aimed at securing equal opportunities for the development of the suburban passenger transportation vs other transport modes;
- › launching multimodal transportation (with the possibility of building integrated route network for several transport modes) along with the

- almost 319,000 fans travelling free of charge.
- › For the third year running, the Company offered, at its own expense, special prices on tickets for children aged between 10 and 17.
- › Help desks for passengers with reduced mobility were set up at 133 railway stations.
- › The number of participants of the RZD Bonus loyalty programme increased to 4 million people.
- › Free unlimited Wi-Fi access is available

comprehensive development of a bus transportation service within the Group;

- › defining economic incentives for upgrading the rolling stock and infrastructure facilities;
- › introducing suburban transportation standards for accessibility, quality and safety of passenger transportation;
- › enhancing the Moscow Transport Hub;
- › reducing the interval between passenger trains on certain routes, including the Moscow Central Circle.

### Key initiatives for the railway station development include:

- › creation of multifunctional intermodal and transport interchange hubs integrated with the modern urban environment and infrastructure;
- › efficient use of railway station areas (including synergies and cooperation with bus stations).

- at 107 railway stations in Russia.
- › Russian Railways developed and launched RZD passengers – a single customer mobile app.
- › Russian Railways also offered a family-friendly version of the RZD Bonus programme (bonus points for all family members).
- › Overall, high-speed and ultra high-speed trains (FPC, Sapsan, Allegro) transported ca. 15.6 million people (up 26% y-o-y).
- › 110 multimodal routes with combined train & bus service were launched.



« We place strong emphasis on the development of passenger transportation, and we are not afraid of introducing new business models of services. Wi-Fi in trains and at train stations, mobile apps, new methods of payment, e-tickets, multimedia portals in trains, and reward programmes are all a reality today»

Dmitry Pečov  
Deputy CEO of Russian Railways

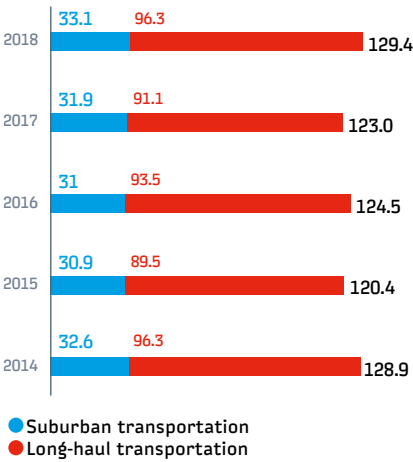
## Passenger transportation in 2018

In 2018, passenger transportation volumes reached a ten-year high of 1.157 billion people (up 3.5% y-o-y), with both suburban and long-haul routes contributing to the growth.

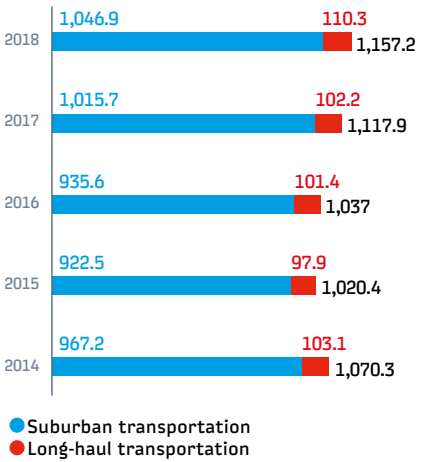
Long-haul passenger turnover stood at 96.3 bn pkm, or 105.7% vs 2017, while suburban passenger turnover rose by 3.9% y-o-y to 33.1 bn pkm. Over the year, 1,046.9 million passengers were transported in the suburban segment – a 3.1% increase vs 2017, with full-price passengers, students, and holders of regional travel benefits adding 0.7%, 0.8% and 32.6% y-o-y, respectively.

The number of suburban passengers also increased due to the development of the Moscow Central Circle and amounted to 129.6 million passengers (up 17% y-o-y).

Railway passenger turnover, bn pkm



Passengers transported by rail, m people



## Russian Railways' passenger transportation highlights

Items	2017	2018	Y-o-y change	
			In absolute terms	%
Passenger turnover, bn pkm	122.9	129.4	6.4	5.2
Suburban transportation, bn pkm	31.9	33.1	1.2	3.9
Long-haul transportation, bn pkm	91.0	96.3	5.2	5.7
Including high-speed and ultra high-speed trains	6.1	7.3	1.2	19.9
Passengers transported, m people	1,117.9	1,157.2	39.3	3.5
Suburban transportation, m people	1,015.7	1,046.9	31.2	3.1
Long-haul transportation, m people	102.2	110.3	8.1	7.9
Including high-speed and ultra high-speed trains	12.4	15.6	3.2	25.8

<sup>1</sup> Excluding Central SPC.

Rolling stock renewal

Rolling stock renewal is one of the suburban segment’s priorities. In line with its approved investment programme for 2018, Russian Railways purchased 180 Lastochka cars (35 trains).

To enhance customer experience, the Company seeks to renew the rolling stock by:

- › purchasing the Federal Passenger Company’s long-haul passenger

Suburban passenger transportation

Suburban transportation services are provided by 24 suburban passenger companies (SPCs), with Russian Railways, regional executive authorities, private investors and Aeroexpress among the co-founders.

Russian Railways holds more than 50% in the charter capital of 19 suburban passenger companies. In January 2018, the Company changed its holding in Central SPC by selling the stake through a public bidding process.

Thanks to the government support of suburban transportation by way of reimbursed infrastructure costs and a discount factor of 0.01, passengers can buy tickets at a socially affordable price. In 2018, most regions opted not to increase rail fares.

Federal support of the suburban segment made it possible to stabilise transportation volumes and even expand local transportation services. As the owner of the public infrastructure, the Company fulfilled its obligations to all carriers.

SPC performance in 2018

Suburban passenger companies’ income from passenger transportation totalled

rolling stock to replace the railcar fleet;

- › purchasing Lastochka cars for suburban and long-haul Daily Express<sup>1</sup> transportation between the largest cities. This will help boost passenger traffic, create a brand new type of service with reduced travel time, and introduce innovative comfortable coach cars;
- › conducting overhauls of electric trains.

RUB 28.5 bn, up 6% y-o-y, with 19 out of 24 carriers generating higher income compared to 2017.

Transportation expenses rose by 4% y-o-y to RUB 37.4 bn.

In 2018, SPCs (Russian Railways’ subsidiaries and affiliates) reduced their prior debt under agreements with Russian Railways by RUB 0.9 bn, with 20 companies reaching the break-even level<sup>2</sup>.

Moscow Central Circle performance in 2018

In 2018, the MCC serviced 129.6 million passengers (up 17% y-o-y), with total passenger traffic since its launch in 2016 exceeding 267.6 million. This is driven by the opening of new Moscow metro stations and a large influx of tourists and fans seen in Moscow during the 2018 FIFA World Cup Russia™. Early autumn saw the commissioning of residential property located in close proximity to the MCC, which brought about more passengers.

At present, its daily traffic exceeds 400,000 people, and the number keeps growing. On 7 November, the MCC transported a record 501,767 people per day.



WINTER UNIVERSIADE IN KRASNOYARSK

In the run-up to the XXIX Winter Universiade in Krasnoyarsk, Russian Railways invested RUB 3.7 bn in building and upgrading 28 infrastructure facilities. The main facility, the Krasnoyarsk railway station, fully meets barrier-free design and safety requirements, with automated passenger information, Smart Railway Station and electronic queue systems put in place.

In March 2019, the Company used 23 pairs of long-haul trains and 58 daily intracity suburban trains, including 21 routes to sports venues, to transport sports delegations and fans.

The development of the MCC continues. The Company has done simulation modelling using five-, four- and three-minute intervals between trains. A four-minute interval between Lastochka electric trains will increase the MCC’s throughput capacity in the range from 592,000 to as much as 806,000 passengers per day (215 and 295 million passengers per year, respectively).

Urban Commuter Train project

In 2018, passengers gave positive feedback on Urban Commuter Train, a regional project to integrate railway transportation

into the urban environment by establishing a train connection between districts.

The first Urban Commuter Train project that kicked off in 2012 in Krasnoyarsk is now viewed as similar to a surface metro. During the XXIX Winter Universiade these trains transported spectators and

Long-haul passenger transportation

The following carriers are responsible for long-haul rail passenger transportation: Federal Passenger Company, Grand Service Express TC, Tverskoy Express, TransClassService, Sakhalin Passenger Company, and High-Speed Transportation Directorate (branch of Russian Railways).

The share of long-haul transportation services provided by Russian Railways’ subsidiaries was as high as 94.7% of passenger turnover. Trains made up by Federal Passenger Company accounted for 94.4% of total passenger turnover, with another 0.3% attributable to trains made up by other subsidiaries and affiliates of Russian Railways. Russian Railways accounts for 4% of passenger turnover, while the share of independent carriers stands at 1.3%.

In 2018, Russian Railways saw a long-haul passenger turnover of 96.3 bn pkm, up 5.7% y-o-y. Passenger traffic increased by 7.9% to 110.3 million.

Federal Passenger Company’s performance

In 2018, Federal Passenger Company’s passenger turnover totalled 91.6 bn pkm (up 5.3% y-o-y). The Company transported some 102 million people. For the trains made up by Federal Passenger Company, passenger turnover along the route was 87.7 bn pkm (up 6% y-o-y), including

- › 33.6 bn pkm, or up 19.5% y-o-y in the deregulated segment,
- › 54.1 bn pkm, or down 1% y-o-y in the regulated segment.

various client groups. September 2016 saw Moscow launch of the MCC.

The advance of urban railway transport will contribute to:

- › reducing traffic congestion;
- › improving service quality and accessibility;

The reporting year saw the number of passengers transported by day long-haul trains<sup>3</sup> increase by 23% to as many as 15 million. The day service is popular with passengers due to convenient departure and arrival time, deployment of innovative rolling stock, shorter travel time and lower cost compared to air and road transport

In 2018, Federal Passenger Company’s income from core operations amounted to RUB 226.1 bn (up 4.6%), including RUB 202.4 bn from passenger transportation (up 4.5%). This was due to a 5.3% y-o-y increase in transportation volumes across the Company.

International transportation

In 2018, 6.79 million passengers were transported in the international segment, down 4.8% y-o-y.

Passenger traffic between Russia and CIS and Baltic states decreased by 5.4% y-o-y to 5.79 million people, with the number of passengers transported to and from Kazakhstan, Azerbaijan and Estonia going up by 18.5%, 6.1%, and 0.7%, respectively. Uzbekistan and Moldova railway routes saw the largest decline in passenger traffic (by 18.1% and 1.6%, respectively).

In 2018, passenger traffic to non-CIS countries fell by 0.6% y-o-y to 701,600 people. The number of passengers travelling to and from Finland, Germany and Italy rose by 0.5%, 3.6% and 14.4%, respectively, while a decline was seen across the routes between Russia and

- › increasing passenger mobility;
- › reducing travel time from the suburbs.

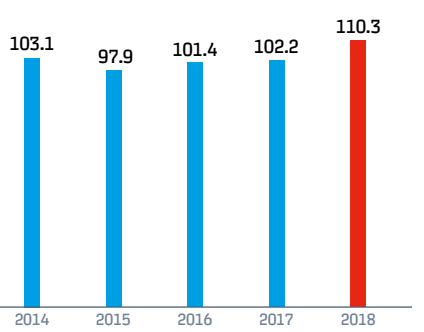
Currently, the project is ongoing in 11 cities: Moscow, Krasnoyarsk, Ufa, Rostov-on-Don, Tambov, Voronezh, Volgograd, Kaliningrad, Kazan, Yaroslavl and Yekaterinburg.

North Korea (19.7%), China (7.9%), Poland (17.5%), Czech Republic (23.3%), Austria (54.2%) and France (23.1%).

High-speed passenger transportation

High-speed transportation services are provided by Federal Passenger Company and High-Speed Transportation Directorate (branch of Russian Railways).

Number of long-haul passengers transported, m people



<sup>1</sup> Daily Express refers to day trains with a speed exceeding 100 km/h.  
<sup>2</sup> North-West SPC, Moscow-Tver SPC, Volga-Vyatka SPC, Sodruzhestvo, North Caucasus SPC, Kuban Express Suburb, Chernozyemye SPC, Saratov SPC, Volgogradtransprigorod, Bashkortostan SPC, Samara SPC, Perm Suburban Company, Omsk Suburb, Express Suburb, Altai Suburb, Krasprigorod, Baikal SPC, Zabaikalsk SPC, Primorye Express, and Sakhalin PC.

<sup>3</sup> Day trains are scheduled to complete its journey during daylight hours and comprised mostly of coach cars.



## The 2018 FIFA World Cup™

The 2018 FIFA World Cup™ was hosted between 14 June and 15 July by 11 Russian cities – Kaliningrad, St Petersburg, Moscow, Nizhny Novgorod, Yekaterinburg, Kazan, Samara, Saransk, Sochi, Rostov-on-Don, and Volgograd.

In line with the Transport Support Strategy for the FIFA 2018 World Cup in Russia, Russian Railways ensured transportation of 2.616 million passengers, including 448,000 fans and client groups carried free-of-charge by additional trains. To that end, the Company scheduled over 14,000 regular train runs and 734 additional free runs made, among others, by six high-speed trains.

During the World Cup, the Company successfully dispatched all additional trains, sold 383,855 tickets, and provided free-of-charge travel to 318,978 fans. Additional trains were most popular with fans from Russia, Argentina, Colombia, USA, China, Brazil, Peru and Egypt.

**>14,000**  
regular trains

RUNNING DURING THE 2018 FIFA WORLD CUP™

**734**  
additional free runs

MADE BY RUSSIAN RAILWAYS TRAINS

**>318,000**  
fans

TRAVELLED BY TRAIN FREE OF CHARGE



In 2018, high-speed and ultra high-speed passenger turnover grew by 19.9% y-o-y to 7.3 bn pkm. The number of passengers transported by high-speed and ultra high-speed trains amounted to 15.6 million, up 25.8% against the previous year.

Customer service

Russian Railways Unified Information Service Centre provides information on the Company's passenger services.

In 2018, the Centre handled 62,771 queries (down 8.2% y-o-y).

To receive feedback and suggestions from the customers, and settle claims, the Company has the following communication channels in place: Unified Information Service Centre, Russian Railways' website and online reception desk. The reporting year saw a total of 99,089 queries (down 2.2% y-o-y).

The quality of passenger services provided by the Russian Railways Group is measured by the passenger satisfaction index, which serves as the target metric of the Passenger Transport Service Improvement Programme for 2017–2019.

RZD Bonus loyalty programme

In 2018, the RZD Bonus loyalty programme saw a record high number of participants reaching 4 million people, with the average annual growth rate before 2018 of 500–600 thousand people and 1 million people joining the programme in 2018.

In 2018, double Sapsan trainsets launched in August 2014 continued to run from Moscow to St Petersburg. On 30 April, they transported a record high of 20,787 passengers per day. The reporting year saw Sapsan trains carry some 5.15 million passengers (up 2.8% y-o-y).

Since its launch, over 1 million tickets have been sold in exchange for the points earned. Russian Railways also set up a family version of the RZD Bonus programme enabling all family members to pool their bonus points.

Russian Railways' mobile app for passengers

RZD passengers mobile app is designed to sell e-tickets for long-haul and suburban trains and related services. The following features benefit users of the app:

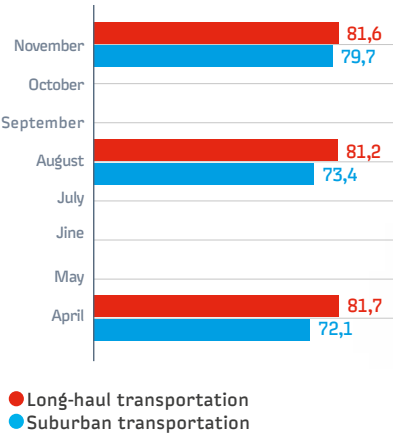
- › Apple Pay support;
- › filtering by lowest prices and nearest dates;
- › document scanning within the app ensuring quick access to passenger data;
- › navigation inside railway stations.

In 2018, the mobile app was installed by Android and iOS users over 2.6 million and 1.29 million times, respectively, with 8.3 million e-tickets sold through the app.

In 2018, suburban carriers<sup>1</sup> started connecting to the mobile app, enabling passengers to buy e-tickets for suburban trains. The connection of suburban carriers will continue well into 2019.

In 2018, 29 pairs of high-speed trains made up by Federal Passenger Company ran along 11 routes. High-speed Lastochka trains transported some 6.8 million passengers (up 42% y-o-y), which is 7% of total volumes transported by trains of Federal Passenger Company.

Results of the passenger satisfaction index survey in 2018, points



RUSSIAN RAILWAYS' LONG-HAUL PASSENGER TRAFFIC IN 2018 TOTALLED

96.3

bn pkm

+5,7%

2019 development plans

For 2019, the Russian Railways Group plans a number of strategic initiatives set to boost efficiency of passenger transportation, including:

- › adjusting train composition and increasing the number of higher-capacity, more modern and cost effective double-decker trains on the highest-margin routes;
- › launching trains consisting of different railcar types to improve operational efficiency and optimise rolling stock usage;
- › changing routes of a number of trains (full or partial);
- › combining schedules of some trains to ensure efficient use of infrastructure;

- › developing passenger transportation through the integration of the suburban and urban transit systems into large metropolitan areas, and offering better and broader range of services. 2019 will see the launch of the MCD 1 from Odintsovo to Lobnya and MCD 2 from Nakhabino to Podolsk;
- › developing and implementing comprehensive marketing projects to offer new passenger transportation and railway station services;
- › ensuring uninterrupted transport availability, including during the 2019 Winter Universiade in Krasnoyarsk;
- › achieving passenger satisfaction index of at least 75 points in the suburban

segment and at least 81 points for long-haul trains;

- › maintaining a dialogue with the federal executive authorities on critical infrastructure projects, suburban passenger services, and reimbursement of lost income from passenger transportation and infrastructure services to Russian Railways and its subsidiaries and affiliates as a result of the tariffs for suburban passenger transportation being fully regulated by the government

<sup>1</sup> Moscow-Tver SPC, Kaliningrad SPC, North-West SPC, Northern SPC, Chernozemye SPC, Sodruzhestvo, Volga-Vyatka SPC, Sverdlovsk Suburban Company, Baikal SPC, and North Caucasus SPC.



# RAILWAY TRANSPORTATION AND INFRASTRUCTURE

Major national development goals cannot be realised without rapid advances in transport technology and infrastructure. Russian Railways makes every effort to build and modernise the railway infrastructure while also improving its efficiency. We work consistently to increase the throughput capacity of key railways, renew rolling stock, create multimodal transportation and logistics hubs, introduce advanced digital traffic control technologies, and develop heavy-duty and high-speed services.

**631**  
new Russian-made  
locomotives  
added to the  
Russian Railways'  
fleet

## 2018 HIGHLIGHTS:

THE NUMBER OF HEAVY-DUTY TRAINS  
(6,000 T) OPERATED ON THE ROUTE

**156,100**

AVERAGE FREIGHT TRAIN WEIGHT

**4,076**  
t

+0,9 %

# Railway transportation and infrastructure

The railway transportation and infrastructure segment covers core business units engaged in railway transportation management, maintenance and development of infrastructure and locomotive fleet. The Company’s operating and financial performance is directly linked to their efficiency, effectiveness and technical cooperation.

## Key focus areas of the Long-Term Development Programme

**Key initiatives in rail transportation and infrastructure development include:**

- › developing operating domain-centred transportation management principles across the Russian Railways network;
- › creating dedicated infrastructure for passenger and freight traffic;
- › boosting efficiency of low intensity railway lines;
- › enhancing transportation efficiency through quality improvements in utilisation of the rolling stock;
- › developing marshalling yards;
- › improving management of the freight car fleet;
- › bolstering utilisation efficiency of mainline and shunting locomotives and locomotive crews;
- › upgrading railway tracks applying new technology and using elements and structures of equally high quality to reduce costs associated with the infrastructure maintenance life cycle;

- › establishing extended guarantee sections ensuring safe passage of freight trains;
- › creating an operating domain-centred model for operation of work trains and diagnostic machinery;
- › removing energy-related restrictions;
- › preparing infrastructure facilities for passage of heavy-duty trains;
- › streamlining planning for repairs and maintenance of infrastructure facilities and associated scheduling processes;
- › improving train composition planning and train passage management systems;
- › using natural gas as a motor fuel, gradually expanding the use of gas powered locomotives (gas turbine locomotives, gas powered diesel locomotives used in shunting operations), while also working to improve design and increase efficiency at locomotive plants when developing modern servicing stations and LNG refuelling mechanisms.

**Russian Railways’ goals for developing railway infrastructure until 2025:**

- › achieve a 1.5x increase in the throughput capacity of the Baikal–Amur and Trans-Siberian Railways to 180 mt by 2024 and 210 mt by 2025;
- › boost the throughput capacity of the rail infrastructure serving ports of the Azov and Black Seas;
- › reduce container travel times from the Far East to Russia’s western border to seven days and achieve a fourfold increase in the transit container traffic;
- › develop high-speed and ultra high-speed railway services between and within major cities and metropolitan areas.
- › develop transportation services between regional administrative centres and other cities of major economic activity;
- › create multimodal freight transportation and logistics hubs.

## Key achievements in 2018

- › the service speed of a freight train, including along rail yards, was 40.9 km/h, up 0.5% y-o-y;
- › the average weight of a freight train increased 0.9% to 4,076 t;

- › the average daily performance of a freight train locomotive remained at the 2017 level of 2,136 thousand gross tkm.
- › 631 new locomotives were supplied.

- › 6,680.1 km of tracks were renovated (up 16.5% y-o-y).
- › implemented driver’s digital route sheet.



« In 2018, the Railway Transportation and Infrastructure projects focused on further enhancing the internal efficiency and quality of the services, along with improving transportation management technologies. Implementation of technological solutions and strategic initiatives under the Long-Term Development Programme until 2025 helps build up freight operations as the Company’s main income source and contributes to the growth of the national economy»

Anatoly Krasnoshchek  
First Deputy CEO of Russian Railways

## Improving the efficiency of infrastructure

**Repairs and upgrade of infrastructure facilities**

**In 2018, we renovated some 6,680.1 km of tracks, up 16.5% y-o-y, which included:**

- › overhaul of 3,424.9 km of tracks under the track renovation programme;
- › overhaul of 1,284.9 km with used materials;
- › full replacement and intermediate overhauls of 1,939.1 km of tracks between full overhauls.
- › intermediate overhauls of 31.1 km of tracks. 2,905 sets of turnouts were laid.

**Improving performance at operating domains**

**Transitioning from region-based management of the transportation process to the operating domain–based planning and organisation of train**

**traffic is the key area of the Company's operations development. It boosts efficiency and helps to clearly separate unit functions and responsibilities.**

The reporting year saw continued implementation of the domain-based management principles, which in particular included locomotive crews working on extended service routes. Automated systems for planning, monitoring, and managing train traffic are being rolled out at the Eastern Operating Domain along with projects aimed at planning and timely adjustment of the locomotive fleet and modelling station operations.

**Optimisation of the freight traffic schedule**

The main function of the train schedule is to maximise the infrastructure efficiency for the required throughput and carrying

capacity, ensure the target volume of freight traffic and increase the schedule and mean speed.

**Key measures to optimise schedule:**

- › arrange traffic of heavy-duty trains weighing 8–9 kt;
- › ensure passage of coupled trains at railway sections with high traffic density;
- › establish new guarantee sections ensuring safe passage of loaded and empty container platforms as part of container trains.



Traction stock in 2018

In 2018, the operating locomotive fleet of Russian Railways comprised 14,275 units, including:

- › 7,703 freight train locomotives;
- › 1,567 passenger train locomotives;
- › 1,724 service train locomotives;
- › 3,281 locomotives involved in special and other shunting operations.

In 2018, the active locomotive fleet of Russian Railways comprised 10,222 units, including:

- › 5,729 freight train locomotives;
- › 744 passenger train locomotives;
- › 957 service train locomotives;
- › 2,792 locomotives involved in special and other shunting operations.

In the reporting year, the major and intermediate overhaul programme was completed in full with 3,742 units of traction stock repaired.

As part of the 2018 investment programme, 597 locomotives were acquired, including 570 under life cycle contracts. Russian Railways also purchased 34 electric locomotives that were previously operated under lease and sublease contracts. In total, Russian Railways added 631 locomotives to its fleet, all of which are Russian-made.

Additional 3,460 locomotives will be acquired in 2019 –2025. New technical

requirements have been developed for the new generation freight locomotives, including electric and autonomous locomotives, to account for improved transportation technologies. Compared with the locomotives currently in use, the new generation mainline freight locomotives will provide for single traction, multiple-unit, and distributed traction systems. They will have greater power and traction and longer repair intervals.

Developing heavy-duty traffic

Heavy-duty traffic and higher weight standards of freight trains are essential for the transportation optimisation as they help increase the carrying capacity and boost railway efficiency.

The development of heavy-duty traffic is a key initiative pursued by the railway transportation and infrastructure segment

in line with Russian Railways Group’s Development Strategy until 2030. To this end, the locomotive fleet needs to ensure the target traction resources while strictly complying with traffic safety requirements.

In 2018, over 150 tests were performed to help bring the average train weight to 4,076 t (up 0.9% y-o-y). The increase in the

average train weight was made possible by the formation and runs of heavy-duty and coupled trains, including:

- › 156,100 runs by heavy-duty trains (weighing over 6 kt);
- › 35,600 runs by coupled trains.



# FOREIGN PROJECTS AND INTERNATIONAL COOPERATION

Russian Railways expands its network of international and transit routes for passenger and freight transportation, implements foreign infrastructure projects, manages railway assets, and cooperates with its partners in promoting comprehensive transportation and logistics services. One of the Company's priorities is to boost Russia's transport potential and ensure efficient cooperation with both major foreign railway operators and international transport organisations.

IN 2018:

CONTAINER TRANSIT THROUGH  
RUSSIAN RAILWAYS' NETWORK  
TOTALLED

**553,000**  
TEU

+33%

CONTAINERS SHIPPED ALONG  
THE CHINA–RUSSIA–EUROPE ROUTE

**350,800**  
TEU

+0,9%

THE RUSSIAN RAILWAYS GROUP'S  
REVENUE FROM ITS FOREIGN  
OPERATIONS TOTALLED<sup>1</sup>

RUB

**471.8**

bn

+33%



<sup>1</sup> Including the results of RZD Logistics (container shipment and international transport corridor logistics), TransContainer (international transportation), UTLC ERA, GEFCO, RasonConTrans, South Caucasus Railway, and RZD International, as well as income from transit shipments generated by Russian Railways' Centre for Corporate Transport Services.



# Foreign projects and international cooperation

The Company’s key business lines abroad include logistics, passenger and freight transportation on international and transit routes, engineering and management of railways, machine building, and personnel training.

## Key focus areas of the Long-Term Development Programme

Russian Railways plans to continue developing its foreign business, among other things, by expanding its footprint and promoting the Group’s export-oriented portfolio centred around:

- › integrated projects of railway design, construction (upgrade), electrification, and subsequent operation;
- › consulting (development of concepts, strategies, railway development programmes, feasibility studies, and business plans);
- › railway facility management;
- › supplies of railway machinery, equipment and materials;
- › comprehensive transport and logistics services (establishing joint operations, acquiring stakes in national logistics companies);
- › expanding international passenger transportation routes and assessing the

- possibility to establish joint operations in the passenger segment (including for the purpose of entering the European market);
- › transit freight transportation to key international destinations;
  - › personnel training and education;
  - › development of IT services, cloud applications, and digital strategies;
  - › working out financial solutions for foreign projects.

To do this, the Company will need to implement a number of corporate initiatives, new business processes and algorithms, including the development of competencies in international engineering and transport infrastructure construction via mergers and acquisitions.

Furthermore, given the trends in the global transportation market, the Company needs

to build a project financing framework to implement infrastructure projects in foreign transportation and construction markets, and boost cooperation with international financial organisations supporting export services.

- Key initiatives to expand foreign operations include:**
- › organisational support;
  - › implementation of new business processes and algorithms;
  - › development of financing packages.

The Group will be actively expanding foreign operations to improve its competitive edge in international transportation and construction markets and increase total income.

**In 2018, the Russian Railways Group’s revenue from foreign operations totalled RUB 471.8 bn (up 1.7% vs target), with EBITDA exceeding RUB 30 bn (up 12.6% vs target).**

- agreements with the region’s leading railway operators.
- › The UIC Asia Pacific Regional Assembly action plan drafted by Russian Railways was put into operation.
  - › The Shanghai Cooperation Organisation (SCO) member states established a framework for regular meetings of heads of railway administrations.

« Russian Railways celebrates its 15th anniversary with a hefty portfolio of international projects. Our expertise and technologies are in demand globally and lay ground for further expansion of our international footprint. This year, we strengthened our positions in the Middle East and South Asia, received promising proposals from a number of African countries, boosted the operational performance of foreign companies held in trust or managed under concession agreements, and increased the volumes of transit container transportation by a third compared to 2017»

Alexander Misharin  
First Deputy CEO of Russian Railways

## Foreign operations and key international projects

### Cooperation with CIS and Baltic states within the 1,520 mm gauge network

During the year, the Russian Railways Group focused on complex development of the 1520 gauge<sup>2</sup> railway network, including by participation in the **Council for Rail Transport of the Commonwealth Member States** (the “Council”). In 2018, the Council resolved to draft a Conceptual Framework for Strategic Development of the Railway Transport through 2030 aimed to improve the competitive edge by gradual transition to the digital railway and further integration in the global transportation system.

### Cooperation with Eastern Asia

In 2018, our ties with the countries of Eastern Asia were growing stronger. In June, Russian Railways and China Railway signed a memorandum in the presence of the heads of the states to organise high-speed and ultra high-speed rail freight transportation along the China–Russia–Europe route.

The efficiency of the Joint Working Group created under the septilateral agreement<sup>3</sup> enabled fast growth of freight traffic along the route and back. The transported volume for the year reached 350,772 TEU, up 34% y-o-y.

The cooperation with the Korean partners was also on the rise. In June 2018, the presidents of Russia and South Korea witnessed the signing of a memorandum of understanding on the cooperation between Russian Railways and Korea Railroad Corporation (KORAIL).

The work over transportation projects with Japan was also gaining momentum – to demonstrate the potential and advantages of the Trans-Siberian line, Russian Railways and the Ministry of Transport of Japan launched test container shipments from Japan starting September 2018. In October, Russian Railways signed a memorandum of understanding with Mitsubishi Heavy Industries and Sojitz Corporation to develop construction plans for Baltiysky and Primorsky terminal and logistics centres at the Russian rail network. On top of that, the project for the first preventive medicine and diagnostics centre in Khabarovsk is underway in partnership with Marubeni.

Trust management of the 50% Russian stake in Ulaanbaatar Railways (Mongolia) in 2018 led to a record freight volume – 25.8 mt (up 13.2% y-o-y), with 3 mt accounting for transit transportation, and maximisation of throughput and carrying capacities. In December 2018,

Ulaanbaatar Railways’ Management Board approved the first stage of the modernisation programme through 2020.

### Russian Railways’ cooperation with European partners

**In 2018, the Group strengthened its positions on the Western European market by signing a number of documents with the leading European railway companies on the development of the talent pool, passenger and freight transportation, logistics, infrastructure projects, innovations and cooperation in third-party countries:**

- › addendum to the cooperation agreement between Russian Railways and Austrian Federal Railways;
- › cooperation memorandum between Russian Railways and Spanish operator Renfe Operadora;
- › agreement to expand the fleet of ultra high-speed trains between Russian Railways, Sinara Group, Siemens and Siemens Mobility;
- › strategic cooperation and partnership development agreement between Russian Railways and Rusenergosbyt, a subsidiary of Italian company ENEL;
- › cooperation development roadmap between Russian Railways and French national railway company SNCF.

<sup>1</sup> Including the results of RZD Logistics (container shipment and international transport corridor logistics), TransContainer (international transportation), UTLK ERA, GEFCO, RasonConTrans, South Caucasus Railway, and RZD International, as well as income from transit shipments generated by Russian Railways’ Centre for Corporate Transport Services.

<sup>2</sup> 1520 mm is the main gauge used in railways of ex-USSR countries. North America, Middle East, North Africa, Australia, China, Korea and Europe (excluding CIS and Baltic countries, Finland, Ireland, Spain and Portugal) mostly have a track gauge of 1435 mm.

<sup>3</sup> Agreement between Russian Railways, China, Mongolia, Germany, Kazakhstan, Belarus, and Poland to strengthen cooperation and increase the number of container trains between China and Europe signed in 2017.

Russian Railways joined efforts with railway administrations and transport authorities of Austria, Slovakia and Ukraine to create a new Eurasian transport corridor by **extending the broad gauge tracks from Košice to Bratislava and further**

Overseas infrastructure projects

In 2018, construction works on two legs of **Serbian** railways were completed ahead of schedule, opening Belgrade–Pancevo and a number of other routes. On top of that, tracks were laid on the railway bridge across Danube in Novi Sad.

In 2018, the Company strengthened its positions in the large and highly competitive **Indian** market. The first stage of the feasibility study for the high-speed (up to 200 km/h) railway connection between Nagpur and Secunderabad (India) was completed in line with the contractual agreements between Russian Railways and Indian Railways. In 2019, we plan to complete a feasibility study for further increasing the speed on the line.

Cooperation with international organisations

The reporting year saw continued work with the **Organisation for Cooperation between Railways (OSJD)** to approve the Convention on Direct International Railway Traffic. When approved, it will shape a legal framework that will allow Russian Railways and its clients to provide freight and passenger rail transportation services between Europe and Asia under a single document.

Another important highlight is that the UNECE Inland Transport Committee (ITC) finalised the Convention on the Facilitation of Border Crossing Procedures for Passengers, Luggage and Load-Luggage Carried in International Traffic by Rail. The document is the result of many years of development started at Russian Railways' initiative. The convention was adopted during the 81st annual session of the Inland Transport Committee (ITC) (on 19–22 February 2019 in Geneva) and will soon be open for signing. After enactment, the document will facilitate border-crossings while maintaining efficient state control, ensuring comfort and quality of service

**to Vienna, and creating a Vienna–Bratislava international logistics centre.** One of the milestones was environmental certification by the state and municipal authorities of Austria and Slovakia. The preliminary discussions were held

In **Armenia**, the 10th anniversary of concession agreement between South Caucasus Railway and Russian Railways saw higher shipment volumes and the launch of passenger transportation between Yerevan and Gyumri with a Russian-made electric train.

The Russian Railways Group entered the **Cuban** market with a complete and up-to-date complex renovation project. The contract and intergovernmental agreement for the project are expected in 2019.

In Asia, the Group addressed the possibilities of entering the **Vietnamese** infrastructure market.

for passengers and reducing the running times of trains.

In 2018, the Russian Railways Group continued cooperation with UIC in a number of areas such as development of high-speed rail connections, traffic safety, standardisation, digital technology, energy efficiency and improvement of professional competencies.

Under the chairmanship of Oleg Belozеров, CEO of Russian Railways, the UIC Asia-Pacific Regional Assembly delivered on all its objectives set for his tenure. These include introduction of a quality management system (QMS), development of project selection criteria and enhanced cooperation with global organisations (including the UN) and financial institutions. A number of efforts were made to prevent unauthorised access to the railway.

On top of that, INTERTRAN, a joint project of UIC and the UN Economic and Social Commission for Asia and the Pacific, was

over the project financing, including with the shareholders of the joint venture. Close cooperation with Austria and Slovakia during the year led to the decision to sign an intergovernmental agreement on the project in 2019.

Together with the Vietnamese partners, it closely considered construction of light rail in Ho Chi Minh City with the extension to Longhang airport. In September, Russian Railways International and a group of Vietnamese investors signed a framework partnership agreement for the project.

To promote project initiatives in **Africa** and mitigate economic risks, a trilateral memorandum of cooperation was signed in late November with the African Export–Import Bank and the Russian Export Centre. We also considered project proposals from South Africa, Ghana, Nigeria and other countries.

launched at Russian Railways' initiative to boost volume and quality of intermodal freight transportation on a paperless basis.

22nd St. Petersburg International Economic Forum

A delegation led by Oleg Belozеров, CEO and Chairman of the Management Board, represented Russian Railways at the 22nd St. Petersburg International Economic Forum (held on 24–26 May 2018). More than a dozen of agreements and memorandums were signed on the sidelines of the forum to expand cooperation in various fields such as development of modern trains (with Siemens and Sinara), medical rehabilitation (with ORPEA S.A.), as well as prevention of, and response to, the threat of infectious diseases abroad (with Rospotrebnadzor (Federal Service for Surveillance on Customer Rights Protection and Human Well-being)).

As a Co-Chairman of the Russia-France Business Cooperation Council, Oleg Belozеров gave a speech at a business dialogue in the presence of President of the Russian Federation Vladimir Putin and President of France Emmanuel Macron. The topics included mutually beneficial technology transfer, attracting investment for business development, opportunities for bilateral cooperation in the manufacturing industry of the future, development of digital economy and building modern infrastructure.

InnoTrans International Trade Fair and Rail Leaders' Summit

In September 2018, a delegation of Russian Railways led by Oleg Belozеров, CEO and

Chairman of the Management Board, participated in the 2018 InnoTrans, International Trade Fair for Transport Technology in Berlin.

During the event, Russian Railways and French National Railway Company (SNCF) signed a road map, marking an important step towards strengthening ties between the partners. This aims to foster bilateral cooperation in passenger and freight transportation, infrastructure development (both domestically and in third-party countries), improvement of railway stations, exchange of expertise and R&D.

Russian Railways also entered into an agreement with Siemens AG, Sinara Group and Siemens Mobility GmbH to expand its fleet of high-speed trains.

> 1 m railcars

WERE SHIPPED UNDER ELECTRONIC WAY BILLS IN 2018

Traffic safety

General principles

Russian Railways' Strategy for Guaranteed Transportation Safety and Reliability lays out the general principles that are underpinned by safety management and culture. It seeks to ensure reliability and

safety of equipment and infrastructure and minimise traffic accidents to achieve the traffic safety targets across Russian Railways.

2018 results

2018 saw the number of traffic accidents and incidents involving the Company's railway infrastructure fall 27% against 2017 (3,119 vs 3,707), including a 14% decrease in accidents caused by Russian Railways (1,347 vs 1,575).

In the reporting year, the number of rail safety violations stood at 0.98 per million train kilometres, outperforming the target (1.28) by 23% and the previous year's result (1.17) by 16.5%.



# Investment activities

## Investment programme approaches

The Company's investment programme is designed to:

- › ensure uninterrupted transportation service;
- › embrace the most promising projects in terms of both commercial and budget efficiency;
- › minimise federal government spending on investment projects.

All the investment projects have commercial and budget efficiency estimates in place and are ranked using the cost/benefit analysis.

The projects' commercial efficiency is assessed based on the net cash flow from investing and operating activities, with the resulting estimates taking into

consideration the financial aftermaths for the investment project owner assuming that such owner fully covers the project costs and reaps all of its benefits.

With a payback period of up to 20 years and an IRR of at least 10%, an investment project is deemed to be sufficiently efficient.

## Investment highlights in 2018

Russian Railways' Investment Programme for 2018 was approved by the Company's Board of Directors (Minutes No. 4 dated 20 November 2018).

Target volume of the Company's investment programme in 2018 was RUB 547.4 bn, with the actual programme costs amounting to RUB 530 bn (including RUB 14.6 bn in capitalised interest). The investment expenses included:

- › RUB 460.4 bn using the Company's own cash;
- › RUB 66.7 bn in government support;
- › RUB 2.9 bn raised to add certain non-public infrastructure assets to the infrastructure portfolio of Russian Railways.

Out of total investment spending, RUB 162.8 bn was allocated to support projects implemented in pursuance of instructions of the President and the Government of Russia, and the remaining RUB 367.2 bn was earmarked for the Russian Railways projects.

The Company's investment programme has seven key focus areas:

- › projects implemented in pursuance of instructions of the President and the Government of Russia;
- › rail infrastructure development projects;
- › safety enhancement initiatives;
- › infrastructure debottlenecking;
- › projects to enhance transportation accessibility;
- › rolling stock renewal initiatives;
- › other projects.

ACTUAL EXPENSES UNDER RUSSIAN RAILWAYS' INVESTMENT PROGRAMME TOTALLED

RUB

530 bn

## Projects implemented in pursuance of instructions of the President and the Government of Russia

Those are comprehensive infrastructure projects financed by both Russian Railways and the federal government and governments of Russian regions.

Development of the Central Transport Hub

In 2018, the investment expenses amounted to RUB 50.1 bn (including RUB 16.2 bn allocated by the federal government).

The Central Transport Hub is designed to ensure transport accessibility against the expected rise in passenger traffic, reduce overall travel times and improve the passenger experience. It will help decrease traffic density on the highways, subway and key stations of Moscow and the Moscow Region, while also improving the quality of services (including for passengers with reduced mobility).

The first stage of the Moscow Central Diameters project was launched, covering the routes from Odintsovo to Lobnya (MCD 1) and from Nakhabino to Podolsk (MCD 2).

Upgrade of rail infrastructure of the Baikal–Amur and Trans-Siberian main lines designed to enhance the throughput and carrying capacity of the railways

In 2018, the investment expenses amounted to RUB 48.5 bn.

The project seeks to boost freight transportation volumes from the key mineral deposits of the Eastern Operating Domain by removing infrastructure constraints on the Baikal–Amur and Trans-Siberian Railways. Implementation of this project will help increase the carrying capacity of the main lines to 180 mt by 2024 and 210 mt by 2025.

Development and renovation of the rail infrastructure serving ports of the Azov and Black Seas

In 2018, the investment expenses amounted to RUB 39.9 bn (including RUB 21.7 bn allocated by the federal government).

In 2018, 90.7 km of second tracks were constructed. As planned, freight volumes transported to the ports of the Azov and Black Seas totalled 84 mt.

Development and renovation of the rail infrastructure serving ports of the North-Western basin

In 2018, the investment expenses amounted to RUB 15.5 bn.

Authorised train mass metrics were successfully increased in 2018, with the carrying capacity of the operating domain's infrastructure rising to 147 mtpa (up 9 mtpa y-o-y) thanks to the deployment of heavy-duty trains. The throughput capacity reached 120 pairs of trains per day (up 5 train pairs y-o-y).

Comprehensive development of the Krasnoyarsk Railway's Mezhdurechensk–Tayshet section

In 2018, the investment expenses amounted to RUB 3.7 bn, (including RUB 2.5 bn allocated by the federal government).

2018 saw commissioning of even-numbered tracks at the Ilanskaya Station and

launch of the Dzhebz–Shchetinkino section of the second Dzhebsky Tunnel. After commissioning of the adjacent second track on the Dzhebz–Shchetinkino section the throughput capacity of the Kuraġino–Sayanskaya section in 2019 will increase to 37 train pairs per day (up 6 train pairs).

Construction of the Moscow–Kazan High-Speed Railway

In 2018, the investment expenses amounted to RUB 1.9 bn, (including RUB 0.1 bn allocated by the federal government).

In 2018, the design and cost estimates and engineering surveys for the project were completed, with Russia's State Expert Review Board giving a green light for the Vladimir–Nizhny Novgorod section.

Construction of the Prokhorovka–Zhuravka–Chertkovo–Bataysk line (new rail line on the Zhuravka–Millerovo route)

In 2018, the investment expenses amounted to RUB 1.7 bn.

In 2017, the Company completed construction of the two-track electrified Zhuravka–Millerovo line (137.5 km), with the line put into operation on a permanent basis.

2018 saw the issuance of preliminary permits.

Construction of a western bypass at the Saratov Transport Hub of the Privolzhskaya Railway with the expansion of the Lipovsky–Kurdyum section

In 2018, the investment expenses amounted to RUB 0.9 bn.

The main aim of this project is to expand the railway infrastructure with a view to enhancing the carrying capacity on the approaches to the Saratov Transport Hub and increasing freight volumes by at least 49.2 mt compared to 2015. This initiative is designed to complement the Development and Renovation of the Rail Infrastructure Serving Ports of the Azov and Black Seas project. In 2018, drafting of design documents was underway.

Infrastructure expansion and upgrade on the Severnaya and Sverdlovskaya Railways allowing for additional cargo traffic as part of the Northern Latitudinal Railway project

In 2018, the investment expenses amounted to RUB 0.6 bn.

The project aims to put in place a latitudinal railway connecting the Severnaya and Sverdlovskaya Railways as an essential element in the Arctic Transport System and associated infrastructure. The project will help reduce the length of transportation routes linking mineral deposits in the northern part of West Siberia to the ports of the Baltic, White, Barents and Kara Seas and thereby contribute to the development of the Russian Arctic.

To that end, a concession agreement was signed between the Federal Agency for Rail Transport (Roszheldor) and SShKh in 2018.

INVESTMENT EXPENSES UNDER PROJECTS IMPLEMENTED IN PURSUANCE OF INSTRUCTIONS OF THE PRESIDENT AND THE GOVERNMENT OF RUSSIA TOTALLED

RUB

162.8  
bn in 2018

Rail infrastructure development projects

Those are priority projects requiring accelerated financing to ensure planned freight and passenger transportation volumes. In 2018, expenses under these projects were as follows:

- › RUB 2.1 bn for upgrade of the Baikal–Amur and Trans-Siberian Railways (Stage 2);
- › RUB 0.7 bn for electrification of the Rtishchevo–Kochetovka section;
- › RUB 0.7 bn for electrification of the Ozherelye–Uzlovaya–Yelets section

- (adjustments required for passenger transportation);
- › RUB 0.9 bn for the throughput increase on the Artyshta–Mezhdurechensk–Tayshet section;
- › RUB 1 bn for the construction of the Selikhin–Nysh railway line with a passage across the Nevelsky Strait;
- › RUB 0.2 bn for the development of the Perm–Solikamsk connection;
- › RUB 0.1 bn for the development of the Perm Railway Hub and the construction of a river crossing;

- › RUB 0.1 bn for the reconstruction of the Morozovskaya–Volgodonskaya section of the North Caucasus Railway

INVESTMENT EXPENSES UNDER RAIL INFRASTRUCTURE DEVELOPMENT PROJECTS TOTALLED

RUB

5.9  
bn in 2018

Safety enhancement initiatives

As part of the Transportation Safety investment project, the Company implemented a set of initiatives in the run-up to the 2018 FIFA World Cup and the 2019 Winter Universiade in Krasnoyarsk.

As part of the Transport Safety of Infrastructure Projects initiative, Russian Railways completed engineering surveys for infrastructural development in restricted areas involving installation of transport safety equipment at four bridges on a railway route bypassing Ukraine and five facilities on a route bypassing Krasnodar.

INVESTMENT EXPENSES UNDER SAFETY ENHANCEMENT INITIATIVES TOTALLED

RUB

92.8  
bn in 2018

Infrastructure debottlenecking

This category includes projects to:

- › construct second tracks;
- › extend station tracks;
- › develop railway hubs and border crossing stations;
- › develop marshalling yards;
- › construct and upgrade engineering structures;
- › upgrade the tracks and rail infrastructure on the island of Sakhalin;
- › develop the Tobolsk–Surgut–Korotchaevo railway section;
- › reconstruct railway facilities in the Chechen Republic.

Railway track upgrade

In 2018, the investment expenses amounted to RUB 106.6 bn.

In 2018, 4,700 km of tracks were upgraded<sup>1</sup> in line with the approved targets.

Upgrade of rail infrastructure on the island of Sakhalin

In 2018, the investment expenses amounted to RUB 5.3 bn.

60.1 km of track panels were laid on a dual gauge track with three rails.

Develop the Tobolsk–Surgut–Korotchaevo railway section

In 2018, the investment expenses amounted to RUB 3.3 bn.

In 2018, the following pieces of infrastructure were put into operation:

- › 45.8 km of tracks, including 26.2 km of main tracks;
- › 142 turnouts.

Reconstruction of railway facilities in the Chechen Republic

In 2018, the investment expenses amounted to RUB 0.4 bn.

Target key performance indicators were successfully achieved by the end of the year, with 54 km of power supply lines along the Shelkovskaya–Karginskaya and Karginskaya–Kizlyar sections reconstructed, including power supply units at five railway crossings.

Construction of second tracks, extension of station tracks, and development of railway hubs and border crossing stations

In 2018, the investment expenses amounted to RUB 3.5 bn.

The project aims to increase the throughput and handling capacities of the key railway routes with a view to allowing passage of freight trains with a unified mass of 6,300 t and length of 71 standard cars.

Development of marshalling yards

In 2018, the investment expenses amounted to RUB 2.8 bn.

The project aims to ensure the development of track infrastructure and equip marshalling yards with comprehensive mechanisation and automation systems with a view to increasing handling capacities at railway stations.

Construction and upgrade of engineering structures

In 2018, the investment expenses amounted to RUB 7.7 bn.

The project involves construction and upgrade of bridges and tunnels, including the ones designed for pedestrians.

Construction preparations. Design of future facilities

In 2018, the investment expenses amounted to RUB 1.2 bn.

During 2018, work was underway to duly substantiate construction investment decisions and prepare design documents for infrastructure development projects scheduled for the future.

INVESTMENT EXPENSES UNDER INFRASTRUCTURE DEBOTTLENECKING INITIATIVES TOTALLED

RUB

130.8  
bn in 2018

<sup>1</sup> Overhauls under the track upgrade programme and track overhauls with used materials.



Enhancement of transportation accessibility in Russia

This category includes projects to develop suburban transit infrastructure and renovate train stations from the long-haul network. 2018 saw completion of the following projects:

- › upgrade of the Rostov-Glavny train station;
- › construction of a transport interchange hub in Gudermes;
- › commissioning of the Volgograd, Yekaterinburg and Nizhny Novgorod train stations and putting into operation of St Petersburg’s Moskovsky station;
- › upgrade of St Petersburg’s Finlyandsky, Vitebsky, Baltiysky and Ladozhsky (Stage 5) stations;
- › upgrade of the Samara train station.

Rolling stock renewal initiatives

2018 saw the purchase of:

- › 631 locomotives, including:
  - 439 electric and diesel locomotives for freight transportation, including those used for pulling heavy-duty trains,
  - 144 shunting diesel locomotives used for shunting, road-switching and hump-shunting operations,
  - 48 passenger locomotives;
- › 310 cars for multiple unit trains, including 180 cars for electric Lastochka trains and 130 cars for electric EP3D trains.

Other projects

As part of the project to introduce resource-saving technologies in railway transportation, 1,790 units of resource-saving equipment were installed across the Company’s operations in 2018.

The initiatives to build section houses for railroad employees helped increase the Company’s housing stock by 7,190 sq m (or 143 housing units).

Investment programme for 2019

Total allocations under the 2019 investment programme will total RUB 681.9 bn, including:

- › RUB 549.9 bn of the Company’s own cash;
- › RUB 49.6 bn of allocations from the federal government;
- › RUB 47 bn of funds provided by the government of Moscow;
- › RUB 35.4 bn of funds provided by the Russian National Wealth Fund (preferred shares).

The investments will be distributed as follows:

- › RUB 291.2 bn to develop rail infrastructure;
- › RUB 114 bn to enhance safety;
- › RUB 136.5 bn to address the issues of rail infrastructure bottlenecking;
- › RUB 11.4 bn to enhance transportation accessibility in Russia, including by developing suburban transit infrastructure and renovating train stations from the long-haul network;

INVESTMENT EXPENSES UNDER TRANSPORTATION ACCESSIBILITY ENHANCEMENT PROJECTS TOTALLED

RUB

11.3  
bn in 2018

INVESTMENT EXPENSES UNDER THE ROLLING STOCK RENEWAL INITIATIVES TOTALLED

RUB

116.7  
bn in 2018

INVESTMENT EXPENSES UNDER OTHER PROJECTS TOTALLED

RUB

9.7  
bn in 2018

- › RUB 117.9 bn to renew rolling stock (including RUB 95.6 bn to renew traction stock);
- › RUB 10.9 bn to deliver on other projects (including promotion of resource-saving technologies, social initiatives, etc.).

Key focus areas of the investment programme up to 2025

The priority projects are primarily defined as initiatives included in the Comprehensive Plan for Upgrading and Expanding Core Infrastructure and initiatives implemented in pursuance of the Decree of the President of the Russian Federation No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018:

**UPGRADE OF INFRASTRUCTURE OF THE BAIKAL-AMUR AND TRANS-SIBERIAN MAIN LINES** designed to enhance the throughput and carrying capacity of the railways (Stages 1 and 2).

**DEVELOPMENT AND UPGRADE OF INFRASTRUCTURE SERVING PORTS OF THE AZOV AND BLACK SEAS** involving comprehensive renovation of the Maxim Gorky–Kotelnikovo–Tikhoretskaya–Krymskaya section and construction of a bypass at the Krasnodar Transport Hub, construction of second tracks on the Taman Peninsula, extension of station tracks, development of railway hubs, and upgrade of power supply units. The project primarily seeks to ensure transportation of 59.8 mt of additional freight on the near and far approaches to the ports of the Azov and Black Seas and create a carrying capacity of up to 125 mt by 2020.

**DEVELOPMENT OF THE CENTRAL TRANSPORT HUB’S INFRASTRUCTURE.** The project seeks to boost throughput and handling capacities of the railway infrastructure to cater to the increasing number of passengers that use the Central Transport Hub. A railway link to the Northern Terminal Complex of Sheremetyevo Airport is in the pipeline to integrate airport terminals with the rail infrastructure (the passenger traffic is expected to reach up to 2.8 million people per year by 2025). Another plan is to launch intracity train diameters and reduce intervals between trains on the Moscow Central Ring to four minutes, while also working on the development of radial routes and integration of transport stops.

**DEVELOPMENT AND RENOVATION OF THE RAIL INFRASTRUCTURE SERVING PORTS OF THE NORTH-WESTERN BASIN** to cater to the expected freight transportation volumes of 145.6 mt on

approaches to ports of the North-Western basin in 2020.

**CONSTRUCTION OF THE MOSCOW-KAZAN HIGH-SPEED RAILWAY** (the first stage envisages work on the Zheleznodorozhnaya–Gorokhovets section and commissioning of route to Nizhny Novgorod using the existing infrastructure). The project aims to improve transport links between different regions of Russia and create a network of high-speed and ultra high-speed railway routes in the country.

**DEVELOPMENT OF THE NORTHERN LATITUDINAL RAILWAY** to facilitate freight transportation from the northern parts of West Siberia (23.9 mtpa of primarily gas condensate and bulk oil) and reduce travel times to the ports of the North-Western and Ural Federal Districts.

**RECONSTRUCTION OF THE MOROZOVSKAYA-VOLGODONSKAYA RAILWAY SECTION** to allow for the transit of 25 train pairs on the Morozovskaya–Yuzhnaya–Kuberle section and ensure the planned freight transportation volumes to the ports of the Azov and Black Seas by diverting train traffic to the Morozovskaya–Volgodonskaya section.

**DEVELOPMENT OF THE PERM-SOLIKAMSK CONNECTION** to enable transportation of rising freight volumes from the Bereznikovsko-Solikamsky industrial hub (up 9.7 mt in 2025).

**DEVELOPMENT OF THE PERM RAILWAY HUB** and the construction of a river crossing to facilitate future transportation of freight volumes by diverting most of the freight traffic to the route bypassing the city and encourage development of infrastructure for the urban land transport.

**CONSTRUCTION OF A WESTERN BYPASS AT THE SARATOV TRANSPORT HUB** with the expansion of the Lipovsky–Kurdyum section designed to boost development of the far approaches to the ports of the Azov and Black Seas.

**ENHANCEMENT OF THE THROUGHPUT AND CARRYING CAPACITIES** to achieve a fourfold increase in transit container traffic and reduce travel times from the Far East to the western border of the Russian Federation to seven days.

The Long-Term Development Programme encourages creation of public-private partnerships in the realm of railway transportation (including use of concession agreements) to ensure financing for new lines by leveraging state investments and funds of the infrastructure owner, cargo owners and other stakeholders. The following projects are to be implemented as part of concession agreements:

**RECONSTRUCTION OF THE KONOSHA-KOTLAS-CHUM-LABYTNANGI SECTIONS** adjacent to the Severnaya Railway, including the Obskaya station, and the Pangody–Novy Urengoy–Korotchaevo line of the Sverdlovskaya Railway;

**CONSTRUCTION OF A RAILWAY TO CATER TO THE NEEDS OF THE KALUGA SPECIAL ECONOMIC ZONE** (including design, construction and operation of rail infrastructure between the Lyudinovo-1 station of the Moskovskaya Railway and the Kaluga special economic zone).

# Innovation driven development

The Russian Railways Group’s R&D activities and innovation driven development follow the priorities set forth in the Company’s Long-Term Development Programme until 2025, as well as the Group’s Research and Development Strategy until 2025 and further until 2030 (the “White Book”), in line with the country’s strategic development goals and global R&D trends.

**Key areas of the Group’s innovation driven development:**

- › developing a customer-focused transportation and logistics system in a unified transportation space;
- › establishing and implementing dynamic transportation management systems using artificial intelligence;
- › implementing innovative systems to automate and mechanise station processes (“intelligent station”);
- › developing and implementing advanced equipment and technologies for track maintenance infrastructure, railway automation and telematics, electrification and power supply, innovative information and telecommunication technologies;
- › setting requirements for the construction and deployment of innovative rolling stock;
- › developing the traffic safety management system and risk management methods associated with the transportation safety and reliability;
- › developing and implementing equipment and technologies for promoting high-speed and ultra high-speed railway transport;
- › promoting technologies for heavy-duty freight traffic management;
- › improving energy efficiency of operations;

- › implementing the best available technologies in environmental protection;
- › promoting the quality control system.

The Group’s Comprehensive Innovative Development Programme until 2020 (the “CIDP”) is the fundamental document for innovation driven growth. It sets out efforts aimed primarily at implementing innovative technologies and processes. Russian Railways invested RUB 986.4 m in science and technology as part of its R&D plan for 2018, and RUB 241 m as part of its Digital Railway R&D project.

## Russian Railways’ Contribution to the Digital Economy of the Russian Federation Government Programme

The Digital Economy of the Russian Federation programme was approved by the Russian Government’s Order No. 1632-r dated 28 July 2017. It defines goals, objectives, areas, and timelines of the key efforts stipulated by the public policy for promoting Russia’s digital economy development. Russian Railways works with entities responsible for the Digital Transportation and Logistics project.

**Russian Railways’ key IT development areas are as follows:**

- › creating a shared information space for freight transportation and logistics to raise the profitability of freight transportation and logistics;
- › creating a shared information space for passenger services to raise the profitability of passenger transportation;
- › generating end-to-end digital solutions for transportation management

- › (“Digital Railway”) to increase the railway transportation and infrastructure efficiency;
- › establishing a unified integrated automated management system, streamlining corporate business management systems, reviewing and developing reporting practices for raising profitability;
- › promoting foreign operations, improving social services and corporate governance.

**Russian Railways has set the following IT development targets for 2025:**

- › implement platform solutions integrated with Russian Railways’ production systems and, as part of the Russian Ministry of Transportation’s Digital Transportation and Logistics project, ensure that they are aligned and interfaced with transportation digital solutions, and can be used for building digital services, electronic

- channels for interaction with the market (passengers, shippers, service companies) and federal executive authorities, as well as for cross-border cooperation (transport corridors);
- › build web, big data, shared register, digital modelling, and artificial intelligence systems into Russian Railways’ processes;
- › create a new generation of mobile workspaces and establish electronic workflow in the production and management processes;
- › upgrade the computing and telecommunication infrastructure that ensures guaranteed information services accessibility;
- › implement a centralised information security framework based on solutions that are independent from imports;
- › systematise work with new technologies (sourcing, piloting, prototyping, implementation) and promote high tech business within the Group.

**Russian Railways’ Long-Term Development Programme until 2025 envisages the IT development capex of RUB 168 bn in 2018–2025, including:**

- › RUB 99 bn on informatisation;
- › RUB 65 bn on equipment and communication systems upgrade;
- › RUB 4 bn on the Intelligent Railway Transportation Management System (IRTMS).

**Digital Railway Concept**

As part of the Digital Economy of the Russian Federation programme, Russian Railways developed and approved a Concept for its Digital Railway Comprehensive R&D Project. Russian Railways’ Digital Railway Project proceeds in accordance with the approved plan No. 289 dated 2 April 2018.

The list of 2018 activities under the project included the establishment

of project management bodies, approval of payroll and regulations on the project management bodies, formation of a task force for estimating the economic effect, and arrangement of the project roadmap verification for 2019. In addition, 2018 saw the start of development and specification of the Digital Railway Station concept at the Chelyabinsk-Main Station of South Urals Railway, where smart systems are to be deployed in 2019–2020 to operate freight trains without human input. The Moscow Central Circle (MCC) and October Railway are rolling out a standard system for train traffic control and automatic routing at the station.

In 2018, the Smart Locomotive concept was approved. It covers the key functional requirements for new generation locomotives and scenarios of their operation without human input. A pilot run of an unmanned locomotive (the Computer Vision technology)

was carried out at October Railway’s Luzhskaya station, with the resulting data used to refine the equipment control algorithms that detect obstacles in front of the locomotive.

In 2018, the uniform corporate automated system was commissioned for locomotive stock control with a cartographic interface function displaying locomotive location and condition. Driver’s Personal Account, a programme component, will be developed as a sub-project of the system.

The Company’s priorities for 2019 also include the review of the Digital Railway IT projects and project roadmap update. Based on the results of this work, the Company will compile the list of demonstrably best-performing sub-projects, by implementing which it should achieve production and performance targets by 2025.



Analysis of financial results



« In 2018, Russian Railways fared well both ensuring a balanced operating performance and shaping a long-term development focus in line with the goals set by the President and the Government of the Russian Federation. The Company’s RAS income rose by 5.9% y-o-y to RUB 1,798 bn. Our RAS EBITDA increased by 7.4% to RUB 380 bn on the back of higher income from core operations»

Vadim Mikhailov  
First Deputy CEO of Russian Railways

Russian Railways’ performance in 2018

In 2018, Russian Railways met its volume and financial targets.

The increase in freight shipments came as a sign of improvements in Russia’s economic situation.

While Russia’s GDP grew by 2.3% and industrial production was up by 2.9%, the Company increased its freight shipment volumes by 2.2%. Total freight turnover added 4%.

In 2018, the Company focused on ensuring a balanced operating performance and cost management.

The income from core operations totalled RUB 1,798.4 bn, up 5.9 % y-o-y. Income from transportation operations increased by 6.1% y-o-y.

Freight transportation yielded 6.4 % more income compared to 2017. As a result of deterioration in the freight transportation mix and tariff indexation in January 2018, the revenue rate growth stood at 2.3%.

Income from passenger transportation increased by 14.3% y-o-y.

As a result of ongoing performance improvement initiatives, transportation costs increased by 2.2% y-o-y (0.9% on a comparable basis) as consumer prices grew by 2.9% and producer prices rose by 11.9%.

Income from other operations amounted to RUB 25.1 bn.

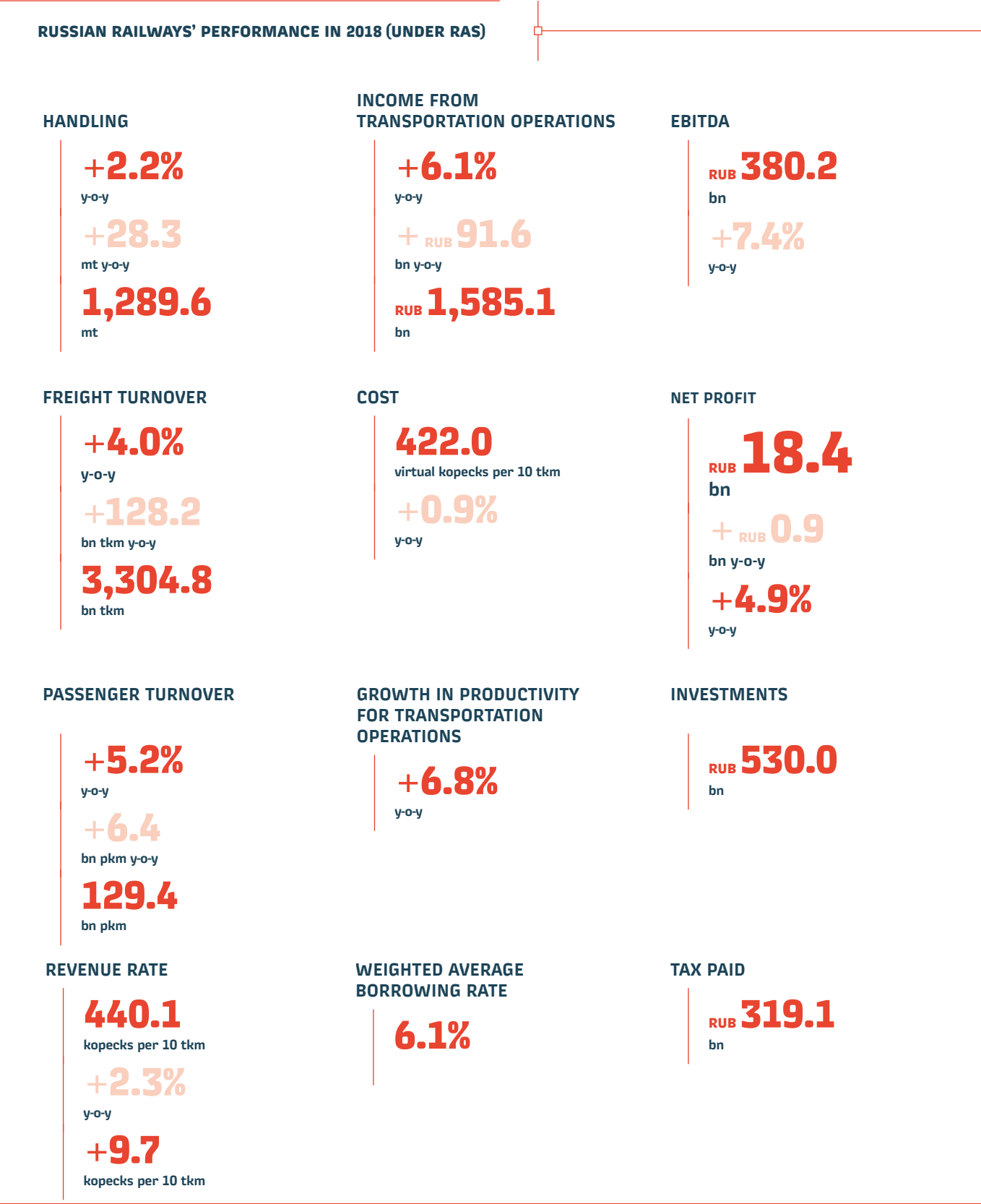
As a result, sales profit for the year increased by 0.6% and amounted to RUB 140.8 bn.

Dividends from subsidiaries and affiliates stood at RUB 19.3 bn, while sales of their shares amounted to RUB 6 bn yielding RUB 2.6 bn.<sup>1</sup>

The amount of interest payable remained flat y-o-y despite a higher leverage as the Company incurred additional borrowing costs. The Company continued to optimise its debt portfolio and reduce debt servicing costs, including a number of successful placements and refinancing exercises, which helped bring the weighted average annual interest rate from 7.01 to 6.1%.

As a result of the Company’s push to improve operational efficiency and financial policy, net profit increased to RUB 18.4 bn compared to RUB 17.5 bn in 2017 (target – RUB 15 bn).

<sup>1</sup> The Company sold shares in Kaluga Plant Remputmash and Central SPC and a 30% stake in Trans Eurasia Logistics GmbH



Income from transportation operations

In 2018, income from transportation operations increased by 6.1% y-o-y to RUB 1,585.1 bn, exceeding the target by RUB 8.2 bn (up 0.5%).

Income from freight transportation

In 2018, income from freight transportation amounted to RUB 1,454.5 bn, adding RUB 87.2 bn y-o-y (up 6.4%). An additional RUB 55.1 bn came from a 4% increase in freight turnover, while 5.4% freight tariff indexation yielded another RUB 72.9 bn.

In 2018, Russian Railways’ revenue rate increased by 2.3% y-o-y.

Income from long-haul passenger transportation

Russian Railways carries out long-haul passenger transportation in the high-speed segment (Sapsan, Lastochka and

Allegro), having increased its income by 15.1% to RUB 19.8 bn in the reporting year due to increased demand for high-speed Sapsan trains and introduction of new routes (with the Sapsan route extended to Nizhny Novgorod and new Lastochka routes launched such as Moscow–Ivanovo, St Petersburg–Pskov, St Petersburg–Sortavala–Matkaselkä). The income target was exceeded by 3.9%.

Income from suburban passenger transportation

Since 10 September 2016, Russian Railways has been carrying out passenger transportation on the Moscow Central Ring, with its income reaching RUB 5.1 bn in 2018, up by RUB 0.5 bn (11.4%) y-o-y.

Income from infrastructure services

In 2018, income from infrastructure services for freight and passenger

operations totalled RUB 105.7 bn, up by RUB 1.2 bn (1.2%) y-o-y.

Income from infrastructure services in the freight transportation segment went down by RUB 0.1 bn (1.5%) y-o-y due to higher handling volumes and shorter running times.

Income from infrastructure services in the passenger transportation segment increased by RUB 1.3 bn y-o-y (up 1.3%), including:

- › up by RUB 1.1 bn (1.6%) in the long-haul passenger transportation due to a 1.6% increase in car kilometres;
- › up by RUB 0.2 bn (0.6%) in the suburban passenger transportation.

The income target for freight and passenger infrastructure services was exceeded by RUB 0.5 bn (0.5%).

Transportation expenses

In 2018, transportation expenses amounted to RUB 1,469.5 bn, up 6.3% y-o-y.

Transportation expenses in 2018, RUB bn

Items			Change, 2018/2017	
	2017	2018	+ / –	%
Total	1,381.8	1,469.5	87.7	106.3
Payroll expenses	425.0	439.9	14.9	103.5
Social expenses	119.5	124.9	5.4	104.5
Material expenses	496.9	537.3	40.4	108.1
Materials	65.6	63.4	–2.1	96.7
Fuel	88.4	110.7	22.3	125.3
Including for train traction	76.9	97.2	20.3	126.4
Electricity	156.2	166.7	10.5	106.7
Including for train traction	138.6	148.0	9.4	106.8
Other	186.8	196.5	9.7	105.2
Depreciation	220.2	230.3	10.0	104.5
Other expenses	120.1	137.2	17.0	114.2

Payroll expenses amounted to RUB 439.9 bn, up by RUB 14.9 bn (or 3.5%) y-o-y.

This was the result of:

- › higher expenses dependent on transportation volumes (up by RUB 4.6 bn);
- › higher payroll expenses due to company-wide salary indexation by 2.2% as of 1 March 2018, by 0.9% as of 1 October 2018, by 0.3% as of 1 November 2018 and by 0.3% as of 1 December 2018 under Russian Railways’ Collective Bargaining Agreement for 2017-2019 (up by RUB 20.7 bn);
- › higher expenses related to the 2018 FIFA World Cup Russia™, initiatives to make salaries and wages more competitive, etc. (up by RUB 5.4 bn).

At the same time, our expenses decreased by RUB 15.8 bn, driven by:

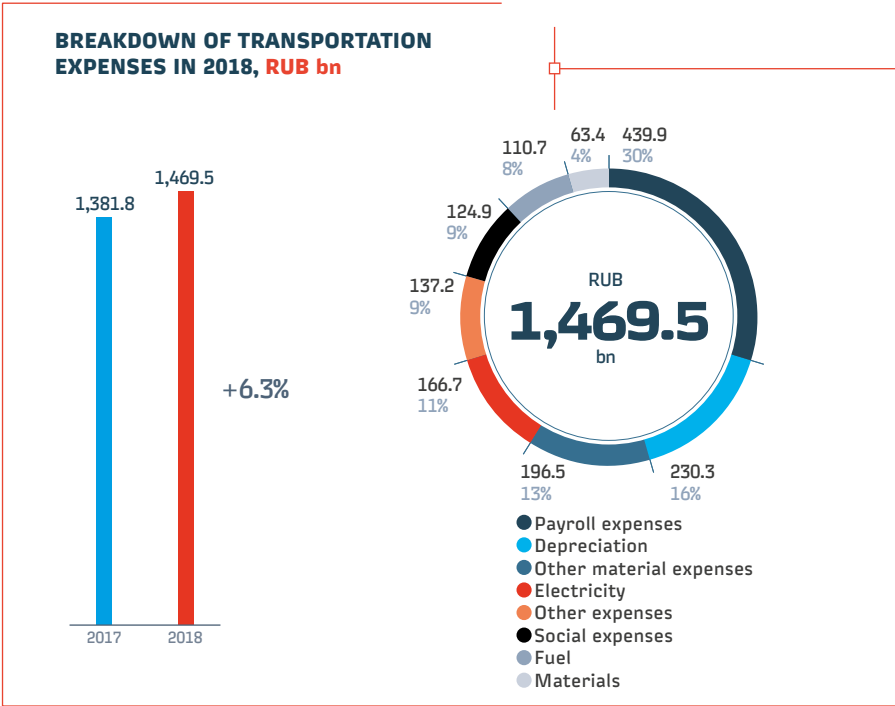
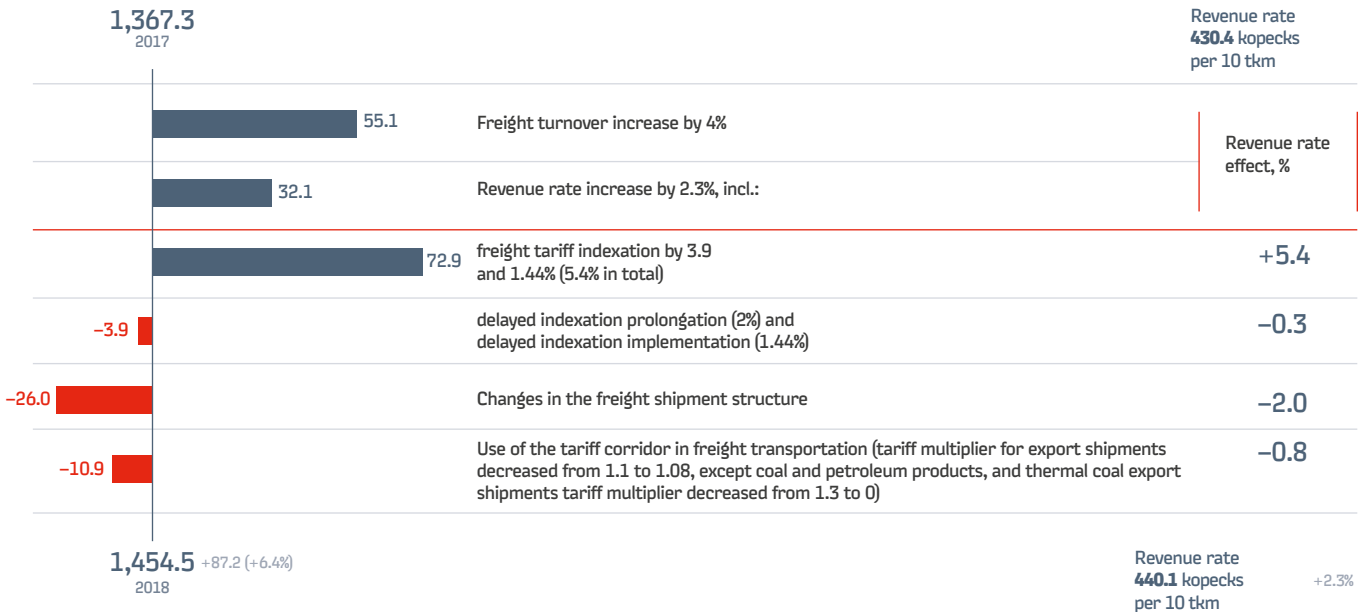
- › optimisation measures taken to improve labour productivity;
- › railway track overhauls with used materials being reclassified as capitalised costs;
- › lower social payments and contributions to the BLAGOSOSTOYANIE Non-State Pension Fund due to a decrease in the number of eligible employees.

Social expenses amounted to RUB 124.9 bn, up by RUB 5.4 bn (or 4.5%) y-o-y. This was the result of higher payroll expenses subject to social contributions.

Fuel expenses amounted to RUB 110.7 bn, up by RUB 22.3 bn (or 25.3%) y-o-y. This was the result of:

- › a 2.9% increase in diesel driven transportation volumes in terms of gross tonne kilometres (up by RUB 2.2 bn);
- › a 24.1% surge in diesel fuel prices (including excise duties) (up by RUB 21.6 bn);
- › optimisation measures taken to reduce fuel consumption, including optimised use of boiler equipment, company vehicles, etc. (down by RUB 1.5 bn).

Income from transportation operations factor analysis, y-o-y change, RUB bn





**Electricity expenses** amounted to RUB 166.7 bn, up by RUB 10.5 bn (or 6.7%) y-o-y. This was the result of:

- › a 4.5% increase in electric driven transportation volumes in terms of gross tonne kilometres (up by RUB 6.5 bn);
- › a 2.1% increase in average electricity tariffs (up by RUB 4.5 bn);
- › optimisation measures taken to reduce electricity consumption (down by RUB 0.5 bn).

**Other material expenses** (materials and other material expenses) amounted to RUB 259.9 bn, up by RUB 7.6 bn (or 3%) y-o-y.

This was the result of:

- › higher expenses dependent on transportation volumes (up by RUB 4.4 bn);
- › higher expenses driven by rising prices for products consumed by Russian Railways (up by RUB 8.2 bn);
- › higher expenses (up by RUB 2 bn) related to rising overhaul volumes, with railway

- track overhauls with used materials being reclassified as capitalised costs;
- › higher expenses related to contracts made with Yakutian Railway starting from 2018 (up by RUB 2.1 bn);
- › higher maintenance expenses (up by RUB 1.9 bn) driven by the greater scope of work and indexation;
- › higher expenses related to the 2018 FIFA World Cup Russia™ (up by RUB 1.6 bn);
- › lower expenses, including due to optimisation initiatives (down by RUB 12.6 bn).

**Depreciation** amounted to RUB 230.3 bn, up by RUB 10 bn (or 4.5%) y-o-y. This was the result of the commissioning of new fixed assets as part of Russian Railways’ investment programme, the disposal of some inactive non-core assets, the reclassification of railway track overhauls with used materials as capitalised costs, etc.

- Other expenses** amounted to RUB 137.2 bn, up by RUB 17 bn (or 14.2%) y-o-y. This was largely the result of:
- › higher expenses driven by rising prices for products consumed by Russian Railways (up by RUB 2.3 bn);
  - › higher tax expenses (up by RUB 11.3 bn) due to the property tax rate rising from 1 to 1.3% (on public railway tracks and related facilities) and the cancellation of tax benefits on movable assets put into operation since 2013;
  - › higher expenses related to transport safety and security in compliance with the Russian laws (up by RUB 4.8 bn);
  - › lower expenses, including due to optimisation initiatives (down by RUB 1.4 bn).

In 2018, as a result of ongoing cost management and operational excellence initiatives, Russian Railways’ transportation costs increased by a meagre 0.9% (on a comparable basis)<sup>1</sup>, which is far below the average annual inflation of 2.9%.

- › technological improvements and innovations, including better maintenance standards as part of the railway line classification, differentiation of freight and passenger railway lines, new equipment and techniques, advanced transportation technologies, higher efficiency of low intensity railway sections, etc.

The programme is focused on ensuring continuous and comprehensive improvement of operational efficiency and cost optimisation across all of its key business processes.

Cost optimisation

Russian Railways is pursuing a comprehensive programme focused on improving its performance, including cost optimisation.

- The programme factors in Russian Railways’ benchmarking against global peers in key lines of business, best Russian and international practices, state of technology, management practices, and optimisation opportunities broken down by:
- › improvements in labour productivity;
  - › improvements in quality standards for utilising the rolling stock;

- › introduction of resource-saving technologies;
- › improvements in procurement procedures and supplier management with a view to curbing price growth;
- › decrease in specific consumption of electricity and fuel for train traction;
- › operating domain technologies;
- › asset optimisation, including through disposal of non-core assets;
- › review of existing regulations and standards in the light of the cutting-edge materials, equipment, transportation and track repair technologies;

Key effects of Russian Railways’ efficiency improvement initiatives in 2018

ASSESSMENT AND OPTIMISATION OF OPERATING EXPENSES

RUB  
6.6  
bn

- › higher energy savings and energy efficiency
- › optimisation of expenses related to third-party work and services
- › lower expenses due to re-use of materials
- › higher efficiency of track facilities maintenance

HIGHER EFFICIENCY OF THE PROCUREMENT AND SUPPLY CHAIN MANAGEMENT SYSTEM

RUB  
4.4  
bn

- › lower prices resulting from tender procedures for services procured

INTRODUCTION OF CUTTING-EDGE TECHNOLOGIES AND INNOVATIONS

RUB  
1.1  
bn

- › Lean production and other projects

HIGHER ASSET MANAGEMENT EFFICIENCY

RUB  
15.4  
bn

- › optimisation of the traction rolling stock through its better utilisation
- › modification of track repair schedules
- › higher efficiency of property, plant and equipment maintenance and repair management

IMPROVEMENTS IN LABOUR PRODUCTIVITY

RUB  
10.9  
bn

- › a set of technical and organisational measures

FROM OTHER INITIATIVES

RUB  
6.6  
bn

- › tax benefits
- › effect of the non-indexed part in the price indexation formula for maintenance and overhauls

TOTAL COST OF OPTIMISATION IS

RUB 45 bn

<sup>1</sup> Translated into a comparable basis, excluding increase in expenses related to transport safety and security, legislative changes affecting the tax on movable assets (with the tax rate rising by 1.1 pp) and property (with the tax rate rising by 0.3 pp), and expenses related to contracts made with Yakutian Railway.

Income from other operations

In 2018, the Company's income from other operations rose by nearly 5% y-o-y to RUB 213.3 bn.

While its profit amounted to RUB 25.1 bn, down by 11% y-o-y. This was largely the result of the following factors:

- › no indexation of rolling stock leases for suburban passenger companies (RUB 1.7 bn);
- › depreciation restored to support long-term tariff regulation for electricity transmission to third-party consumers (RUB 1.7 bn);

- › peak in rolling stock overhaul volumes (RUB 2 bn);
- › information services rendered to freight operators free of charge (RUB 0.5 bn);
- › changes to tax laws (RUB 0.5 bn).

Excluding the above factors, the Company's profit increased by 17% y-o-y.

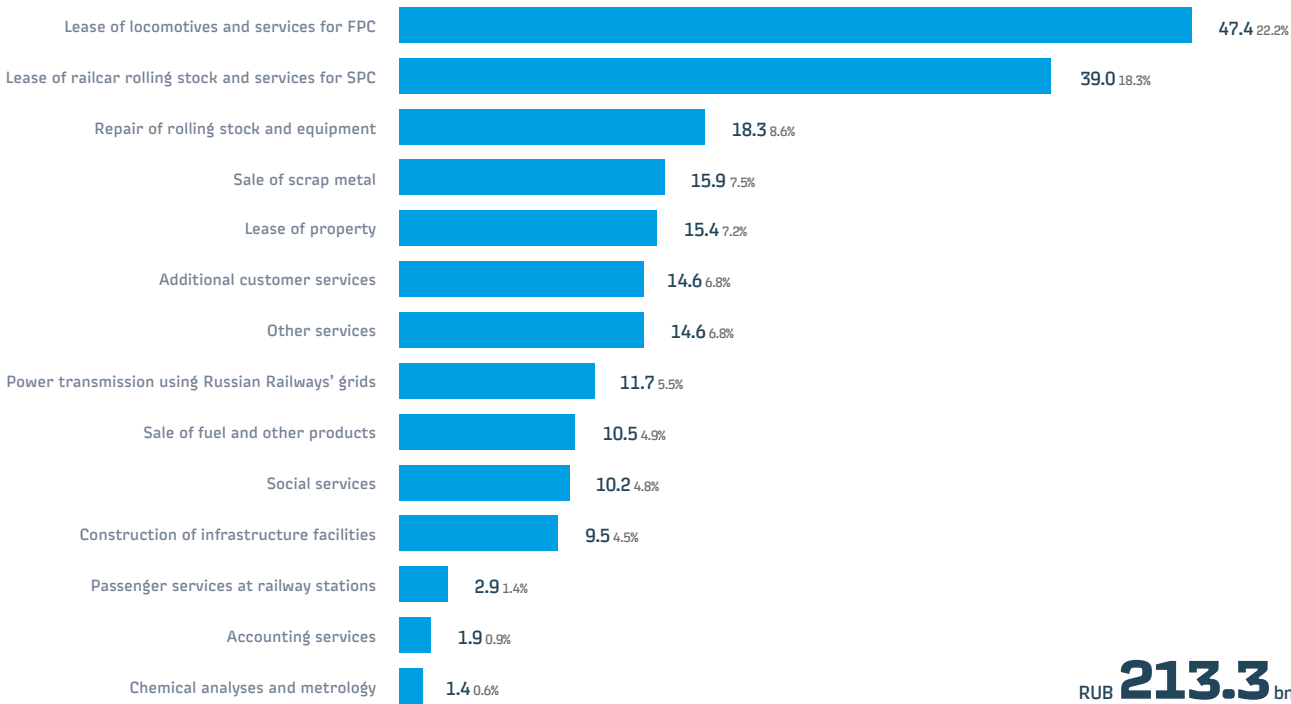
In 2018, given that low-margin services and regionally regulated services account for more than 61% of the Company's income, the above factors were offset

by expanding and actively promoting its services portfolio.

In 2018, the key drivers boosting other sales included:

- › economic use of inefficient social assets and utilities;
- › higher efficiency of passenger services;
- › increased share of high-margin cargoes in total handling volumes;
- › sale of scrap metal;
- › measures taken to improve the asset management efficiency, including the commercialisation of additional facilities.

Breakdown of income from other operations, RUB bn



Other income and expenses

In 2018, other income totalled RUB 89.8 bn, while other expenses amounted to RUB 173.8 bn, with the financial result coming in at – RUB 84 bn.

Changes in other income and expenses in 2017-2018, RUB bn

Items	2017	2018	Change, 2018/2017	
			+ / –	%
Result from other income and expenses	–87.6	–84.0	3.6	–4
Including for the key items:				
Sale of assets	1.9	4.0	2.1	111
Including sale of shares (interests) in other companies	0.8	2.6	1.8	225
Dividends	21.2	19.3	–1.9	–9
In-kind contributions to charter capital	0.1	0.2	0.1	100
Interest receivable	2.7	2.5	–0.2	–7
FX effect	–6.9	–17.1	–10.2	148
Change in provisions	–11.3	–10.6	0.7	–6
Government support and compensations pertaining to state regulation of prices and tariffs	3.2	7.1	3.9	122
Interest payable, excluding capitalised interest	–55.2	–55.9	–0.7	1
Guarantees under the Collective Bargaining Agreement for the Company's employees, their families and retirees	–23.6	–23.3	0.3	–1

Taxes and insurance fees

The total amount of taxes and insurance fees accrued in accounting statements for 2018 stood at RUB 317.7 bn, or up 102.1% y-o-y, including:

- › RUB 39.4 bn (or up 84.5% y-o-y) owed to the federal budget;

- › RUB 131.7 bn (or up 102% y-o-y) to the regional and local budgets;
- › RUB 146.6 bn (or up 108.1% y-o-y) owed to the extra-budgetary funds.

Government support for the Company in 2018

In 2018, the government support of Russian Railways from The National Wealth Fund (NWF) and various administrative level budgets totalled

RUB 123.6 bn, including RUB 97.2 bn from the federal budget, RUB 20 bn from the NWF, and RUB 6.4 bn from regional budgets and extra-budgetary funds.



Russian Railways’ financial results based on its consolidated IFRS financial statements for 2018<sup>1</sup>



« Our continuous efforts to improve interaction with shippers and better utilisation of the rolling stock boosted the growth of freight transportation. The Company’s operational excellence also translated into strong financials. As a result, the Group’s income in 2018 grew by 7.2% y-o-y to RUB 2,413 bn vs RUB 2,252 bn in 2017. Our EBITDA rose by 6.4% to RUB 527 bn, while EBITDA margin amounted to 24.7%<sup>2</sup> on the back of strong operating results and cost controls»

Vadim Mikhailov  
First Deputy CEO of Russian Railways

Russian Railways’ consolidated IFRS financial statements include the results of 206 subsidiaries.

In 2018, the Group’s income grew by 7.2% y-o-y to RUB 2,413 bn vs RUB 2,252 bn in 2017. This growth was mainly attributable to income from freight transportation and infrastructure services going up by 5.6% y-o-y to RUB 1,531 bn.

In 2018, the Group’s operating expenses (net of impairment expenses) increased to RUB 2,161 bn due to a higher freight turnover, rising repair expenses and a surge in diesel fuel prices.

In 2018, EBITDA went up by 6.4% y-o-y to RUB 527 bn vs RUB 496 bn in 2017. EBITDA margin for 2018 amounted to 24.7%.

The Group’s net profit reached RUB 35.4 bn.

As at 31 December 2018, its net debt / EBITDA stood at 2.28x, an evidence of our sound financial health. The EBITDA growth coupled with the efficient debt portfolio management help us maintain a comfortable leverage well below the internal threshold of 2.5x on net debt / EBITDA.

EBITDA

RUB  
527  
bn

EBITDA MARGIN

24.7%

NET PROFIT

RUB  
35.4  
bn

Debt policy

Russian Railways uses borrowings to ensure uninterrupted financing of the Company’s investment and operating

activities. The Company relies on long-term loans to fund strategically important and commercially viable investment projects

and for refinancing purposes, while short-term loans provide flexibility in managing the current liquidity.

Loan portfolio performance in 2018

In 2018, the Company’s medium and long-term debt totalled RUB 168.7 bn. The borrowed funds were largely raised through public debt instruments held by Russian investors as well as CHF-denominated bank loans.

an increase in its rouble equivalent at year-end. In relative terms, the share of the FX-denominated debt went down to 31% (vs 35% at the start of the year) after Russian Railways successfully redeemed part of its USD-denominated Eurobonds for ca. USD 775 m.

and refinancing of liabilities. Since June 2018, Russian Railways has been actively implementing an intra-group cash pooling scheme to optimise its borrowing rates and efficiently use idle cash balances. As at the end of 2018, short-term liabilities stood at RUB 140 bn.

Russian Railways repaid a total of RUB 125.9 bn in obligations in the reporting year. The Company’s loan portfolio was significantly impacted by the rouble depreciation causing revaluation of the FX-denominated debt and

In addition, the Company drew down bilateral short-term (from several days to 1 year) bank and intra-group loans throughout the reporting year for the day-to-day management of liquidity

In the reporting year, the Company’s total debt grew by 17.3% to RUB 1,261.2 bn, including a 17.4% increase in the principal debt to RUB 1,245.1 bn.

Loan portfolio structure and debt policy

As at 31 December 2018, the loan portfolio of Russian Railways was as follows:

Russian Railways’ loan portfolio

Items	2018 value	Threshold	Comments
Share of FX-denominated debt, %	31.0	Below 40.0%	FX-denominated debt in the Company’s loan portfolio adds to its exposure to FX fluctuations. However, the interest rate on FX-denominated loans is much lower than on rouble loans. It is, therefore, the debt policy’s primary objective to find balance between the FX and rouble-denominated loans.
Short-term debt, %	19.9	Below 20.0	Short-term obligations in the loan portfolio offer greater flexibility in managing the portfolio. The increased share of short-term obligations at the end of 2018 was attributable to major loans which were repaid in early 2019 using local bonds as well as rouble-denominated Eurobonds.
Average maturity, years	7	7–10	The Company works to increase and maintain the average maturity of the loan portfolio that would be consistent with the long payback period of the investment projects financed by such loans.

<sup>1</sup> The consolidated IFRS financial statements of Russian Railways and its subsidiaries for 2018 and the auditor report are available on Russian Railways’ website at: [http://eng.rzd.ru/statice/public/en?STRUCTURE\\_ID=4224](http://eng.rzd.ru/statice/public/en?STRUCTURE_ID=4224)  
<sup>2</sup> Hereinafter, the EBITDA margin takes into account the adjustments for third-party service costs related to integrated freight forwarding and logistics services.

The share of FX loans in 2018 did not exceed the threshold set by the debt policy. With a view to cutting the weighted average cost of the loan portfolio and reducing the share of FX loans, Russian Railways completed a number of successful deals in the domestic and global markets in 2018. Importantly, the Company successfully redeemed part of its USD-denominated Eurobonds for ca. USD 775 m. As a result, Russian Railways reduced the share of the FX-denominated debt to 31% bringing down the cost

of its loan portfolio by 10 pp despite a deteriorating market environment in 2H 2018.

The major part of the Company's loan portfolio (roughly a third of all borrowings) is made up of long-term borrowings, including, but not limited to, infrastructure bonds placed in favour of state-owned funds (the Pension Fund of the Russian Federation and the National Wealth Fund). The maturity of the infrastructure bonds ranges from 15 to 30 years.

The bulk of the loan portfolio is comprised of the Company's Eurobonds placed for an average of 7 to 10 years and rouble-denominated bonds generally placed on the local market for 5 to 7 years.

As the maturity dates approach for the respective obligations, the Company replaces them with new long-term borrowings, determines their maturity taking into account the existing repayment schedule and maintaining the share of short-term

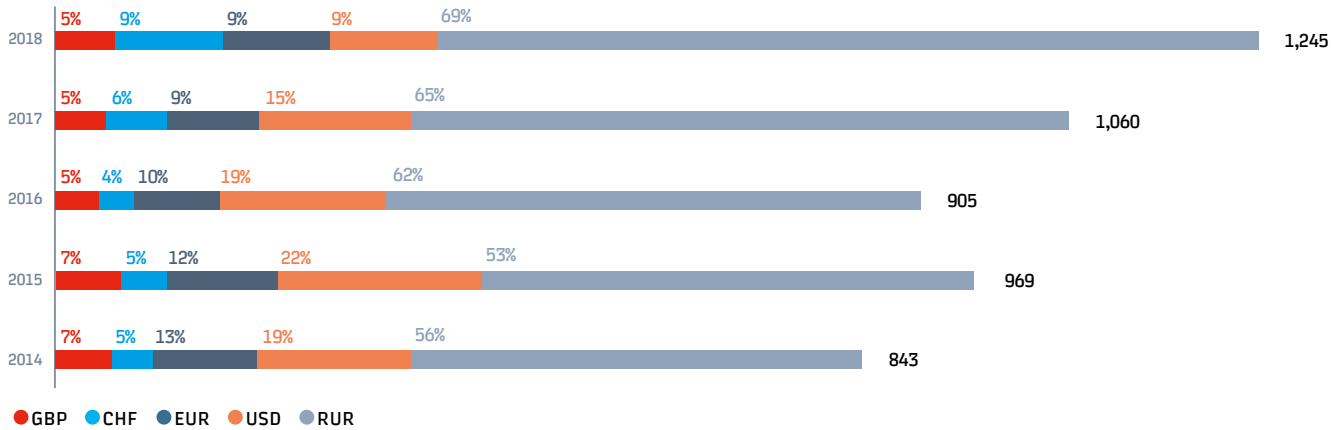
liabilities for the entire scheduled horizon at a level not exceeding 20%.

As at the end of 2018, the long-term portion of the loan portfolio (maturing in more than 3 years) went down to 62% as the share of medium-term

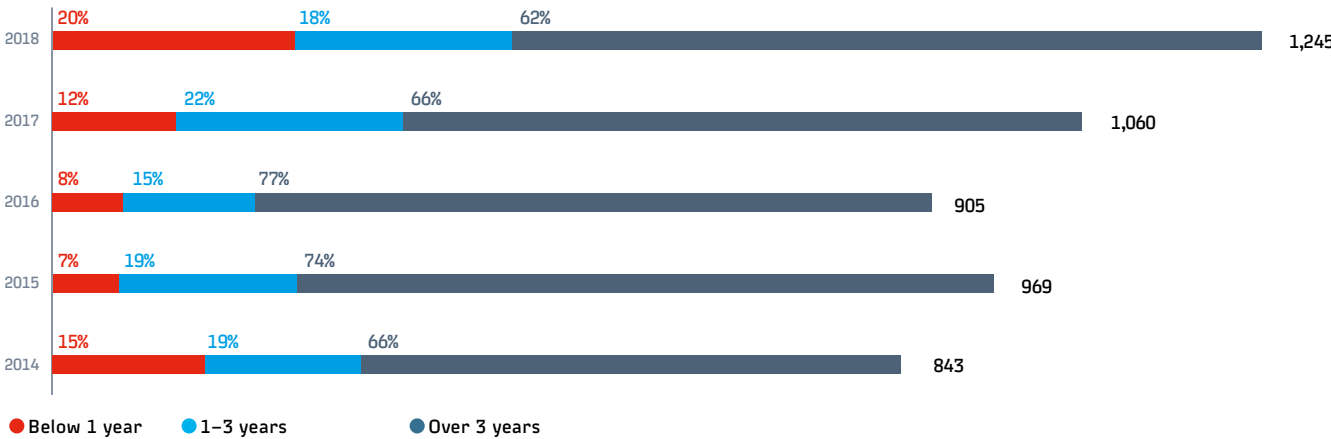
instruments increased. The short-term borrowings (maturing in less than a year) increased from the beginning of the year to 19.9% as the Company was preparing to redeem rouble-denominated Eurobonds maturing in early 2019.

As at the end of 2018, the average maturity across the Russian Railways' loan portfolio was approximately 7 years with payments evenly distributed over the long-term horizon, thus mitigating the refinancing risks.

Russian Railways' loan portfolio breakdown by currency<sup>1</sup>, RUB bn

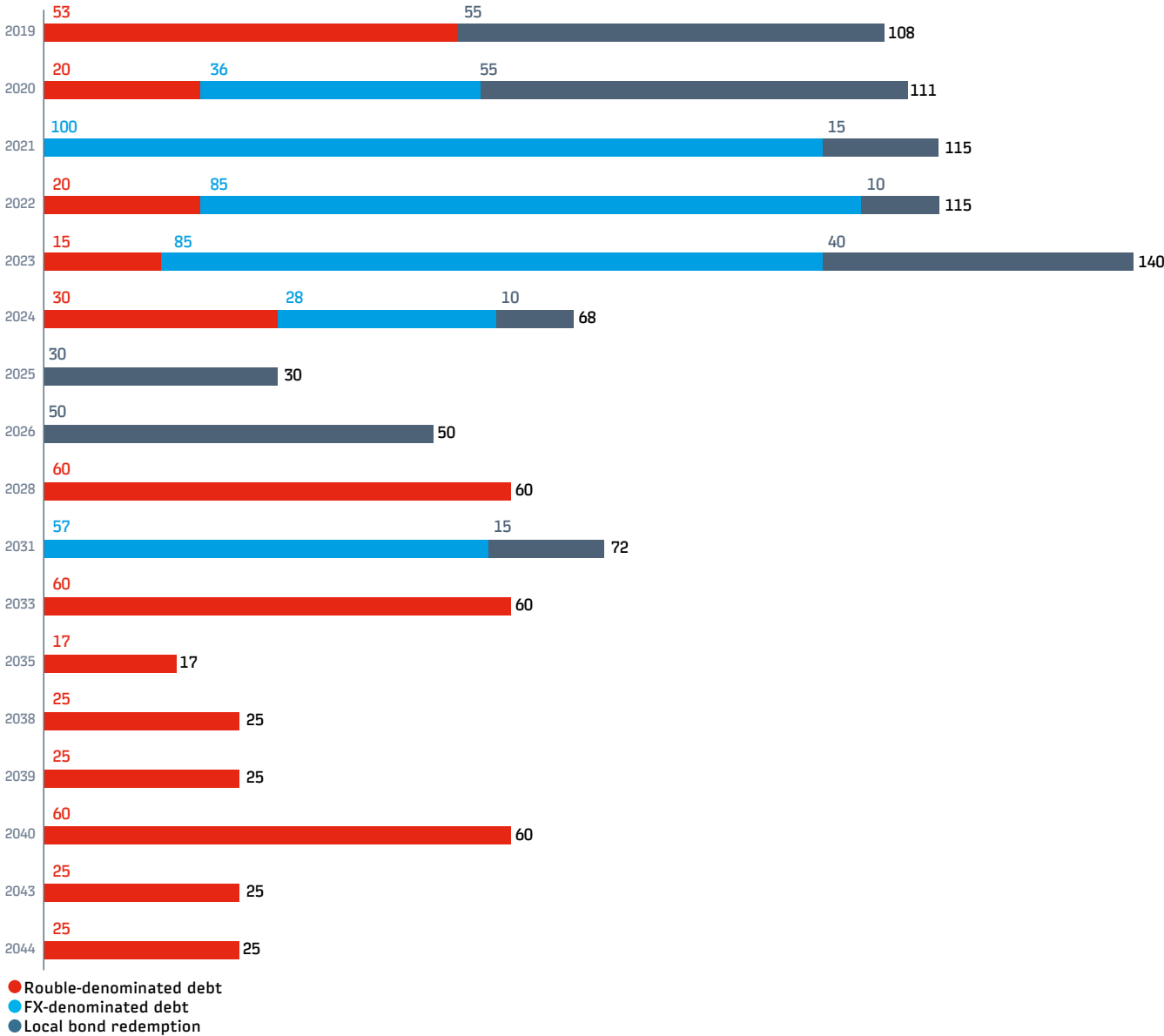


Russian Railways' loan portfolio breakdown by maturity<sup>1</sup>, RUB bn



<sup>1</sup> Principal debt only (principal debt less accrued interest) as at 31 December of the respective year. Rounded to whole numbers.

Maturity schedule of the Russian Railways' loan portfolio<sup>2</sup>, RUB bn



<sup>2</sup> Principal debt. Debt obligations as at 31 December 2018. FX payments calculated on the basis of the FX rates as at 31 December 2018. Rounded to whole numbers.



# Securities

## Bonds

### Global capital markets

In April 2018, Russian Railways completed the refinancing of its USD 420 m loan with a new bilateral CHF 300 m loan securing a lower interest rate.

The Company tapped the global debt markets twice, in May and September 2018, and redeemed its USD-denominated Eurobonds for a total of USD 775 m, having refinanced them with rouble and franc-denominated instruments.

Russian Railways optimised the cost of its debt maintaining interest payments at a comfortable level. In 2018, an equivalent of ca. RUB 66 bn was raised using global instruments.

### Local capital market

In 2018, the Company placed seven successful rouble bond issues in the local market along with secondary bond offerings. The proceeds from local bonds were partly used to replace its FX-denominated debt. The weighted average rate for the new issues stood at 7.8%.

Russian Railways placed a 5-year issue for RUB 15 bn at an even lower rate of 7.25%.

In June 2018, the Company successfully placed a 6-year 7.3% issue for RUB 10 bn. The bookbuilding resulted in the lowest ever spread to the yield on Russian government bonds.

In September 2018, the Company offered as many as three series of its secondary bonds and successfully placed the entire volume in excess of RUB 22 bn, with the bulk

of securities sold at a price above their face value. In August and November 2018, Russian Railways issued two series of debut bonds with a coupon rate linked to the yield on Russian federal loan bonds for a total of RUB 20 bn. The bonds have a tenor of 10 and 15 years.

In 2018, the Company raised more than RUB 107 bn through primary and secondary bond offerings in the local capital market.

## Share capital and dividends

### Share capital

Russian Railways has been included in the list of strategically important companies approved by Russian President’s Decree No. 1009 dated 4 August 2004.

exercises shareholder powers on behalf of the Russian Federation. The founder contributed properties and assets of Russian federal railways to the Company’s charter capital.

As at the end of 2018, the Company’s charter capital amounted to RUB 2,254,029,003,000.

It is comprised of 2,204,029,003 ordinary registered shares with a nominal value of RUB 1,000 each and 50,000,000 preference registered shares with a nominal value of RUB 1,000 each.

### Dividend policy

In 2018, Russian Railways paid dividends on ordinary shares for 2017 pursuant to Order No. 1328-r of the Government of the Russian Federation dated 30 June 2018.

**The following amounts were allocated to dividend payments for 2017:**

- › RUB 5 m, or 0.01% of the nominal value (RUB 50,000 m) of preference shares, payable to preference shareholders;
- › RUB 8,750 m, or 50% of the RAS net profit, payable to ordinary shareholders.

Pursuant to Order No. 1328-r of the Government of the Russian Federation dated 30 June 2018, RUB 875 m was allocated to reserve capital in 2018. No other allocations were made.

### Net profit distribution in 2013-2017, RUB bn

Items	2013	2014	2015	2016	2017
Net profit	0.740	-44.078	0.318	6.500	17.500
Reserve capital	0.037	0.000	0.016	0.325	0.875
Dividends accrued on	0.185	0.045	0.302	5.147	8.755
ordinary shares	0.185	0.045	0.297	5.142	8.750
preference shares	–	–	0.005	0.005	0.005

### Distribution guidance for the 2018 net profit

In 2018, Russian Railways earned RUB 18.4 bn in net profit. Pursuant to Clause 42, Section 6 of the Company’s Charter, RUB 918 m, or 5% of net profit for the reporting period, is to be allocated to reserve capital.

The ordinary shareholders will be paid dividends for 2018 in accordance with

the Russian Government’s directive. The preference shareholders will be paid RUB 7 m, or 0.01% of the nominal value (RUB 70,000 m) of preference shares (provided that the 2018 issue is registered in 2019), in dividends for 2018.

The Company’s Long-Term Development Programme until 2025 approved by Order

No. 466-r of the Government of the Russian Federation dated 19 March 2019 provides for the payment of dividends on preference shares only, with the remaining net profit to be invested in accordance with the Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024.

Rating agencies and investors

In early 2018, global rating agencies took a number of positive actions on Russia's sovereign ratings on the back of improvements in macroeconomic conditions and the country's stronger resilience to external risks. Moody's

affirmed Russia's sovereign ratings of Ba1 improving its outlook from stable to positive, while Standard & Poor's raised the country's foreign currency ratings to investment grade of BBB- with a stable outlook.

In line with their policies, the agencies continued the sequence of positive rating actions reviewing the ratings of some quasi-sovereign issuers, including Russian Railways. In late January 2018, Moody's praised Russian Railways' strong

performance in 2017 raising its credit rating to investment grade of Baa3 with a positive outlook, one notch higher than the sovereign. In late February 2018, Standard & Poor's upgraded the Company's rating to BBB- with a stable outlook. Russian Railways' rating from Fitch remained unchanged at BBB- with a positive outlook. As a result, the Company's ratings from the three global rating agencies are all investment grade since Q1 2018.

In their reports, the agencies affirmed their positive assessment of Russian Railways' efficient management of the loan portfolio structure and noted its strong operating and financial highlights, a moderate leverage, excellent liquidity position, and diversified borrowing sources.

Russian Railways enjoys the highest credit ratings from national rating agencies confirmed at AAA(RU) by ACRA and ruAAA by RAEX, both outlooks stable. Therefore, the Company additionally maintains an independent assessment of its sound financial health and robust credit profile as a borrower.

In February 2019, Moody's praised Russia's robust public finance and lower vulnerability to external shocks as well as Russian Railways' strong performance in 2018 raising its credit rating from investment grade of Baa3 (positive outlook) to Baa2 (stable outlook), one notch higher than the sovereign. Only three out of 12 companies with ratings higher than the sovereign are related to the infrastructure sector and do not engage in exports of mineral resources. Russian Railways is one. The agency noted the Company's strong operating and financial performance in 2018, sufficient liquidity position, diversified borrowing sources, and a comfortable leverage despite a massive investment programme.

In 2018, the Company continued its dialogue with Russian and global financial investors at bilateral meetings and industry conferences. In November 2018, the representatives of the Company took part in the 10th annual VTB Capital RUSSIA CALLING! Investment Forum. At the forum, meetings were held with major Russian and foreign investors who confirmed their interest in corporate debt instruments of Russian issuers. In December 2018, the Company's management participated in a traditional annual Investor Day in London.



RUSSIAN RAILWAYS' 2017 ANNUAL REPORT WON A NUMBER OF AWARDS

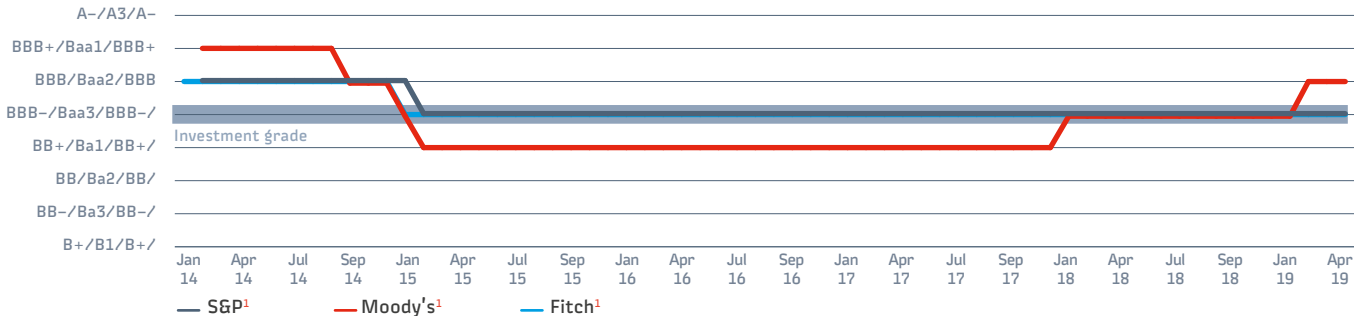
Russian Railways' 2017 annual report ranked first in two categories of the Moscow Exchange's competition of Russian annual reports as the Best Annual Report by Non-Public Company and the Best Presentation of Business Model by Non-Public Company.

In addition, the interactive version of this report became a gold winner in the Transportation and Logistics category at the largest global award by the League of American Communications Professionals (LACP), while its printed version won a silver award in the Transportation and Logistics category.

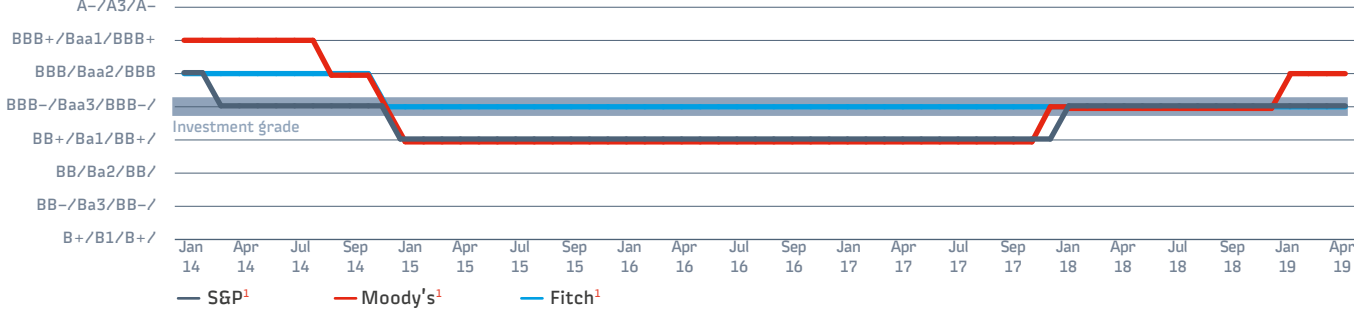
Credit ratings of the Russian Federation and Russian Railways as of the end of 2018

Issuer	Agency	Rating	Outlook
Russia	Standard & Poor's	BBB-	Stable
	Moody's	Ba1	Positive
	Fitch	BBB-	Positive
Russian Railways	Standard & Poor's	BBB-	Stable
	Moody's	Baa3	Positive
	Fitch	BBB-	Positive
	ACRA	AAA(RU)	Stable
	RAEX	ruAAA	Stable

Russian Railways' credit ratings in local currency



Russian Railways' credit ratings in foreign currency



<sup>1</sup> International rating scale.



# SUSTAINABLE DEVELOPMENT

Russian Railways maintains a priority focus on compliance with the sustainable development principles and social responsibility. The Company’s focus areas include personnel development, labour productivity growth, social stability among employees, occupational health and safety improvements, higher environmental safety, better energy efficiency, and a wide range of other sustainable development initiatives.

+5%

5% annual labour productivity growth by 2025 <sup>1</sup>

<sup>1</sup> Target indicators under the base case scenario of Russian Railways’ Long-Term Development Programme until 2025.

AS ONE OF THE MAJOR AND SYSTEMICALLY IMPORTANT ELEMENTS OF THE NATIONAL ECONOMY, THE CRUCIAL LINK OF THE COUNTRY'S TRANSPORTATION SYSTEM AND EMPLOYER TO 752,000 PEOPLE, RUSSIAN RAILWAYS MAINTAINS A PRIORITY FOCUS ON COMPLIANCE WITH THE SUSTAINABLE DEVELOPMENT PRINCIPLES AND SOCIAL RESPONSIBILITY TOWARDS EMPLOYEES, THE SOCIETY, AND THE STATE.



« The key objective of the social and HR division is to develop the Company's human capital. We do our best to create a comfortable environment that helps our employees grow as professionals and be effective in their workplace. People are the priority. The Group's competitive edge and progress are contingent on our employees' engagement, skills, job satisfaction, and social security»

Dmitry Shakhnov  
Deputy CEO of Russian Railways

## Social policy

Development in the Group's social sphere is underpinned by unbiased assessment of added value created through employee support initiatives, and management of assets and social facilities to provide market services. The priority focus is the policy of social responsibility towards employees, community and the state.

- Key strategic goals of the social policy:**
- › make the Group an employer of choice;
  - › recruit and retain personnel with the required skills;
  - › manage the headcount in an efficient manner, with due account for new equipment and cutting-edge technologies;

- › implement the competency-based approach in HR management;
- › build a talent pool;
- › ensure continuous personnel development;
- › pursue youth policy and strengthen corporate culture;
- › proceed with effective social policy;
- › manage the personnel in an efficient manner and provide social support;
- › offer healthcare services.

Russian Railways is committed to the UN Global Compact, the largest international initiative in social responsibility, and is a member of the National Network of the Participants to the Global Compact for

Implementing the Principles of Responsible Business in Corporate Practice Association. Alongside the Global Compact, the Company complies with the principles of socially responsible business practices enshrined in the Social Charter of the Russian Business developed by the Russian Union of Industrialists and Entrepreneurs (RSPP). The Company is a regular contributor to the RSPP's Corporate Practices Collection.

In pursuing its HR management and corporate social responsibility policies, the Company complies with international treaties, laws and regulations of the Russian Federation, local laws and regulations.

AVERAGE MONTHLY SALARY GROWTH ACROSS RUSSIAN RAILWAYS IN 2018

9%



# Stakeholder engagement

Stakeholder engagement

Stakeholders	Interaction formats and mechanisms	
Staff	<div><div>› Collective Bargaining Agreement</div><div>› Trade union</div><div>› Training and education</div><div>› Social partnership</div><div>› Employee surveys and sociological monitoring</div></div>	<div><div>› Management functions</div><div>› Conflict resolution procedures</div><div>› Healthcare benefits for employees and their families</div><div>› Private pension plans</div></div>
Educational institutions	<div><div>› Targeted student admission arrangements</div><div>› Benefits for children of Russian Railways' employees</div></div>	<div><div>› Joint academic and cultural events</div><div>› Input to the work of educational institutions from Russian Railways' employees</div></div>
Shareholders and investors	<div><div>› Dividends</div><div>› Roadshows</div><div>› Regular investor meetings</div></div>	<div><div>› Reporting</div><div>› Participation of the Company's management in industry conferences</div><div>› Investor days</div></div>
Government authorities	<div><div>› Implementation of master cooperation agreements associated with railway transportation</div><div>› Drafting, signing, and implementation of mid-term social and economic cooperation agreements with Russia's regional authorities</div><div>› Organising train days attended by heads of regions and Russian Railways Group's representatives</div><div>› Regular working meetings with Russia's regional leaders</div><div>› Meetings of interregional and regional transportation coordination councils, permanent working groups and committees involving representatives of Russian regions and local enterprises</div></div>	<div><div>› Liaising with federal government authorities</div><div>› Expert support to members of the Duma and the Federation Council</div><div>› Drafting and implementation of Russian Railways' action plans in line with the legislative work schedule of the Duma and the Federation Council and legislative initiatives of the Russian Government</div><div>› Meetings of Russian Railways with the Presidential Executive Office, Federal Assembly of the Russian Federation, Executive Office of the Government of the Russian Federation, ministries and other federal authorities, and regional and local government authorities</div></div>
Local communities across the Company's footprint	<div><div>› New jobs</div><div>› Social and economic cooperation agreements</div><div>› Procurement from local small and medium-sized businesses</div></div>	<div><div>› Support of culture and sports</div><div>› Charity</div></div>

Stakeholders	Interaction formats and mechanisms	
Social partnership	<div><div>› Interaction with national and international non-governmental organisations as regards the UN Sustainable Development Goals, participation in joint events, review of initiatives, including those related to federal laws governing social and labour relations</div><div>› Liaising with industry trade unions in ensuring social security of employees and retirees</div><div>› Non-financial/sustainability reporting</div><div>› Expert support to members of the Duma and the Federation Council</div></div>	<div><div>› Drafting and implementation of Russian Railways' action plans in line with the legislative work schedule of the Duma and the Federation Council and legislative initiatives of the Russian Government</div><div>› Meetings of Russian Railways with the Presidential Executive Office, Federal Assembly of the Russian Federation, Executive Office of the Government of the Russian Federation, ministries and other federal authorities, and regional and local government authorities</div></div>
Mass media and non-governmental organisations	<div><div>› Press releases covering Russian Railways' operations</div><div>› Replies to media enquiries</div></div>	<div><div>› Press conferences, briefings, management interviews</div><div>› Accompanying journalists during photo and video tours at infrastructural facilities</div></div>
Passengers	<div><div>› Railway station services</div><div>› Passenger transportation services</div><div>› Catering services on board</div><div>› Unified Information Service Centre</div></div>	<div><div>› Enquiries via the mobile app</div><div>› Russian Railways' website</div><div>› Surveys on <a href="http://www.opros.fpc.ru">www.opros.fpc.ru</a> and on trains</div><div>› Passenger satisfaction surveys</div></div>
Freight transportation clients	<div><div>› Basic freight transportation services</div><div>› Transportation and logistics services related to basic freight transportation services, including public railway infrastructure services</div><div>› Russian Railways' information services</div></div>	<div><div>› Unified Freight Transportation Call Centre, part of Russian Railways Unified Information Service Centre</div><div>› Enquiries via the RZD Cargo mobile app</div><div>› Freight section of the Russian Railways website</div><div>› Sales offices</div><div>› Client satisfaction surveys</div></div>

Performance under the Collective Bargaining Agreement and social support of employees

Russian Railways’ Collective Bargaining Agreement is an important motivation tool within its recruitment and retention framework. Its key functions include:

- › social protection of employees;
- › maintaining social stability among employees;
- › boosting Russian Railways’ attractiveness as an employer;
- › developing social partnership.

Russian Railways liaises with trade unions following the principles of social partnership and respect for parties’ mutual interests. 716,000 employees of

Russian Railways were members of the Russian Trade Union of Railway Workers and Transport Builders (Rosprofzhel) in 2018.

In 2018, the Company maintained its status as a socially responsible employer. Russian Railways delivered on all its obligations for 2018 under the Collective Bargaining Agreement 2017–2019. The Company secured social stability among its employees based on a balanced and effective HR and social policy, without any collective labour disputes.

Costs associated with the benefits package under Russian Railways’ Collective Bargaining Agreement:

- › RUB 47 bn for employees and their families;
- › RUB 4.2 bn for retirees.

In 2018, Russian Railways’ corporate support programme helped 4,409 employees (up 15% y-o-y) to improve their housing conditions with the Company’s financial support totalling RUB 2,427.8 m.

Supporting specific personnel groups

Russian Railways is deploying a flexible social benefits systems covering needs of each and every personnel group. Each generation and each group has its own objectives, lifestyle, needs, and expectations from their jobs and employer.

Supporting women

In 2018, Russian Railways made the following efforts in line with the Action Plan to improve the conditions of work, leisure, and social support of women in 2018–2020:

- › granted an unpaid “women’s day”;
- › granted to Russian Railways employees’ children above four years of age the right of a free trip on an individual seat in long-distance trains based on a transportation request;
- › developed dedicated medical and wellness programmes for women;
- › updated the corporate social policy with reimbursement for babysitter or private kindergarten expenses;
- › switched preschool educational institutions to extended or 24/7 opening hours;

- › stipulated introduction of new modern uniform workwear;
- › developed recommendations regarding flexible working hours and remote work;
- › made clarifications concerning transferring pregnant employees to easier jobs.

Russian Railways’ youth policy

As at the end of 2018, the proportion of employees under 35 years of age accounted for 41.1% of the total headcount, while employees under 30 made up 24.2%.

2018 saw over 800 activities and projects carried out as part of Russian Railways’ Youth target programme (2016–2020). The programme is designed to develop young employees’ professional skills and corporate competencies, engage them in improvement of the Russian Railways Group’s operations, increase customer focus and enhance service level. The Company attaches particular importance to engineers and technicians as well as young technical workers (over 63% of all young employees in the Company), and helps improve their professional skills and promote their work.

Supporting retired and soon-to-be-retired employees

Russian Railways’ corporate pension system is based on shared employee/employer contributions to the employee’s future pension. In terms of its goals and purpose, a private (corporate) pension is an additional measure of social support to workers regardless of the state pension system. Its strategic goal is to ensure a replacement rate of at least 40% of an employee’s lost earnings.

More than 604,600 Russian Railways employees have pensions with the Blagosostoyanie Private Pension Fund. Over 313,400 retired employees receive corporate pensions.

In 2018, corporate pensions were granted to 13,921 Russian Railways employees. The average corporate pension granted in 2018 was RUB 9,104.

4,409

employees

IMPROVED THEIR HOUSING CONDITIONS WITH THE COMPANY’S CORPORATE SUPPORT IN 2018

> 313,400

retired employees

RECEIVE CORPORATE PENSIONS



# SOCIAL POLICY

THE RUSSIAN RAILWAYS GROUP’S SOCIAL POLICY IS CENTRED AROUND RECRUITMENT AND EFFICIENT MANAGEMENT OF SKILLED PROFESSIONALS, CONTINUOUS PERSONNEL DEVELOPMENT, STRENGTHENING OF THE CORPORATE CULTURE, COMPREHENSIVE SOCIAL SUPPORT TO THE GROUP EMPLOYEES, THEIR FAMILIES, AND LOCAL COMMUNITIES IN THE REGIONS OF ITS FOOTPRINT. THE COMPANY IS COMMITTED TO THE UN GLOBAL COMPACT, THE LARGEST INTERNATIONAL INITIATIVE IN SOCIAL RESPONSIBILITY.

2018 HIGHLIGHTS:

OBLIGATIONS UNDER THE COLLECTIVE BARGAINING AGREEMENT DELIVERED

100%

FINANCIAL SUPPORT EXTENDED BY RUSSIAN RAILWAYS TO EMPLOYEES FOR IMPROVEMENT OF THEIR HOUSING CONDITIONS

RUB  
2.4  
bn

SOCIAL BENEFITS EXPENDITURE TOTALLING<sup>1</sup>

RUB  
51.2  
bn

<sup>1</sup> Including total expenses associated with social benefits granted to employees, their families, and retirees under Russian Railways’ Collective Bargaining Agreement.



A dynasty of Russian Railways employees (father and two sons)

1

VIKTOR PEREZOLOV

A Russian Railways pensioner, retired from the position of a railway controller at the Yekaterinburg-Sortirovochny station

2

KONSTANTIN PEREZOLOV

Station master at the Yekaterinburg-Sortirovochny station

3

ALEXEY PEREZOLOV

Head of Administration and Maintenance at the Sverdlovsk Traffic Control Directorate



# HR management

The Company's HR policy seeks primarily to ensure a stable working environment through balanced and effective personnel management and social initiatives.

There are two external factors that will shape the Company's HR management framework in the long run. The first one is the emergence of next generation employees with completely different job expectations. The other one is automation, which helps boost the volume of data processed, making all processes faster and

simpler. At the same time, the market sees new types of jobs that increasingly require employees to develop digital competencies.

As part of its Long-Term Development Programme until 2025, Russian Railways will be building its HR management processes around:

- › introducing advanced technologies (cutting-edge recruitment and training methods, individually selected benefits, creation and development of solutions for fast and convenient employee-

employer interactions, HR automation using big data, among other things, and transition to an HR business partner model);

- › enhancing the existing crucial HR practices (base package of benefits, social guarantees and compensations, annual salary indexation, development of continuous training programmes, independent assessment of qualifications reliant on professional standards).

## Headcount and staff composition

In 2018, Russian Railways had 752,200 employees, down 0.4% y-o-y. The Company's effective social and HR policy helped cut personnel turnover rate by 0.3 pp y-o-y to 6.4%.

The reporting year also saw a rise in staff education level, with the share of

employees with higher and secondary vocational education at 32.2% and 27.8% of the total headcount (up 0.7% and 0.3% as at the year end), respectively.

Technology advance and process digitalisation will drive the need for new staff qualifications, skills and jobs

through to 2025. The most sought after professionals in the Company will be IT experts, remote rolling stock operators, UAV operators in charge of infrastructure diagnostics, office and technical workers responsible for construction and operation of high-speed networks and rolling stock infrastructure.

## Labour productivity

Russian Railways makes systemic efforts to increase labour productivity by reducing labour inputs on the back of technology

advancements and improved process flows. In 2018, labour productivity in transportation increased by 6.8 % y-o-y.

## Employee remuneration and incentivisation

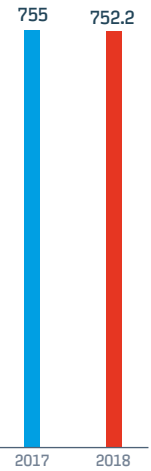
In 2018, the average monthly salary across all Russian Railways operations increased by 9 % to RUB 54,934 (in 2017 – RUB 50,404, on a comparable basis – RUB 50,405) driven by increased labour productivity and salary indexation as per the Collective Bargaining Agreement. More specifically, salaries were adjusted

by 3.7%, including by 2.2% in March, 0.9% in October, 0.3% in November and 0.3% in December. Real company-wide salaries grew by 5.9%, with wages now 26% above the country's average and the pay level across nearly all Russian regions (except for the Yamal-Nenets Autonomous Area and the Sakhalin Region).

### WORKFORCE ANALYSIS

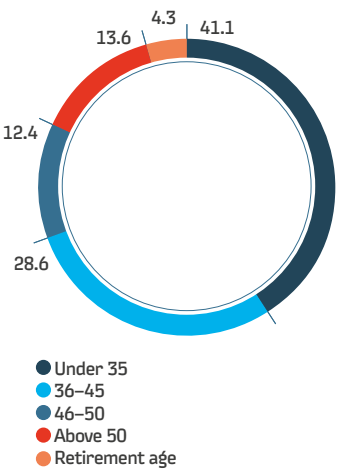
- › STAFF COMPOSITION IS WELL-BALANCED
- › OPTIMAL AGE STRUCTURE ACHIEVED AND MAINTAINED
- › SHARE OF EMPLOYEES WITH HIGHER EDUCATION INCREASING

Headcount, thousand employees

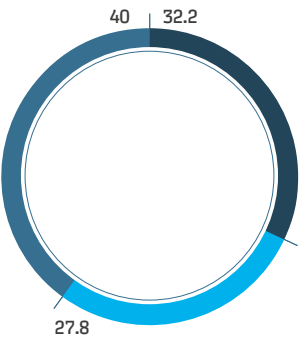


-0.4%

Age structure, %

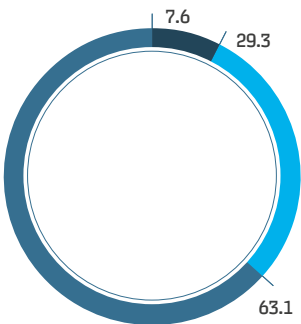


Education, %



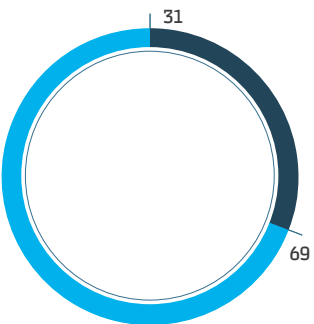
- Higher education
- Secondary vocational education
- Other (incomplete secondary, complete and first-level vocational education)

Personnel categories, %



- Managers
- Office workers
- Technical workers

Gender structure, %



- Female
- Male





Employee training and development

As at the end of 2018, more than 33,000 students were taking courses at railway universities sponsored by Russian Railways.

programmes run by Russian Railways’ Corporate University).

Over 142,000 Company’s managers and office workers upgraded their professional skills at railway universities and other educational institutions (including more than 1,800 employees trained as part of dedicated

The reporting year also saw the launch of education.rzd.ru, a platform for cooperation with continuing professional education providers. The online platform helped create a single database, which now comprises 619 providers and over 5,000 training programmes.

Technology advancement and innovation drive made transitioning to a system of qualifications and development of professional standards one of the Company’s top priorities through to 2025. At present, the Company is working on these standards and their approval, while also upgrading its training programmes accordingly.

Training and development of technical workers

The Company’s professional training framework relies on 15 education centres made up of 66 regional branches scattered between Kaliningrad and Sakhalin.

**In 2018:**  
› over 44,500 workers were trained in key professions;  
› over 24,000 workers were trained in their first profession;

› 12,200 people were trained in their second profession;  
› more than 148,000 employees upgraded their skills at training centres, technical schools, colleges and on site.

Employee healthcare

Every year, the Company runs more than 1.6 million mandatory pre-employment and regular medical examinations, and over 29 million pre-trip medical check-ups. In 2018, this helped reduce accidents caused by employees’ poor health to zero.

As part of the Collective Bargaining Agreement, the Company partners with the Russian Trade Union of Railway Workers and Transport Builders (Rosprofzhel) and Lokomotiv Russian Fitness and Sports Society to stage and run events aimed

at improving health and promoting mass sports and fitness among its employees and their families.

**The reporting year saw some 177,300 people take part in the Company’s sports events.**

Health and safety

In 2018, Russian Railways joined Vision Zero, a global campaign seeking to completely reshape corporate approaches to health and safety management. This strategy requires actors at all levels, from executives to employees, to act with awareness in order to prevent any work-related accidents.

**The reporting year saw the following reductions in workplace injuries across the Company vs the previous year:**  
› overall injury rate (total number of injuries) down by 7.7 % (from 182 to 168 employees);  
› fatal injury rate (number of fatal injuries) down by 19.2 % (from 26 to 21 employees);  
› severe injury rate (number of severe injuries) flat y-o-y at 51 employees.

**The workplace injury frequency rate dropped as follows:**  
› overall workplace injury frequency rate (number of injuries per 1,000 workers) down by 6.8% (from 0.251 to 0.234);  
› fatal injury frequency rate (number of fatal injuries per 1,000 workers) down by 19.4 % (from 0.036 to 0.029).

Key health and safety indicators

Indicator	2014	2015	2016	2017	2018
Health and safety improvement expenses, RUB m	16,330.0	18,593.5	18,715.5	20,121.1	22,596.1
Workplace injury frequency rate (number of injuries per 1,000 employees)	0.34	0.29	0.30	0.25	0.23
Number of workplaces with hazardous working conditions, thousand	131	105	95	88	84
Improved working conditions, thousand workplaces	33	23	32	37	41

The Company has fully implemented its risk-oriented approach, which provides for automated measurement of professional risks. The outcomes serve as a basis for managerial decision-making and health and

safety improvements. On top of that, the Company has approved a Comprehensive Health and Safety Improvement Programme for 2018–2020 reliant on the risk-oriented approach.

In 2018, Russian Railways spent a total of RUB 22.6 bn on health and safety improvement initiatives. More than 47,000 Company’s employees took associated mandatory training with a subsequent knowledge check at education centres.

Environmental protection

Russian Railways is a major natural resource user operating in 77 regions of Russia.

In line with the government’s environmental priorities, Russian Railways’ efforts are focused on improving environmental safety, ensuring rational use of resources and preserving natural systems.

**In 2018, Russian Railways had over RUB 8 bn budgeted for key environmental initiatives, with RUB 5.27 bn allocated for investments. The initiatives included:**  
› upgrade of ca. 22 heat supply utilities using resource saving solutions;  
› construction and upgrade of nine treatment facilities for industrial, utility and sanitary effluents using best available technologies;

› liquidation of 12 sites of accumulated environmental damage;  
› continued renovation of an industrial landfill.

As part of Russia’s obligations under the Stockholm Convention, Russian Railways, the Ministry of Natural Resources and Environment, and UNIDO Centre for Industrial Cooperation are running

a pilot project to destroy equipment and materials containing highly toxic polychlorinated biphenyl.

Every year, Russian Railways’ employees ensure proper sanitary condition of the railway infrastructure area bordering specially protected natural territories. A special focus is placed on fire fighting measures. The railway infrastructure areas are regularly inspected for unauthorised waste deposits, firebreaks made, wood scrap and used rails removed, and dry wood and bushes cut down. Parts of tracks often crossed by animals

Air protection

As part of the corporate Environmental Strategy, the Company plans to cut its emissions from stationary sources in 2019 by 1.8 kt y-o-y. This will be achieved through:

- › construction of new and renovation of existing boilers;
- › transition of boilers to greener fuel (natural gas, pellets, renewable energy sources);

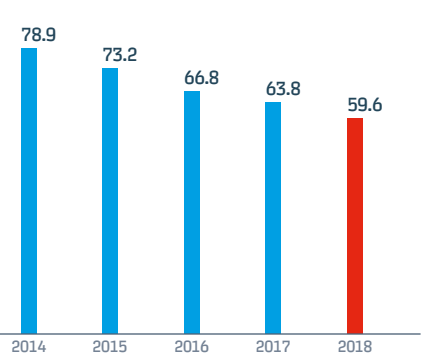
are equipped with reflective tape, and are monitored together with forestry and hunting sector representatives.

In 2018, the Company’s environmental efforts were recognised by federal authorities and non-profit associations and received prestigious national and international environmental prizes and awards:

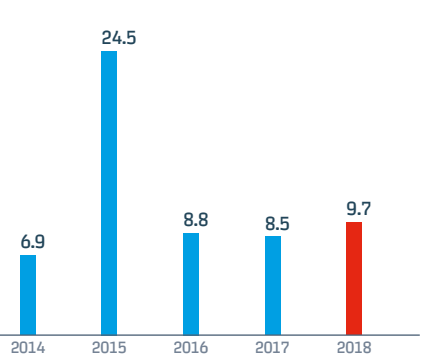
- › in February, Russian Railways was awarded a letter of recognition from the Russian President for its contribution to the Year of the Environment in Russia;

- › in August, the Railway Stations Directorate (branch of Russian Railways) received a diploma for the Best Environmental Performance Tracking System from the Green Office 2018 initiative committee. It celebrates commitment to environmental management aimed at mitigating the negative impact through rational use of natural resources.

Emissions from stationary sources, kt



Waste decontamination, kt



Waste management

Up to 80% of waste generated by Russian Railways is reused or recycled. Most of it (ferrous and non-ferrous scrap metals and used petroleum products) is handled by waste processing professionals. Waste is also reused within the Company.

Initiatives to reduce waste and increase recycling volumes include:

- › separate waste collection in service and office buildings and at train stations;

- › reduced paper consumption (transition to electronic workflow);
- › reduced polyethylene waste generation (transition to biodegradable bags);
- › reduced ash and slag generation (upgrade of boilers);
- › reduced mercury waste generation (transition to LED lighting).

Reduction of GHG emissions

The Company works to reduce its GHG emissions by supporting the green economy. Its initiatives are focused on energy saving, green solutions, renewable and alternative energy sources.

As compared to the base year of 1990, Russian Railways’ GHG emissions in 2018 reduced by 29.1 mt of CO<sub>2</sub>, to 37.8 mt (down 43.5%). The effect was achieved through:

- › upgrade of existing boilers and their transition to greener fuel;

- › reduced fuel and energy consumption;
- › replacement of the outdated rolling stock with newer, more environmentally friendly options.

Energy efficiency and conservation

Russian Railways maintains leadership in energy efficiency and environmental friendliness among global freight and passenger railway companies. Russia ranks first globally in terms of energy efficiency in rail freight transportation outperforming all of the European railways combined, as well as railways in China, Japan, India and the USA. As regards energy efficiency in passenger transportation, Russia comes in fourth after India, China, and Japan.

The Company implements its Energy Strategy through 2020 and potentially through 2030, updated in 2016, as well as the Energy Savings and Energy Efficiency Programme (the “Energy Efficiency Programme”).

Compared to 2017, our key achievements are:

- › reduced per unit fuel and energy consumption for train traction by 0.4%;
- › increased use of regenerative power by 8.7%;
- › reduced per unit fuel and energy consumption for heating and standby locomotive transportation by 2.5% for electric traction and by 1.5% for diesel traction.
- › 1,800 pieces of resource and energy saving equipment installed for a total amount of RUB 1.97 bn. (as part of the Energy Efficiency Programme).

In 2018, the Company’s divisions implemented over 12,500 energy efficiency initiatives and saved:

- › 511.5 m kWh of electricity for RUB 1,566.8 m;
- › 34,8 kt of diesel fuel for RUB 1,451.8 m;
- › 0.8 kt of gasoline for RUB 34.4 m;
- › 73,400 Gcal of heat energy for RUB 139.8 m;
- › 10 million m<sup>3</sup> of natural gas for RUB 50.6 m;
- › 15.4 kt of coal for RUB 32.1 m;
- › 10.3 kt of heating oil for RUB 142.9 m.

The total saving of fuel and energy resources in 2018 amounted to 4,741 TJ (or RUB 3.418 bn), 47.1% above the target. This is one of the Company’s energy efficiency records since 2010.

Charity

The Company has a Charity and Sponsorship Policy as approved by the Board of Directors on 8 November 2016. It gives the priority to institutions, funds, and performance groups working with Russian Railways.

The charity spending in 2018 amounted to ca. RUB 3 bn.

As part of the Year of Volunteers in Russia, the Group supported over 300 initiatives with more than 80,000 participants. The Best Corporate Volunteering Programme competition reviewed 341 projects aimed to promote healthy lifestyle, help seniors and children, and preserve the environment and cultural heritage.



# Reaching Our Goal charity run

EVERY YEAR, RUSSIAN RAILWAYS CELEBRATES THE DAY OF RAILWAY WORKERS WITH A FAMILY SPORTS EVENT AND A CHARITY RUN CALLED REACHING OUR GOAL. IN 2018, ALL 16 OF THE COMPANY’S RAILROADS TOOK PART. THE COMPETITION WAS HELD IN MOSCOW, ST PETERSBURG, YEKATERINBURG, NOVOSIBIRSK, SAMARA, SARATOV, KALININGRAD, Khabarovsk, Chita, AND OTHER CITIES.

On top of the traditional Day of Railway Workers’ distances of 500 m, 1,520 m and 5,000 m, a 15 km distance was introduced in 2018 to mark Russian Railways’ 15th anniversary. Apart from the run, the participants were welcome to compete in football, basketball, table tennis, chess, hockey, volleyball, and skateboarding. Families with children could enjoy kids fun areas.

Over 32,000 people across Russia took part in the run, raising more than RUB 16 m. The money was then contributed to charity funds to finance treatment of children with serious medical conditions.

## PARTICIPANTS ACROSS RUSSIA

> 32,000

15  
km

DISTANCE TO CELEBRATE  
THE COMPANY’S 15<sup>TH</sup> ANNIVERSARY

> 16  
RUB m

RAISED FOR CHARITY FUNDS



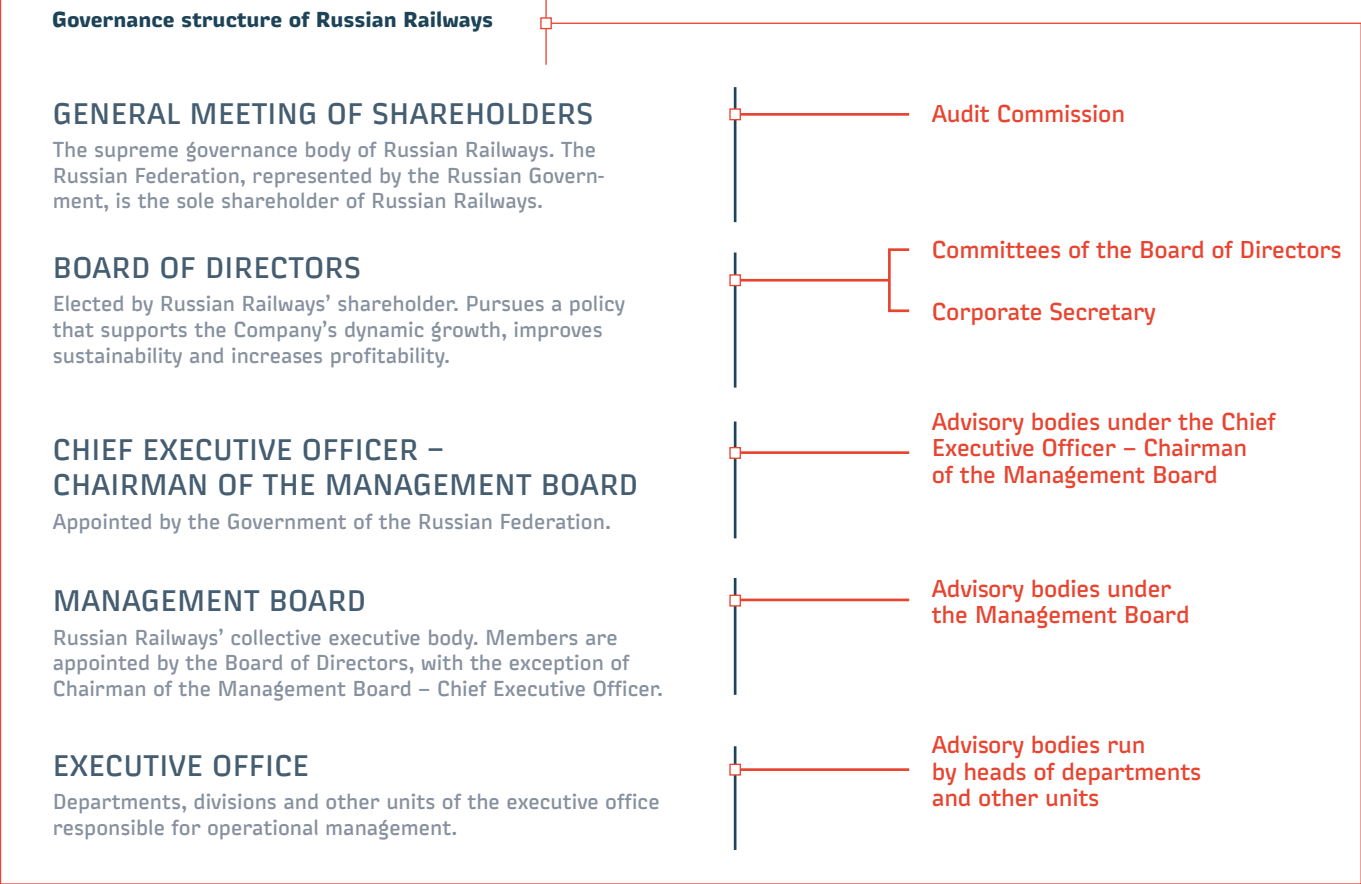
# CORPORATE GOVERNANCE

Russian Railways is gradually implementing an organisational reform to build the Group's corporate governance system factoring in, among other things, recommendations of the Corporate Governance Code. The Company keeps improving its corporate governance system by strictly complying with the applicable laws and introducing the best Russian and international practices.

# 100%

of the Company's shares  
are owned by the Russian  
Federation





# Corporate governance system

In 2018, Russian Railways continued work to ensure compliance with the Corporate Governance Code. The Company's Charter was amended to formalise the right of Russian Railways' Board of Directors to include not only subsidiaries but also its controlled entities in the annual list approved by the Board of Directors (Resolution No. 980 of the Russian Government dated 23 August 2018). Based on recommendations provided in the Corporate Governance Code, Russian Railways' Board of Directors amended the regulations on its committees

and approved the Regulation on Assessing Performance of Russian Railways' Board of Directors, its Committees and Members.

**Russian Railways' corporate governance system employs the following best practices:**

- › Independent directors are appointed to the boards of directors of Russian Railways and its subsidiaries. There are currently two independent directors sitting on the Board of Directors at Russian Railways.

- › Following the Annual General Meetings of Shareholders held in 2018, independent directors were elected as board members at nine of the Group's largest subsidiaries.
- › Agenda items are previewed by committees of the boards of directors at both Russian Railways and its subsidiaries. Boards of directors of Russian Railways Group's 26 major subsidiaries have relevant board committees in place.

**To meet the 2025 targets implying continuous expansion in competitive markets, the Company's corporate governance system needs a series of further improvements. The organisational development initiatives envisage transition to a subholding organisational model, making it possible to:**

- › ensure transparent distribution of roles, responsibilities and operation boundaries;
- › create a framework for defining and balancing operation boundaries across related (either in terms of market or a place in the value chain) companies;
- › set up single centres of responsibility, competencies, decision-making and profit consolidation (on the basis of managing companies).

# General Meeting of Shareholders

The supreme governance body of Russian Railways is its General Meeting of Shareholders. As all of the Company’ voting shares belong to the Russian Government, its sole shareholder, in line with Article 47 of the Federal Law On Joint-Stock Companies, Article 5 of the Federal Law On the Specifics of Administration and Disposal of Railway Transport Property, and Clause 67 of the Company’s Charter, all resolutions on matters reserved to the General Meeting of Shareholders are adopted in writing by the Russian Government and take the form of the sole shareholder’s orders and resolutions.

In 2018, one Annual General Meeting of Shareholders and eight Extraordinary General Meetings of Shareholders were held.

Russian Railways’ Annual General Meeting of Shareholders adopted the following resolutions:

- › approval of the annual report, balance sheet and income statement for 2017;
- › distribution of net profit and losses based on financial performance in 2017;
- › allocation of funds to pay dividends to the holders of Russian Railways’ ordinary and preference shares based on

performance in 2017 and remuneration to members of the Board of Directors and Audit Commission;

- › determination of composition of the Board of Directors and Audit Commission and appointment of their members;
- › approval of the auditor for 2018.

The Extraordinary General Meetings of Shareholders adopted resolutions on such matters as increase of the charter capital and amendment of Russian Railways’ Charter, its appendices and Regulation on the Board of Directors.

# Board of Directors

The Board of Directors is the key element in Russian Railways’ corporate governance framework. The Board acts pursuant to the laws of the Russian Federation, the Charter of Russian Railways approved by Resolution No. 585 of the Russian Government dated 18 September 2003, and the Regulation on the Board of Directors of Russian Railways approved by Order No. 265-r of the Russian Government dated 25 February 2004.

The key objective of the Board of Directors is to pursue a policy that supports the Company’s robust growth, improves the sustainability of its operations, and increases profitability. The Board also determines the Company’s business priorities, approves its long-term plans and core programmes, including the budget and the investment programme, and defines

general principles of and approaches to risk management in the Company.

In line with international corporate governance practices, independent directors have been elected to the Board of Directors of Russian Railways since 2008.

The Board of Directors supervises the Company’s corporate governance practices.

Pursuant to the Company’s Charter and the recommendations of the Corporate Governance Code, the Board of Directors plays a key role in decision-making with respect to the Company’s controlled entities.

In 2018, in line with the resolution adopted by the General Meeting of Shareholders,

Stanislav Voskresensky, Alan Lushnikov, Hartmut Mehdorn and Vasily Sidorov (independent director) left the Board of Directors. The number of directors remained unchanged at 13 members, including the following newly elected members:

- › Maxim Akimov – Deputy Prime Minister of Russia;
- › Yevgény Ditrikh – Russia’s Minister of Transport;
- › Dmitry Patrushev – Russia’s Minister of Agriculture;
- › Mikhail Rasstrigin – Russia’s Deputy Minister of Economic Development;

On 18 July 2018, the Board of Directors resolved to elect Maxim Akimov as the Chairman of the Company’s Board of Directors.

## Composition of the Board of Directors at Russian Railways

Representatives of the Russian Federation:	Independent directors:
<ul style="list-style-type: none"><li>› Maxim Akimov</li><li>› Oleg Belozarov</li><li>› Grigory Berezkin</li><li>› Arkady Dvorkovich</li><li>› Yevgény Ditrikh</li><li>› Kirill Dmitriev</li><li>› Andrey Ivanov</li><li>› Valery Nazarov</li><li>› Dmitry Patrushev</li><li>› Mikhail Rasstrigin</li><li>› Alexander Ryazanov</li></ul>	<ul style="list-style-type: none"><li>› Sergey Nedoroslev</li><li>› Sergey Stepashin</li></ul> <p>Members of the Board of Directors hold no stakes in the charter capital of Russian Railways.</p>



Brief biographies of members of the Board of Directors are available online in the interactive version of the annual report

## Meetings of the Board of Directors in 2018

In 2018, the Board of Directors of Russian Railways held 19 meetings, including 6 meetings held in person and 13 conducted in the form of absentee voting. The Board of Directors considered

115 matters focusing on a variety of the Company’s business areas. The most important matters were discussed at meetings held in person.



## Report on the performance of the Board of Directors and material resolutions adopted in 2018

In 2018, as part of its key tasks and responsibilities, the Russian Railways Board of Directors:

- › approved the Regulation on Assessing Performance of Russian Railways’ Board of Directors, its Committees and Members;
- › approved amendments to the regulations on committees of the Board of Directors;
- › approved amendments to the Regulation on the Remuneration System for Members of the Management Board of Russian Railways;
- › approved a new version of the Regulation on the Procurement of Goods, Work and Services for the Needs of Russian Railways;
- › approved the Conceptual Framework for the Reform of the Russian Railways Social Infrastructure until 2021;
- › adopted resolutions on additional issues of ordinary uncertificated registered shares and an issue of preference uncertificated registered shares of Russian Railways;
- › approved the Exchange Bond Programme of Russian Railways and a relevant prospectus, while also endorsing the terms and conditions for purchasing bonds from the bondholders;
- › resolved on acquiring a stake in a joint-stock pension fund incorporated through reorganisation of BLAGOSOSTOYANIE Non-State Pension Fund;
- › approved the Company’s participation in a project aiming to build a new

- specialised port on Russia’s Far Eastern coast near the Sukhodol Bay of Vladivostok sea port;
- › approved amendments to the Russian Railways investment programme and financial plan for 2018 based on performance in 1H 2018;
- › approved the Russian Railways financial plan and investment programme for 2019 and the planning horizon extending to 2020 and 2021;
- › pre-approved and prepared recommendations for the Company’s Annual General Meeting of Shareholders on the approval of the Russian Railways annual RAS financial (accounting) statements for 2017 (including the income statement);
- › reviewed the consolidated IFRS financial statements of Russian Railways for 2017, findings of the auditor following review of the Company’s consolidated financial statements, and report of the Audit Commission following examination of the Company’s business and financial operations in 2017;
- › pre-approved Russian Railways’ Annual Report for 2017 and prepared recommendations for the Company’s Annual General Meeting of Shareholders on the approval of the report;
- › prepared recommendations for the Company’s Annual General Meeting of Shareholders on the maximum dividend amount, payment procedure for the

- 2017 dividends, and distribution of net profit for 2017;
- › prepared recommendations for the Company’s Annual General Meeting of Shareholders on the approval of an auditor for Russian Railways’ financial (accounting) statements and consolidated financial statements for 2018 and approved the auditor fees;
- › prepared recommendations for the Company’s Annual General Meeting of Shareholders on the remuneration payable to members of the Board of Directors and the Audit Commission based on their performance in the 2017–2018 corporate year;
- › resolved to dismiss a member of Russian Railways’ Management Board and appoint deputies of the Russian Railways CEO;
- › approved key performance indicators (KPIs) used for determining quarterly bonuses for the CEO – Chairman of the Management Board;
- › provided general qualitative assessment of performance by the Management Board and the entire Company in 2017;
- › approved a list of Group-wide KPIs used for determining annual bonuses for members of the Management Board and target values of Group-wide KPIs for 2019;
- › approved key initiatives to be supported using the charity and sponsorship fund of Russian Railways and amounts to be allocated in 2019.

## Remuneration of the Board of Directors

In 2018, the Annual General Meeting of Shareholders of Russian Railways adopted a resolution to pay remuneration to the Company’s directors for the 2017–2018 corporate year in the amount recommended by the Board of Directors in its resolution No. 23 dated 24 May 2018 and in the manner prescribed by the Regulation on Remuneration and Compensation Paid to Members of the Russian Railways Board of Directors.

Pursuant to the Regulation developed in line with the recommendations of the Federal Agency for State Property Management (Rosimushchestvo) and the Corporate Governance Code, remuneration is calculated using a formula based on the basic component of remuneration, which amounts to RUB 2,000,000 and depends on the participation of directors in Board meetings. For taking on additional

responsibilities, Board members are paid additional remuneration calculated as the basic portion of remuneration multiplied by the following ratios:

- › 3 – for the Chairman of the Board of Directors (excluding individuals who perform the functions of the Chairman of the Board of Directors in his absence);
- › 2 – for a member of the Board of Directors who performs the functions of the chairman of a Board committee;
- › 1.5 – for a member of the Board of Directors who performs the functions of a member of a Board committee.

Additional remuneration for participation in the work of the Board committees is paid subject to the director personally attending (producing a written opinion for) at least 75% of the in-person committee meetings held over the course of the corporate year.

## Committees of the Board of Directors

For the purposes of preliminary consideration of the most important matters and preparation of relevant recommendations, the Russian Railways Board of Directors has the following committees in place:

- › Strategic Planning Committee;
- › Audit and Risk Committee;
- › Personnel and Remuneration Committee;
- › Priority Investment Projects Committee<sup>1</sup>.

If a member of the Board of Directors performs the functions of a member and/or the chairman of a Board committee on more than one committee, additional remuneration is paid for the functions performed on each committee.

The Regulation does not apply to directors who are members of the executive bodies of Russian Railways or who are restricted or prohibited from receiving any payments from commercial organisations by the laws of the Russian Federation.

In the reporting year, the Annual General Meeting of Shareholders of Russian Railways resolved to allocate a total of RUB 51.8 m in remuneration to members of the Russian Railways Board of Directors.

The committees are elected by Russian Railways’ Board of Directors and act in accordance with the regulations on the committees approved by the Company’s Board of Directors.

Secretary of Russian Railways and the Office of the Corporate Secretary.

Vasily Gorev was the Corporate Secretary of Russian Railways until September 2018.

In September 2018, **Andrey Zhemchugov** was appointed as the new Corporate Secretary.

# Management Board

As a collective executive body, the Company’s Management Board handles the general management of business operations (except for matters that are reserved to the General Meeting of Shareholders, the Board of Directors or the CEO and Chairman of the Management Board as per the Federal Law On Joint-Stock Companies and the Company’s Charter).

In line with its key responsibilities, the Management Board is tasked with developing proposals on the Company’s business strategy, implementing its financial and business policy, making decisions on the most important matters of its day-to-day operations and coordinating activities between its divisions, improving the effectiveness of the internal control and risk monitoring systems, and ensuring respect of shareholder rights and their legitimate interests.

The Management Board carries out its activities in accordance with the laws of the Russian Federation, the Company’s Charter, resolutions of the General Meeting of Shareholders and the Board of Directors, the Regulation on the Russian Railways Management Board, and the Company’s internal documents.

As per the Regulation on the Russian Railways Management Board approved by Order No. 265-r of the Government of the Russian Federation dated 25 February 2004, the Management Board is responsible for:

- › preparing and submitting the Company’s priorities and long-term plans, including annual budgets and the investment programme, to the Board of Directors, preparing progress reports, as well as developing and approving current operation plans;

- › approving internal estimated tariffs, fees and payments for work (services) performed (provided) by the Company that are not related to natural monopolies;
- › approving rules that arrange for and ensure accuracy of accounts, as well as submitting the Company’s annual report and other financial statements to the relevant government authorities in a timely manner and providing information about the Company’s operations to shareholders, creditors and the media;
- › submitting prospectuses of securities and other documents related to the issuance of the Company’s securities to the Board of Directors;
- › arranging for implementation of long-term and current plans of the Company, as well as its investment, financial and other projects;
- › establishing the procedure for keeping an account of the Company’s affiliates;
- › reviewing and coordinating the Company’s draft Collective Bargaining Agreements and regulations on industry-wide private pension schemes, mandatory pension insurance, professional pension insurance and an industry-wide railway tariff agreement, as well as submitting them to the Company’s CEO and Chairman of the Management Board;
- › establishing the procedure for keeping shareholders up-to-date with Company developments;
- › establishing a compensation system and incentives for the Company’s employees;
- › issuing binding instructions to subsidiaries on matters specified in the charters of these companies or in their existing agreements with the Company;
- › approving the Company’s internal documents on matters that are reserved to the Management Board;
- › resolving other matters related to the Company’s ongoing operations that

are submitted for consideration of the Management Board by the Chairman of the Management Board, the Board of Directors or shareholders.

While performing the above-listed functions in 2018, the Management Board of Russian Railways held 71 meetings that reviewed and resolved on a number of matters related to the development of the Russian Railways Group.

- The key matters included:**
- › reviewing the Company’s financial and business performance and the delivery of the Company’s investment programme and financial plan;
  - › approving key documents for individual business lines, including the Conceptual Framework for Promotion of Professional Guidance at Russian Railways until 2025, improvement of the Company’s private pension plans in pursuance of Federal Law No. 350-FZ dated 3 October 2018 “On Amendments to Certain Legislative Acts of the Russian Federation regarding the Issues of Award and Payment of Pensions”, and a project to build Russian Railways City, a single multi-purpose centre constructed as part of the Group’s initiatives to enhance commercial real estate development competencies;
  - › reviewing performance under the Collective Bargaining Agreement obligations and compliance with the terms of employee competitions;
  - › setting, extending and changing tariffs, fees and rates for services rendered by Russian Railways.

On 11-12 December 2018, the Management Board of Russian Railways held its final meeting to review the Company’s operating and financial performance in 2018 and set targets for 2019.

<sup>1</sup> Dissolved on 30 June 2018.



Owner  
of the world's third longest  
railway network

The operational length of Russian Railways' lines stands at 85,600 km, more than twice the length of the equator. Russian Railways is the second largest company globally by length of electrified lines (43,850 km).

Prominent player  
in global railway  
market

The Company has partnerships with China, South Korea, Kazakhstan, Poland, Germany and other nations to develop transit routes through Russia. Russian Railways is also building and upgrading railway infrastructure in Serbia and a number of other countries.

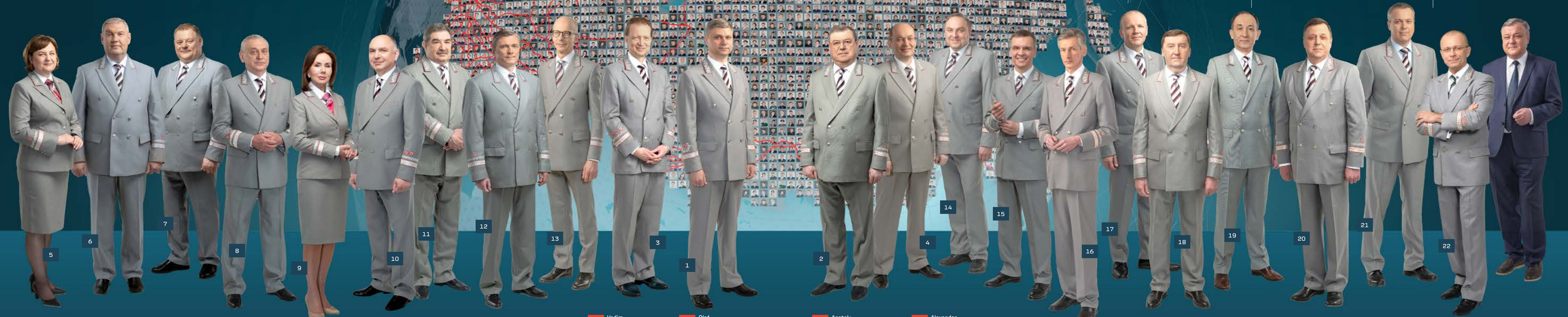
RUSSIAN RAILWAYS TODAY

Unique  
and highly diversified  
group

Russian Railways owns railway infrastructure and rolling stock to transport freight and passengers, provide transportation, logistics, terminal, warehousing, and freight forwarding services. The Company carries nearly 1.3 billion tonnes of freight and nearly 1.2 billion of passengers annually.

Driving force  
of Russia's  
business community

With presence in 77 out of Russia's 85 regions, the Company provides almost nationwide coverage to ensure reliable and safe transportation of natural resources, equipment, and other critical supplies for national industries.



5 Elena Kharibina

6 Sergey Kobzev

7 Oleg Valinsky

8 Gennadiy Verkhovyykh

9 Olga Gnedkova

10 Pavel Ivanov

11 Petr Katsyu

12 Anatoly Meshcheryakov

13 Vyacheslav Pavlovsky

3 Vadim Mikhailov

1 Oleg Belozarov

2 Anatoly Krasnoshchek

4 Alexander Misharin

14 Dmitry Pečov

15 Andrey Starkov

16 Oleg Toni

17 Nikolay Fedoseyev

18 Anatoly Chabunin

19 Shevket Shaydullin

20 Dmitry Shakhanov

21 Alexey Shilo

22 Vadim Bynkov

Valentin Gapanovich

\*Stepped down from the Management Board of Russian Railways in December 2018



## Remuneration of the Management Board

The remuneration system for members of Russian Railways’ Management Board, which was approved by the Company’s Board of Directors, was developed to improve the effectiveness of the individual and collective work of the Management Board members in the short and long term, as well as

to provide incentives for the successful performance of Russian Railways as a single economic entity.

Executives are entitled to bonuses for annual results based on the fulfilment of key performance indicators (KPI) and performance assessment

of the Management Board and Russian Railways as a whole. Approved by the Company’s Board of Directors, the KPI framework comprises a set of corporate and functional indicators.

In 2018, the Management Board remuneration amounted to RUB 1,336 m.

## Members of the Management Board<sup>1</sup>

No.	Full name	Position
1	Oleġ Belozеров	CEO, Chairman of the Management Board
2	Anatoly Krasnoshchek	First Deputy CEO
3	Vadim Mikhailov	First Deputy CEO
4	Alexander Misharin	First Deputy CEO
5	Elena Khariġina	Chief Accountant
6	Serġey Kobzev	Deputy CEO, Chief Engineer
7	Oleġ Valinskiy	Deputy CEO, Head of the Directorate of Traction
8	Gennadiy Verkhovyykh	Deputy CEO, Head of the Central Directorate of Infrastructure
9	Olġa Gnedkova	Deputy CEO
10	Pavel Ivanov	Deputy CEO, Head of the Central Directorate of Traffic Management
11	Petr Katsyv	Deputy CEO, Head of the Moscow Transport Hub Development Centre
12	Anatoly Meshcheryakov	State Secretary, Deputy CEO
13	Vyacheslav Pavlovsky	Deputy CEO
14	Dmitry Peġov	Deputy CEO
15	Andrey Starkov	Deputy CEO
16	Oleġ Toni	Deputy CEO
17	Nikolay Fedoseyev	Deputy CEO
18	Anatoly Chabunin	Deputy CEO, Director for Internal Control and Audit
19	Shevket Shaydullin	Deputy CEO, Head of the Traffic Safety Department
20	Dmitriy Shakhanov	Deputy CEO
21	Alexey Shilo	Deputy CEO, Head of the Centre for Corporate Transport Services
22	Vadim Bynkov	Head of the Legal Department



Brief biographies of the Management Board members are available online in the interactive version of the annual report

## Audit and control

### Audit Commission

The Audit Commission oversees the Company’s business operations and acts on the basis of the laws of the Russian Federation, the Charter of Russian Railways and the Regulation on the Audit Commission of Russian Railways approved by Order No. 265-r of the Russian Government dated 25 February 2004.

#### The Audit Commission is responsible for:

- › auditing the Company’s business operations for any given year and at any time as it thinks fit or as resolved by the General Meeting of Shareholders, the Company’s Board of Directors or requested by the shareholder;
- › auditing and reviewing the Company’s financial and solvency position, systems for internal control and management of financial and operational risks, asset liquidity and debt to equity ratio;
- › verifying the accuracy of the Company’s annual report, annual financial statements and other disclosures or financial documents;
- › auditing the accounting and reporting procedures used in the course of business operations;
- › auditing the timeliness and accuracy of payments to/from counterparties and the government, payroll and social insurance payments, as well as accrual and payment of dividends;
- › checking the legality of business operations under contracts signed on the Company’s behalf;
- › auditing assets and other Company resources for efficient use, identifying causes of downtime and overhead costs;
- › auditing compliance with improvement orders to address the gaps identified by the Audit Commission;
- › Auditing business-related resolutions adopted by the Chief Executive Officer – Chairman of the Management Board, the Board of Directors and the Management Board of the Company for compliance with Russian Railways Charter and resolutions of the General Meeting of Shareholders;
- › providing recommendations to the Board of Directors and the Management Board of the Company on preparing and adjusting the Company’s budgets;
- › other matters under its purview as per the Federal Law On Joint Stock Companies and the Regulation on the Audit Commission approved by the General Meeting of Shareholders

The Company’s Audit Commission appointed in accordance with Order No 1328-r of the Russian Government dated 30 June 2018 consists of seven people.

### Members of the Audit Commission

No	Full name	
1	Natalia Annikova	Chairman
2	Alexander Varvarin	
3	Svetlana Gorbatykh	
4	Maxim Eronin	
5	Boris Luboshiz	
6	Vasily Shipilov	
7	Iġor Belikov	

The remuneration of the Audit Commission in accordance with Order No. 1328-r of the Russian Government dated 30 June 2018 was approved in the amount of RUB 2.28 m.

## Internal control and audit

Russian Railways has an internal control system in place to provide reasonable assurance that it will achieve its goals.

Russian Railways’ internal control system leverages the most up-to-date organisational and methodological framework and best international and national professional practices, operating in full compliance with the ethical standards applied by the internal audit and control functions in the Russian and global business communities.

#### The main objectives of the internal control system are:

- › to ensure the efficiency and robustness of business operations;
- › to safeguard assets and use resources in a cost effective manner;
- › to identify and manage risks;
- › to ensure the accuracy and completeness of financial (accounting) and other types of statements;
- › to ensure compliance with the laws and regulations of the Russian Federation and by-laws of Russian Railways.

#### The main structures in charge of the internal control function and their responsibilities are as follows:

- › governance bodies such as the Board of Directors and its Audit and Risk Committee, the Chief Executive Officer – Chairman of the Management Board of Russian Railways, relevant deputies of the Chief Executive Officer, and the Director for Internal Control and Audit are responsible for putting internal controls in place at the corporate level;
- › heads of branches, departments, divisions and units are responsible for putting internal controls in place and ensuring their smooth running at the operational level;
- › employees are responsible for the timely and efficient execution of existing internal control procedures;
- › in addition to implementing internal controls and ensuring their smooth running in relevant business units, certain departments and divisions are also responsible for exercising functional

internal control within the given terms of reference in relation to end-to-end processes;

- › special internal control structures responsible for select functions. The Zheldorkontrol Internal Control Centre is in charge of follow-up internal control to identify violations and materialised risks. The Zheldoraudit Internal Audit Centre is responsible for assessing the organisation and functioning of the internal control system.

Russian Railways’ Board of Directors and its Audit and Risk Committee determine the overall concept of the internal control system, review its performance assessment results, and analyse its actual state subject to the nature, scale and conditions of Russian Railways’ operations.

Deputy Chief Executive Officer – Director for Internal Control and Audit of Russian Railways supervises the internal control and internal audit operations, with the Zheldorkontrol Internal Control Centre and the Zheldoraudit Internal Audit Centre reporting directly to the Director.

The Zheldorkontrol Internal Control Centre is responsible for auditing the business operations of Russian Railways’ units, performing follow-up controls and providing Russian Railways’ management with reliable information about the business operations of the Company’s units.

Internal audit is conducted by the Zheldoraudit Internal Audit Centre, a structural unit of Russian Railways, which is supervised by Deputy Chief Executive Officer – Director for Internal Control and Audit of Russian Railways and functionally reporting to the Audit and Risk Committee of the Board of Directors.

#### Internal audit serves:

- › to organise and conduct internal audits at Russian Railways to improve the efficiency and effectiveness of business processes, reliability of reporting, safety of assets, compliance with the laws of

teh Russian Federation and by-laws of Russian Railways;

- › to systematically and consistently assess the organisation, reliability and efficiency of internal control and risk management systems and evaluate corporate governance practices;
- › to promptly inform Russian Railways’ management on the state of financial and business operations, the efficiency of business processes, the reliability of internal control and risk management procedures, and corporate governance;
- › to prepare proposals and recommendations on improving operations, enhancing the reliability and efficiency of the internal control and risk management systems and corporate management practices for the entities and functions subject to internal audit (Russian Railways’ business units, business processes, etc.) and/or Russian Railways as a whole.

The continuous development and improvement of the internal control and internal audit functions aims to support the strategic goals of Russian Railways, improve the efficiency of operations and effectiveness of business processes, the reliability and efficiency of the Company’s internal control and risk management systems, as well as corporate governance practices, helping the Company to respond to externalities in a timely and adequate manner and increase the efficiency and effectiveness of its operations.

In 2018, Russian Railways set up a Risk Management and Internal Control Centre with a view to boosting the Company’s internal control system. The Centre works to coordinate the evolving risk management and internal control system, monitor the risk management and internal control processes to achieve the Company’s goals and mitigate risks to an acceptable level; state requirements for the risk management and internal control system and the risk management and internal control procedures and practices.

<sup>1</sup> As at 31 December 2018

External audit

Ernst & Young (Moscow) was approved as the auditor of Russian Railways’ financial (accounting) statements and the consolidated IFRS financial statements for 2018.

Ernst & Young’s remuneration for auditing the Russian Railways’ financial (accounting) statements and consolidated IFRS financial statements is RUB 137.5 m, including VAT of RUB 22.5 m.

Conflicts of interest

Russian Railways has put in place procedures to identify and resolve conflicts of interest.

The conflict of interest procedures for the members of Russian Railways’ Board of Directors are outlined in the Regulation on the Board of Directors of Russian Railways.

Pursuant to this Regulation, the members of the Company’s Board of Directors, acting reasonably and in good faith, are expected to make decisions considering all available information, in the absence of a conflict of interest. The members of the Company’s Board of Directors may not use their official position and information about the Company’s operations for their personal advantage or allow using the same for the personal advantage of other parties. Directors have a duty to disclose

to the Board of Directors any matter under consideration by the Board of Directors in which they have a personal interest before the discussion of such matter begins and a duty to abstain from voting on any such matter.

Besides, there is a procedure in place obliging the members of the Board of Directors to inform the Audit Commission and the Company’s auditor about any legal entities, in which they independently or jointly with their affiliated person (persons) own 20 or more percent of voting shares (interests, stakes), as well as about their participation in the governance bodies of legal entities, any known or proposed transactions, in which they may be considered as interested parties, and about an intention to establish or hold interest in any entities competing with the Company.

The requirement to disclose conflicts of interest also applies to Russian Railways’ employees.

The Company has established a Conflict of Interest Commission.

The Commission is tasked with identifying and eliminating causes of and conditions conducive to the emergence of conflicts of interest, ensure an objective and timely consideration and resolution of conflicts of interest, protect the legitimate interests of the Company and the rights of its employees, and pursue anti-corruption efforts.

The Commission works in close collaboration with the Anti-Corruption Centre and other units of the Company.

Anti-corruption

Russian Railways’ anti-corruption policy is based on a set of interrelated principles, procedures and initiatives designed to prevent and combat corruption and mitigate corruption risks. It is

intended to ensure that managers and employees, as well as Board members, the shareholder, investment community and other parties align around the idea of zero tolerance to corruption in all forms

and manifestations and the inevitability of punishment for corruption related offences.

KEY ANTI-CORRUPTION INITIATIVES

Established a procedure to identify and resolve conflicts of interest

Introduced polygraph tests

Approved Anti-corruption Policy

Formalised the inclusion of anti-corruption clauses in all business contracts

Approved a register of corruption risks and a list of corruption-prone jobs, with steps taken to reduce them

Implemented the requirement for individual Russian Railways’ employees to declare income, expenses, assets and liabilities

Put in place procedures for employees to report the gifts they receive and attempts to induce them to commit corruption offences

Introduced additional anti-corruption requirements to standard employment contracts

Established Conflict of Interest Commissions on the central and regional levels

Added to the Collective Bargaining Agreement for 2017–2019 employee obligation to comply with anti-corruption policies, regardless of the position held

Established an Anti-Corruption Hotline

Put in place procedures to regulate interaction between the Anti-corruption Centre and the Company’s subsidiaries in implementing anti-corruption policies

Ensured transparency of the implemented mechanisms through interaction with government agencies, business representatives, corporate media, and through a special section on the Russian Railways website

Approved the Regulation on Monitoring Compliance with Russian Railways’ Anti-Corruption Policies

In 2018, Russian Railways engaged experts to verify compliance of its anti-corruption measures with the anti-corruption laws and the Anti-Corruption Charter of the Russian Business. The assessment was based on 166 criteria in accordance with the Guidelines for Development and

Adoption of Measures by Organisations to Prevent and Combat Corruption approved by the Russian Ministry of Labour and Social Protection on 8 November 2013.

The integrity and effectiveness of the Company’s anti-corruption

initiatives received a total score of 4.75. The high score attests to Russian Railways’ commitment to fair business practices, full compliance with the laws on preventing and combating corruption and the Anti-Corruption Charter of Russian Business.



Anti-corruption measures implemented in 2018 and the anti-corruption action plan until 2020

The Company has approved its Anti-Corruption Action Plan for 2018–2020.

Given its holding structure and the need for a single approach to implementing the Company’s anti-corruption policy, corporate procedures were initiated for the governance bodies of Russian Railways’ subsidiaries to establish their own anti-corruption plans and ensure compliance with the procedure for interaction between the Anti-corruption Centre and the Company’s subsidiaries.

In line with its anti-corruption policy, in the reporting period, Russian Railways followed the Anti-corruption Action Plan for 2018–2020, including:

- › submission of income, expenses, assets and liabilities statements by employees holding corruption-prone positions;

- › review of conflict of interest reports with steps taken to resolve a potential (real) conflict of interest;
- › ensuring that employees comply with restrictions, requirements, and prohibitions with respect to notifying the employer of the attempts to induce them to commit corruption offences as well as with the procedure for reporting gifts received in an official capacity or while discharging their duties;
- › conducting polygraph tests;
- › operating Russian Railways’ Anti-corruption Hotline, receiving and reviewing complaints;
- › approving the Regulation on Monitoring Compliance with the Russian Railways’ Anti-Corruption Policies;
- › introducing the Procedure for interaction between the Anti-corruption Centre and the Company’s subsidiaries to arrange and implement measures to

- prevent and combat corruption;
- › providing employees with anti-corruption training, including a distance learning course taken by all employees and a best practice workshop involving representatives of government and law enforcement agencies, public organisations and the Russian Railways’ employees responsible for the activities aimed at preventing and combating corruption;
- › notifying the Russian Government, the Audit and Risk Committee of Russian Railways’ Board of Directors on the implementation of these anti-corruption measures.

Risk management

Highlights

Effective risk management is a consistent ongoing process that spans all organisational layers and is integrated with the business and decision-making processes to make Company’s targets more achievable.

Since May 2018, the coordination, implementation and improvement of the risk management and internal control system (the “RMICS”) have been led by the Risk Management and Internal Control Centre (the “Centre”). Prior to that, these functions were the responsibility of the Risk Management and Outsourcing Centre.

The Centre focuses on:

- › coordinating the RMICS creation process;
- › monitoring the risk management and internal control processes to achieve Russian Railways’ objectives and mitigate risks to an acceptable level;
- › stating requirements for the RMICS and the risk management and internal control procedures and processes.

Russian Railways adheres to the principles and approaches guiding the development and operation of an effective risk management system outlined in the following documents:

- › the Committee of Sponsoring Organisations of the Treadway Commission (COSO): Internal Control – Integrated Framework;

- › the Committee of Sponsoring Organisations of the Treadway Commission (COSO): Enterprise Risk Management – Integrating with Strategy and Performance;
- › ISO/GOST R 31000;
- › the Corporate Governance Code approved by the Bank of Russia’s Letter No. 06-52/2463 dated 10 April 2014;
- › Guidelines for drafting risk management policies approved by the Russian Government’s Order dated 24 June 2015;
- › Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995.

Risk management and internal control system

Goals and objectives

The main purpose of RMICS is to provide reasonable assurance that Russian Railways will achieve its goals and to protect the value and assets of the Company.

The RMICS serves to:

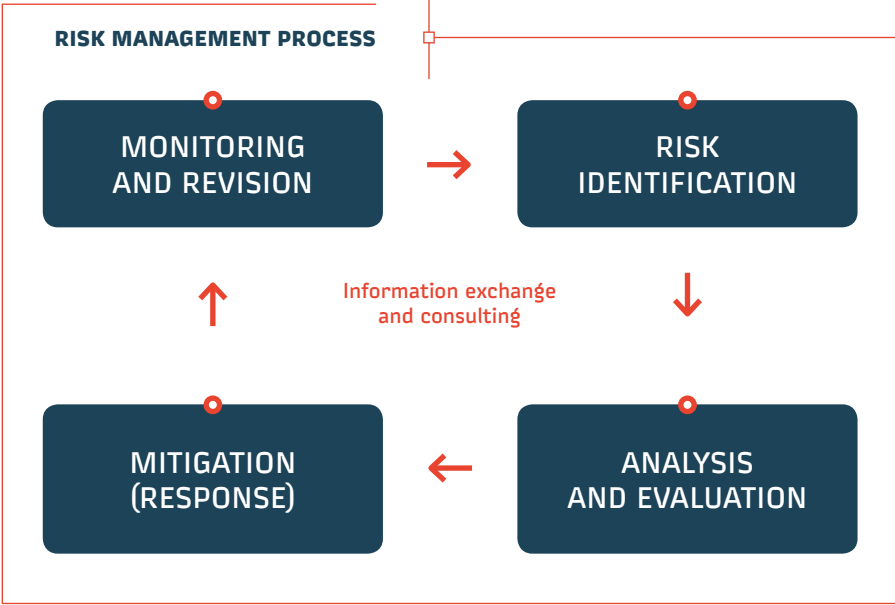
- › integrate risk management and internal control processes and procedures into the strategic and operational dimensions of the Company;
- › put in place the necessary infrastructure, and policies and guidelines;
- › reduce the number of contingencies that could undermine the Company’s ability to achieve its goals;

- › proactively respond to possible threats to the Company’s operations, failure to achieve the Company’s goals, or adverse changes in the external and internal environment;
- › raise risk awareness of the Company’s Board of Directors and management at all levels.

RMICS PRINCIPLES		
COMPLIANCE	INTEGRATION	COMPREHENSIVE COVERAGE
GOAL ORIENTATION	METHODOLOGICAL CONSISTENCY	BALANCE
CONTINUITY	REASONABLE APPROACH TO FORMALISATION AND DOCUMENTATION	PERSONAL RESPONSIBILITY
AWARENESS	SEGREGATION OF DUTIES	ADAPTABILITY AND FLEXIBILITY

Process and stages of risk management

Part of the corporate governance system, risk management is a continuous and interactive process implemented across all management levels (organisational hierarchy) and encompassing all types of the Company's operations, which is embedded into its mission, strategies, business processes and management decisions and aimed at providing a reasonable level of assurance about achieving the targets.



Risk appetite

Risk appetite is set by the Company's Board of Directors. It is defined as an acceptable level of risks and is used for making decisions on mitigation methods and measures.

Risk appetite is shaped by the Company's goals, targets, target benchmarks, the requirements and resolutions of the General Meeting of Shareholders and the Board of Directors, as well as the Company's key performance indicators and risk portfolio.

The procedure for setting, approving and revising the risk appetite is guided by the Company's by-laws.

RMICS assessment

Russian Railways conducts internal and external assessments of RMICS.

risk management initiatives and control procedures.

to organise and ensure the efficient functioning of RMICS resulting in its ability to meet higher requirements and demonstrate a positive development trend.

The internal assessment is carried out at least once a year by Zheldoraudit Internal Audit Centre.

The current status and improvement of the RMICS were considered at the meeting of the Management Board of Russian Railways, with the results reported to the Board of Directors' Audit and Risk Committee. According to the audit report, in 2018 Russian Railways took a number of measures

The external assessment is carried out by an independent expert. Its frequency is set by the Russian Railways' Board of Directors as recommended by its Audit and Risk Committee.

Improvement of the risk management system in 2018

In 2018, efforts were made to improve the existing risk management and internal control system (by creating an integrated RMICS). This was partly driven by the release of updated COSO Enterprise Risk Management – Integrating with Strategy and Performance and a new version of ISO 31000.

- › seminars for the employees of the divisions in charge of the RMICS;
- › development of the target model of the integrated RMICS until 2021.

As part of the target model integration, an independent consultant was engaged to benchmark the implemented initiatives against the best risk management practices.

In 2019, the Company plans to continue RMICS development by further updating the applicable policies and guidelines, developing and running training programmes, improving approaches

to risk assessment with an emphasis on their modelling, as well as conducting a comprehensive risk analysis and using its results in decision-making processes and further integration of the RMICS into the process-based management model. A special focus will be given to the uniformity and consistency of processes applied across Group to be ensured by RMICS improvement in the Russian Railways' subsidiaries and affiliates. The Company also plans to consider options available for RMICS automation and creation of a single information platform.

Key risks associated with the Long-Term Development Programme until 2025

The key risks associated with the Long-Term Development Programme until 2025 are identified based on their impact on the Company's performance, and are grouped by source as follows:

- › macroeconomic;
- › state regulation;
- › market;
- › investment;
- › tax;
- › management;
- › HR;
- › R&D and technology;
- › technology.



Key risks

Risk category	Risk description	Impact	Mitigants
Macroeconomic	Weaker than forecasted macroeconomic performance and lower freight volumes, including as a result of more rigorous sanctions	High impact	Keeping in constant touch with the Government and key customers to provide them with complete and objective information about potential adverse effects of the adopted decisions Efficiency improvement initiatives, long-term contracts with suppliers Resolutions to provide development institutions with additional liquidity
	Higher than expected growth of prices for consumed products, including petroleum products and electricity		
State regulation	No government resolutions on long-term financing of the railway transport development or a failure to implement such resolutions	Critical with high probability	Searching for alternative sources and tools of financing Optimising technical solutions for capital investment projects Breaking down projects into stages with their subsequent implementation in the order of priority Keeping in constant touch with the Government and key customers to provide them with complete and objective information about potential adverse effects of the adopted decisions for Russian Railways
	Changes in the regulatory framework / regulations providing support to other transport modes	Could make railway sector less competitive	
	Liberalisation of the railway freight transportation market	Critical with low probability	
	Reduced public financing	Triggers the need to raise and service debt, and to cut the investment programme	
	A gap between the existing regulatory framework and ongoing railway transformations	Significant with high probability	
Market		Slower freight turnover growth will render relevant projects proportionally infeasible while also reducing Russian Railways' net profit used to finance such projects	Building long-term relations with customers and improving consumer feedback strategies Enhancing market flexibility and expanding business in deregulated segments Strengthening logistics capacities to satisfy customer demand for comprehensive services Implementing the initiatives included in the Comprehensive Plan for Upgrading and Expanding Core Infrastructure
	Significant changes in cargo types and transportation routes versus the forecast		
Investment	Insufficient investment in infrastructure development	Critical with medium probability	Optimising technical solutions.
	Failure to comply with the investment programme implementation schedule		Improving the investment project management framework
Tax	Higher tax burden driven by tighter fiscal policies in Russia amidst social and economic uncertainties	Critical with high probability	Staying in constant contact with the federal and regional tax authorities
Management	Insufficient management competencies	Insignificant with low probability	Improving the management framework

Risk category	Risk description	Impact	Mitigants
HR	Deficit of qualified staff due to the insufficient competitiveness of Russian Railways as an employer	Significant with medium probability	Keeping compensation on a level above the Russian average for a competitive employee value proposition Offering staff development opportunities in line with best practices in training Implementing dedicated social programmes Developing a compensation and benefits package that meets employee needs
	Stronger competition in the labour market on the back of a decrease in Russia's working population in the medium term		
R&D and technology	Weaker competitiveness of the railway transport due to a technology gap with other modes of transport	Low with low probability	Implementing the Comprehensive Innovative Development Programme of Russian Railways Group
	Underperformance in adoption and utilisation of innovative R&D solutions		
	Insufficient cooperation with global railway engineering leaders		
Technology	Slower debottlenecking at associated transport facilities (port capacities, warehouse terminals) vs the forecasts contained in the Company's investment programme	Adjusting the timing of Russian Railways' investment programme where necessary	Keeping in constant touch with the operators of associated transport modes to synchronise the investment programmes
	Failure to meet the freight transportation market needs due to the inefficient freight railcar fleet		Cooperating with rolling stock operators to improve railcar fleet management efficiency

Risks requiring particular attention

Corruption risks

Russian Railways pays particular attention to certain types of risks, such as corruption risks. The Anti-

Corruption Centre is the Company's authorised unit for combating corruption and improving anti-

corruption policies in accordance with the laws of the Russian Federation.

Cybersecurity risks

If they materialise, information security threats may disrupt or suspend IT services, the process flow and operations of the Company, and cause leakage of restricted information.

In this area included the deployment and administration of information systems, assessment of security (vulnerability) of the Russian Railways' information infrastructure and cyberattack detection and prevention system. The Company also assessed the security of its information

infrastructure (including Internet access nodes).

Plans for 2019 include initiatives designed to develop information security control and monitoring systems.

In 2018, the most important activities

Climate change risks

The Company pays great attention to climate change risks, the most significant of them being an increasing number of hydro-meteorological hazards capable of affecting the Company's operations.

Railway design and engineering could become increasingly complicated due to higher precipitation (especially in liquid and mixed forms) and growing number of hazards such as fog, heavy rains, avalanches, dangerous snowfalls and blizzards, and sandstorms. More liquid

precipitation poses a risk of erosion of some parts of the track, while heavy snowfalls and growth of snow cover by more than 5 cm would require building higher railway embankments.

Financial risk management

The Company lays a strong emphasis on managing financial risks and insuring its property and liability. Since 2010, Russian Railways has been implementing and improving an efficient financial risk management framework, using the Financial risk management policy as the key regulatory document.

All related decisions are made by the Financial Risk Management Commission, a collective body headed by the First Deputy CEO of the Company.

The approaches to financial risk management applied by Russian Railways are based on the best

practices of financial risk management, principles of diversification through the use of various risk management tools and reliable counterparties. The risk management policy excludes speculative risk management tools, as well as transactions with unreliable counterparties.

Credit risks

To manage its credit risks, Russian Railways has put in place procedures to calculate credit limits and regulatory documents governing operations with bank guarantees and sureties, including the unified corporate standard of Russian Railways Group for dealing with collateral

instruments. The Company assesses financial institutions and calculates relevant credit limits so as to manage bank transactions involving deposits and bank guarantees based on the financial standing of the financial institution. The assessment of financial institutions

is based on the analysis of their qualitative and quantitative performance indicators in accordance with the internal methodology developed with input from leading experts in the risk management domain.

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.

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.

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

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.

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.

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



# APPENDICES

## Disclaimer

THIS ANNUAL REPORT («ANNUAL REPORT») HAS BEEN PREPARED BASED ON THE INFORMATION AVAILABLE TO THE OPEN JOINT STOCK COMPANY RUSSIAN RAILWAYS («RUSSIAN RAILWAYS» OR THE «COMPANY») AND ITS SUBSIDIARIES (THE «GROUP» OR «RUSSIAN RAILWAYS») AS AT THE ISSUE DATE.

Russian Railways’ Annual Report for 2018 disclosed information to provide the Company’s shareholder represented by the Government of the Russian Federation, as well as government authorities, potential and actual investors, shippers, passengers and other stakeholders and users with the most full and relevant data on the operations of Russian Railways in 2018 and the Company’s development trends.

**The Annual Report meets the requirements of the following laws and regulations:**

- › Resolution of the Government of the Russian Federation No. 1214 On Improvement of the Procedure for Managing State-Owned Open Joint-Stock Companies Whose Shares are under Federal Ownership and Federal State Unitary Enterprises dated 31 December 2010;

- › Resolution of the Government of the Russian Federation No. 1211 On Amendments to the Approximate Structure of the Annual Report of Open Joint-Stock Company Whose Shares are under Federal Ownership dated 10 November 2015;
- › Federal Law No. 39-FZ On Securities Market dated 22 April 1996;
- › Regulation of the Bank of Russia No. 454-P On Information Disclosure by the Issuers of Issue-Grade Securities dated 30 December 2014;
- › Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995;
- › Order No. 228 of the Federal Agency for State Property Management On the regulation of activities of the Federal Agency for State Property Management in corporate governance (with recommendations for the Russian Federation to form an opinion on the

approval of the annual report of an open joint-stock company whose shares are held by the Russian Federation) dated 26 July 2005;

- › Corporate Governance Code approved by the Bank of Russia’s Board of Directors on 21 March 2014;
- › Resolution of the Federal Commission for Securities Markets of the Russian Federation No. 17/ps On Approval of the Regulation on Additional Requirements to the Preparation, Convocation and Conduct of the General Meeting of Shareholders dated 31 May 2002.

The Annual Report contains an overview of activities and performance results of Russian Railways for the year ended 31 December 2018 and major trends that may affect the Company’s future performance.

For the purposes of this report, the word “Company” and the pronoun “we” in all their forms refer to Russian Railways.

The Annual Report may contain forward-looking statements that reflect expectations of the Company’s management.

These forward-looking statements are not based on actual circumstances and include all statements with respect to the Company’s intentions, opinions or current expectations pertaining to its performance, financial standing, liquidity, growth prospects, strategy, and the industry in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Such

words as “anticipate”, “believe”, “expect”, “predict”, “intend”, “plan”, “project”, “consider”, “could” and other similar or equivalent expressions, including those used with negations, generally indicate a forward-looking statement. These assumptions involve risks and uncertainties, expected or unexpected by the Company. Therefore, future performance may differ from current expectations, and the recipients of the information contained herein may not rely solely on the information provided in the Annual Report in their assumptions. Apart from the official information on Russian Railways’ performance, the report contains information obtained from the third parties and the sources which the Company deems reliable. Nevertheless, the Company does not guarantee the accuracy of this information as it may be condensed

or incomplete. Russian Railways does not provide any guarantees that the actual results, scale and performance indicators of the Company’s operations or those of the industry in which the Company operates will be consistent with the results, scale and performance indicators expressly stated or implied in any forward-looking statements contained herein or otherwise. Russian Railways shall bear no responsibility for any losses that may be incurred by anyone due to the fact that such a person relied on the forward-looking statements. Except as expressly required by applicable law, the Company assumes no obligation with regard to the distribution or publication of any updates or changes in the forward-looking statements to reflect any changes in expectations or new information, as well as subsequent events, conditions or circumstances.

# Contact information

**Legal address**

107174, Moscow, ul. Novaya Basmannaya, 2

**Postal address**

107174, Moscow, ul. Novaya Basmannaya, 2

**Contact telephone**

+7 (499) 262-99-01

**Fax**

+7 (499) 262-90-95

**E-mail**

rzd@rzd.ru

## **Corporate Finance Department of Russian Railways**

Trade Finance and Debt Portfolio  
Servicing Department

**Contact telephone**

+7 (499) 260-33-51

**Fax**

+7 (499) 262-74-23

**E-mail**

Solomatinala@center.rzd.ru

## **Press Service of Russian Railways**

**Contact telephone**

+7 (499) 262-66-70 (for media only)

**E-mail**

press@center.rzd.ru