

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