

## 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	+/-	%
<b>Total</b>	<b>1,381.8</b>	<b>1,469.5</b>	<b>87.7</b>	<b>106.3</b>
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 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:

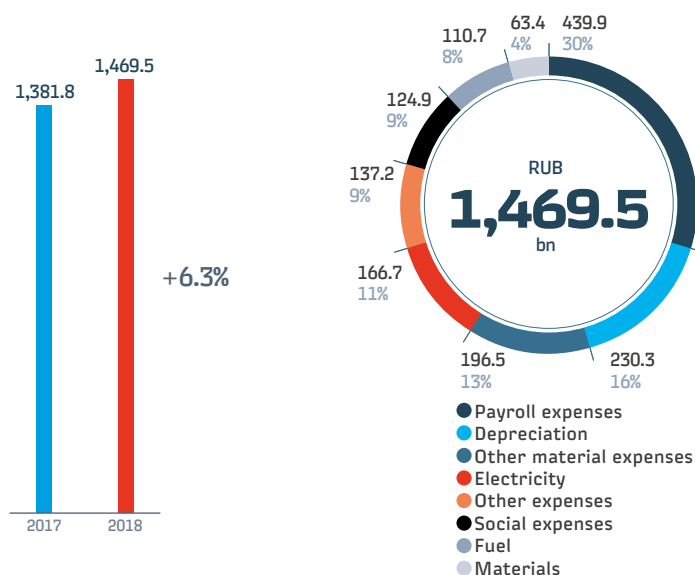
- › optimisation measures taken to improve labour productivity;
- › railway track overhauls with used materials being reclassified as capitalised costs;
- › lower social payments and contributions to the BLAGOSOSTOYANIE Non-State Pension Fund due to a decrease in the number of eligible employees.

**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).

### BREAKDOWN OF TRANSPORTATION EXPENSES IN 2018, 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%.**

## 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;

- › 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.

<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.