



PICKING UP STEAM



Annual Report
2019

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Version of the annual report before approval by the General meeting of shareholders of Russian Railways

Russian Railways is No. 1 globally by energy efficiency of freight services¹.

Russian Railways is an environmentally friendly, “green” company set to further enhance its eco credentials as they become increasingly important for the Company’s business.

Our successful experience is studied by international experts and emulated by railway companies and authorities worldwide.

ABOUT THE COMPANY

Russian Railways is Russia’s major railway company and one of the leading players globally.

No. 2
in freight
turnover globally

No. 5
in passenger
turnover globally

No. 1
in safety
globally²

¹. According to the International Energy Agency.

². According to the UIC Global Safety Index, Russian Railways’ safety record exceeds the world’s average by 22%.

Company profile

Russian Railways is Russia’s largest railway company engaged in owning and building public railway infrastructure. The Company ensures transportation of vital goods to Russia’s most remote regions and is the most affordable transport provider for millions of travellers.

The operational length of Russian Railways’ lines is the third largest in the world.

The Russian Federation is the founder and sole shareholder of Russian Railways.

The Long-Term Development Programme of Russian Railways until 2025 aims to meet the strategic national goals by expanding railway infrastructure and enhancing economic links among Russian regions.

Russian Railways is ranked among the world’s Top 3 railway companies due to

- Large volumes of freight and passenger transportation
- High credit ratings
- Qualified professionals in all areas of railway transport
- Extensive design and construction capacities
- Significant experience in international cooperation

Russian Railways provides a full range of services, including

- Freight operations, locomotive traction and infrastructure
- Container solutions
- Long-haul and suburban passenger transportation
- Logistics
- Rolling stock repairs
- Engineering
- Railway R&D

Russian Railways accounts for

85,500 km
the operational length of Russian Railways’ lines

44,100 km
the length of Russian Railways’ electrified lines

45.9%
of the country’s total freight turnover

23.4%
of total passenger turnover

Key performance indicators for 2019

Loaded railway freight turnover – all-time high at

2,601.9
bn tkm

+0.2% y-o-y

Passenger transportation – 11-year high at

1,197.8
m people

+3.5% y-o-y

Passenger turnover – 6-year high at

133.4
bn pkm

+3.1% y-o-y

Investment programme

RUB 674.1
bn

+1.3 times y-o-y

Lower workplace injury rate

–10%

y-o-y

Labour productivity growth in transportation operations

+3.3%

y-o-y

Indicator	Measurement unit	Change 2019/2018	
		+ / –	%
Freight handling	mt	–11,5	–0,9
Total freight turnover within the infrastructure of Russian Railways and Yakutia Railways, including ¹	bn tkm	+0,1	–
net of empty runs of third-party railcars ²	bn tkm	+5,0	+0,2
empty third-party railcars ³	bn tkm	–4,9	–0,7
Passenger turnover	bn pkm	+4,0	+3,1
long-haul	bn pkm	+2,8	+3,0
suburban	bn pkm	+1,2	+3,5
Passengers transported	m people	+40,6	+3,5
long-haul	m people	+6,2	+5,6
suburban	m people	+34,5	+3,3
Average schedule speed of freight train ⁴	km/h	+0,3	+0,7
The average daily performance of freight locomotive	thousand tkm gross	+21	+1,3
Average gross weight of freight train	t	+14	+0,3
Average freight car delivery speed	km/day	+2	+0,6
Transportation of container freight, net of empty containers	thousand TEU	+391,8	+13,1
Transit, net of empty railcars	mt	+0,2	+0,7

Average monthly salary growth

+6.5%

y-o-y

Environmental costs

RUB 8.1
bn

^{1.} Hereinafter referred to as “total freight turnover”.
^{2.} Hereinafter referred to as “loaded freight turnover”.
^{3.} Hereinafter referred to as “empty freight turnover”.
^{4.} Based on the DO-10VTs reporting form.

Business model



BUSINESS LINES

FREIGHT
TRANSPORTATION

1,278
mt
of freight handled

3,305
bn tkm
of freight turnover

173
thousand
freight cars

Subsidiaries and controlled companies

- Federal Freight Company
- TransContainer¹

PASSENGER
TRANSPORTATION

1,198
m
transported
passengers

2,523
thousand
scheduled runs made by
passenger trains

18
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)
- RZD Logistics (the largest multimodal logistics operator in the CIS and the Baltics)

OTHER
BUSINESSES

Subsidiaries

- RRC-1 (railcar repair company)
- RRC-2 (railcar repair company)
- RRC-3¹ (railcar repair company)
- 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 2,508
bn



The revenue data are reported as per the IFRS statements for 2019.

DISTRIBUTION
OF KEY FINANCIAL FLOWS⁴

INVESTMENT ACTIVITIES

Financing of capex
(through Government-allocated resources, the Company's own funds and borrowings), including RUB 99 bn to purchase locomotives

RUB 720 bn

Intangible asset and R&D expenses

RUB 11 bn

OPERATING ACTIVITIES⁵

Payroll expenses
(including salaries, pension plan payments, payments under the Collective Bargaining Agreement, leave expenses, bonuses, voluntary health insurance, personal income tax, and extra-budgetary fund expenses)

RUB 862 bn

Tax expenses
(including property tax, corporate income tax, VAT, and other taxes)

RUB 92 bn

Maintenance, repair and operating supply

RUB 300 bn

Forwarding and logistics services

RUB 268 bn

Power supply

RUB 180 bn

Fuel

RUB 124 bn

Other operating expenses
(security, travel, business and other operating expenses)

RUB 196 bn

FINANCIAL ACTIVITIES

Debt service
(interest paid)

RUB 91 bn

Dividend payouts
(with the Russian Federation as the beneficiary)

RUB 13 bn

TAXES AND FEES OWED TO THE EXTRA-
BUDGETARY FUNDS OF THE RUSSIAN
FEDERATION FOR ALL TYPES OF ACTIVITIES

RUB 359 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 Conservation section

The Group is implementing an Energy Efficiency Programme seeking to reduce the consumption of energy
For more details see the Energy Efficiency and Conservation 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 Group is one of Russia's major taxpayers
For more details see the Analysis of Financial Results section

¹ Sold in Q4 2019.
² Including the funds provided by the Russian National Wealth Fund (preferred shares) and contributions in the form of real estate owned by the Federal Government.
³ Data for the Russian Railways Group.
⁴ The financing items of Russian Railways Group are stated on an amalgamated basis. For more details see the IFRS statements for 2019 at <https://eng.rzd.ru/en/9637>.
⁵ Excluding depreciation and impairment of financial and non-current assets.

Key performance indicators

The Regulation on Key Performance Indicators of Russian Railways was adopted in 2014¹. The Company’s KPIs include two types of indicators: core, such as EBITDA margin and the Russian Railways Group’s ROIC for Unregulated Types of Activities, and recommended ones, such as the Russian Railways Group’ EBITDA, Reduction of Operating Costs (Expenses), Traffic Safety and Virtual Performance of Russian Railways’ Infrastructure. The KPIs form a part of the incentive system for the Company’s Management Board².

KPI targets are set in line with the Russian Railways financial plan and can be revised in accordance with any decisions beyond the management’s control or adjustments to the financial plan, budgets and/or investment programmes approved by boards of directors of the Russian Railways Group and/or Russian Railways throughout the year.

Russian Railways’ key performance indicators – progress in 2019

Indicator	Measurement unit	Actual for 2018	Target for 2019	Actual for 2019	% of the target	Change y-o-y, %
Dividend amount	RUB bn	8.755	13.364	13.364	100.0	152.6
Russian Railways Group’s EBITDA ³	RUB bn	527.4	575 ⁴	576.9	100.3	109.4
Reduction of operating costs (expenses)	%	3.1	≥2	2.8	–	–
Russian Railways Group’s ROIC for unregulated types of activities ³	%	19.0	≥10	17.3	+7.3 pp	–1.7 pp
Traffic safety across the Russian Railways Group	accidents per million train kilometres	0.98	1.094	0.86	–	–
Virtual performance of Russian Railways’ infrastructure	bn virtual tkm	3,438.2	3,462.8 ⁵	3,442.2	99.4	100.1

¹. Drafted in accordance with the Russian Government’s Directive No. 2579p-P13 of 25 April 2014 and Guidelines for KPI Application (approved by Order of the Russian Government No. ISh-P13-2043 of 27 March 2014). Approved by the Company’s Board of Directors on 30 June 2014 (Minutes No. 15).

². Approved by the Company’s Board of Directors on 30 June 2014 (Minutes No. 15).

³. Under IFRS.

⁴. The Russian Railways Group’s EBITDA target was approved by the Company’s Board of Directors on 18 December 2019 (Minutes No. 11).

⁵. Target for the virtual performance of Russian Railways’ infrastructure as per the Russian Railways financial plan for 2019 approved by the Company’s Board of Directors on 25 October 2019 (Minutes No. 5).

KPI ACHIEVEMENT IN 2019

The Dividend Amount and the Russian Railways Group’s EBITDA under IFRS in 2019 were in line with the targets.

The Reduction of Operating Costs (Expenses) at 2.8% exceeded the target of at least 2% as a result of the Company’s ongoing efficiency improvement efforts. The Traffic Safety across the Russian Railways Group was also improved, with the actual number of accidents per million train kilometres at 0.86 vs the target of 1.094.

The Russian Railways Group’s ROIC for Unregulated Types of Activities stood at 17.3%, exceeding the target of 10%.

The Virtual Performance of Russian Railways’ Infrastructure was 0.6% below the target due to reduced freight transportation (grain, crude oil and petroleum products, ferrous metals, timber, coal, ferrous scrap metals and industrial commodities).

Group-wide KPI targets for 2020

The Regulation on Key Performance Indicators of Russian Railways (the “Regulation”) was approved by the Company’s Board of Directors⁶ as prescribed by the Russian Government’s Directive No. 9054p-P13 of 2 October 2019 and Guidelines for KPI Application⁷.

The Regulation provides the basis for setting Russian Railways’ key performance indicators and includes

an updated list of Group-wide KPIs to be applied starting 1 January 2020. In line with these requirements, the updated list of Group-wide KPIs includes both core and recommended items such as Russian Railways’ EBITDA Margin, the Russian Railways Group’s ROIC for Unregulated Types of Activities, the Russian Railways Group’s EBITDA, Reduction of Operating Costs (Expenses), Traffic Safety Across the Russian Railways Group and Virtual Performance of Russian Railways’ Infrastructure.

The Group-wide KPI targets for 2020 were approved by the Company’s Board of Directors on 18 December 2019 (Minutes No. 11).

Group-wide KPI targets for 2020⁸

Indicator	Measurement unit	Target for 2020
Russian Railways’ EBITDA margin ⁹	%	24.5
Russian Railways Group’s EBITDA ¹⁰	RUB bn	582
Reduction of operating costs (expenses)	%	≥2
Russian Railways Group’s ROIC for unregulated types of activities ¹⁰	%	8
Traffic safety across the Russian Railways Group	accidents per million train kilometres	0.86
Virtual performance of Russian Railways’ infrastructure	bn virtual tkm	3,596.2

⁶. Approved by Decree No. 1388-r of the Government of the Russian Federation dated 27 June 2019.

⁷. The Russian Railways Group’s EBITDA target was approved by the Company’s Board of Directors on 18 December 2019 (Minutes No. 11).

⁸. In the current context of the economic crisis and the global pandemic associated with the spread of coronavirus infection, the KPI targets for 2020 may be revised.

⁹. Under RAS.

¹⁰. The target value can be adjusted based on the results of approval of budgets of subsidiaries of the Russian Railways holding for 2020, decisions on which are made by the Board of Directors of JSC Russian Railways.

EVENT OF THE YEAR: MOSCOW CENTRAL DIAMETERS

Moscow Central Diameters (MCDs) is the key project of the Programme for the Development of Railway Infrastructure of the Central Transport Hub Together with Prospective Diameter Routes planned for 2019–2024 in accordance with the Russian President's Decree No. 204 of 7 May 2018.

The project is being implemented jointly by Russian Railways, the Ministry of Transport of the Russian Federation, and the governments of Moscow and the Moscow Region. It involves the development of commuter rail lines connecting Moscow districts and adjacent suburbs with the city centre.



MCDs highlights:

186
stations¹

375 km
of track¹

300 m
passengers per year¹

¹. Total for all five MCDs.

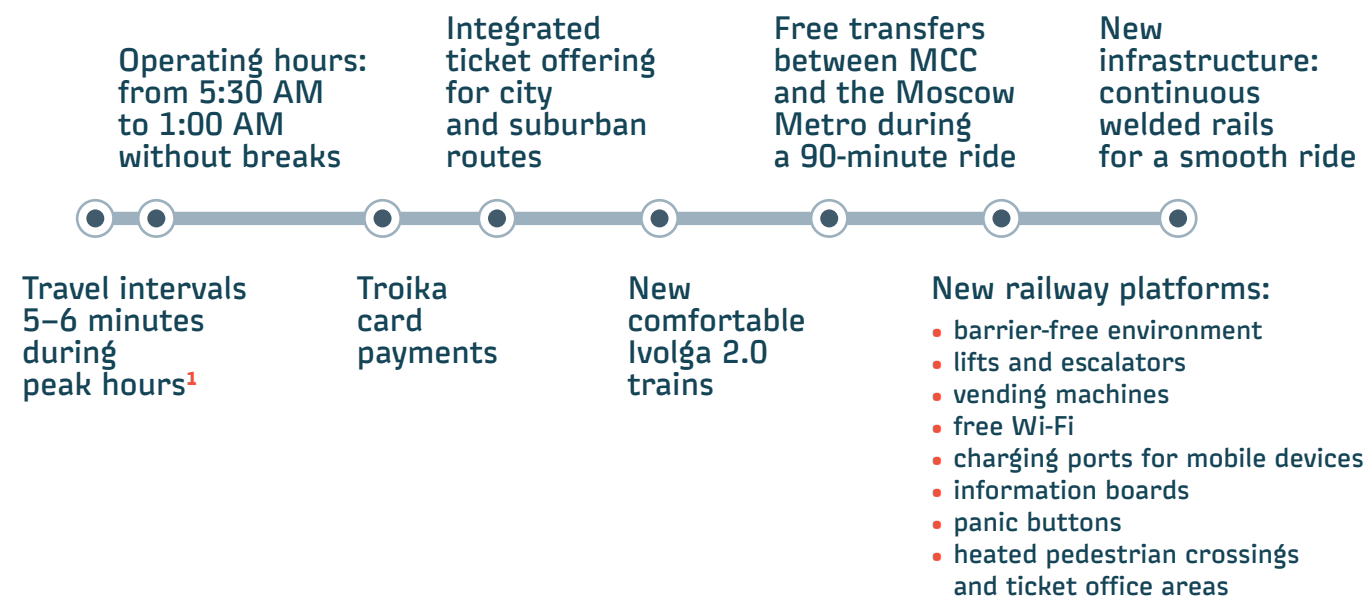
Moscow Central Diameters



“For us, Moscow Central Diameters and Moscow Central Circle are flagship projects making our cities and towns more comfortable. Looking at Moscow’s example, we see that railways can be a central part of transportation systems serving large metropolitan areas – the one offering comfort and speed to passengers.”

Oleg Belozеров

CEO, Chairman of the Management Board



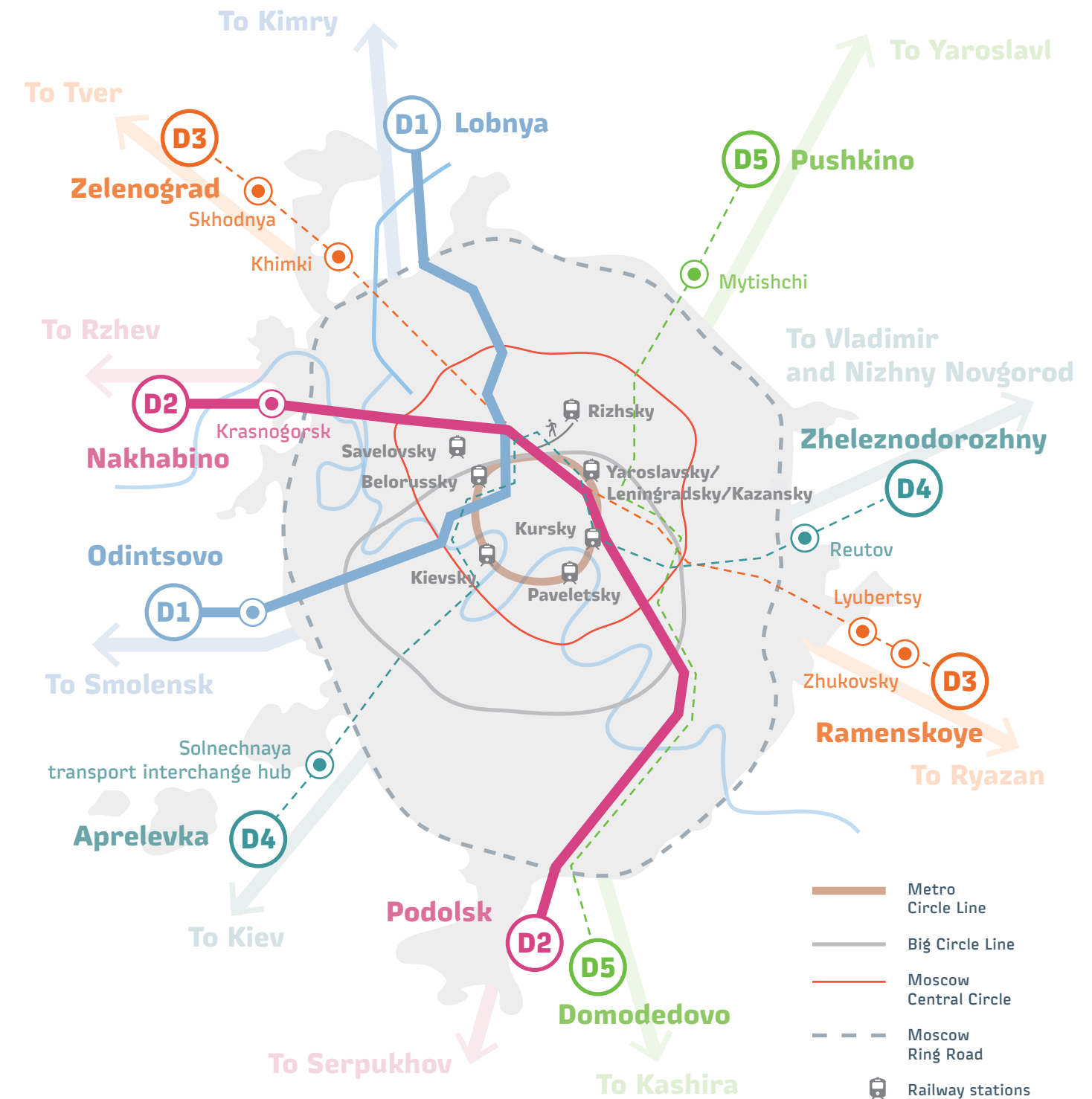
Improved transport availability² for

9.6 m people
70 districts of Moscow
17 towns in the Moscow Region

For more details see the Passenger Transportation section

¹ For mixed operations.

² After the launch of all five MCDs.



Launched in 2019:

D1 Belorussko-Savelovsky

D2 Kursko-Rizhsky

D5 Yaroslavlsko-Paveletsky³

To be launched by 2025:

D3 Leningradsko-Kazansky

D4 Kievsko-Gorkovsky

³ In 2020, the Company is planning to develop basic design solutions for MCD 5 and subsequently review the expediency of enabling commuter trains to run the radial routes to Moscow's key railway stations.

EVENT OF THE YEAR: SAPSAN'S 10TH ANNIVERSARY

Sapsan ultra high-speed trains have been operating on Moscow–St Petersburg–Moscow and Nizhny Novgorod–St Petersburg–Moscow routes since 2009. To mark the anniversary, Russian Railways presented an upgraded Sapsan.

The Company's Long-Term Development Programme until 2025 envisages the signing of life cycle contracts with manufacturers to renew the rolling stock, providing for a higher level of comfort and service for passengers and making trains suitable for use by people with disabilities.



Sapsan's highlights:

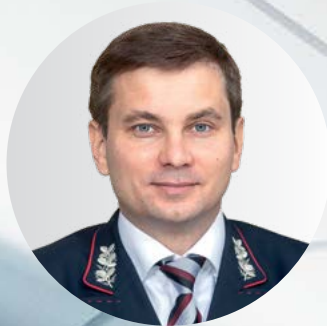
16
trains

250 km/h
maximum
speed

5.7 m
passengers
transported in 2019

+4.0% y-o-y

Sapsan's 10th anniversary



“ Russian Railways constantly seeks to develop customer services and improve product offering with a special focus on ways to ensure comfortable and safe travel. The Sapsan upgrade is centred on the enhancement of customer experience. We have refreshed the train design, added sockets to the railcars and improved seat ergonomics.”

Anton Petrov

Head of High-Speed Transportation Directorate at Russian Railways

The first upgraded Sapsan runs between St Petersburg, Moscow and Nizhny Novgorod.

11.6 thousand passengers transported over the first two months after the launch of the upgraded Sapsan

+22.4% vs the same period in 2018–2019

On 17 December 2019
the first upgraded train travelled from Moscow to St Petersburg

2021
the deadline for renovating interiors in all the 16 trains

SAFETY

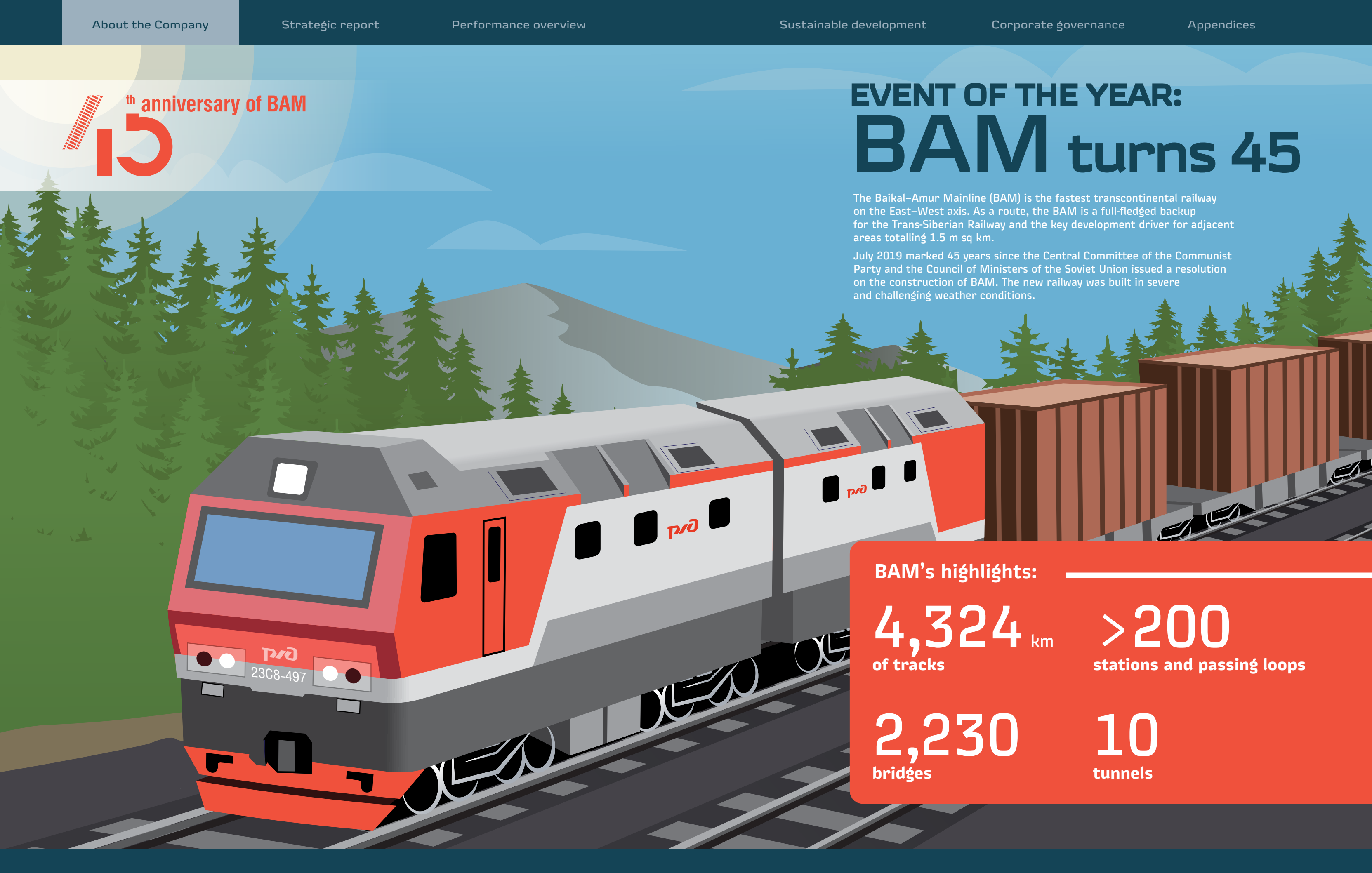
- Impact-resistant components
- Fire-resistant materials
- Shatterproof windows
- Online monitoring of all parts and components by a service centre
- Ergonomic interior with no sharp edges

COMFORT

- Refreshed interior design
- Air conditioning and climate control all year round
- All seats are equipped with sockets and USB ports
- Acoustic insulation
- Window blinds
- Lighting brightness adjustment depending on the time of day
- Wardrobe and storage space
- Water coolers
- Smoking prohibited in all cars

INFORMATION SUPPORT

- Two large information boards in each car
- Digital route display near train exterior side doors



 th anniversary of BAM

EVENT OF THE YEAR: BAM turns 45

The Baikal–Amur Mainline (BAM) is the fastest transcontinental railway on the East–West axis. As a route, the BAM is a full-fledged backup for the Trans-Siberian Railway and the key development driver for adjacent areas totalling 1.5 m sq km.

July 1919 marked 45 years since the Central Committee of the Communist Party and the Council of Ministers of the Soviet Union issued a resolution on the construction of BAM. The new railway was built in severe and challenging weather conditions.

BAM's highlights:

4,324 km
of tracks

>200
stations and passing loops

2,230
bridges

10
tunnels

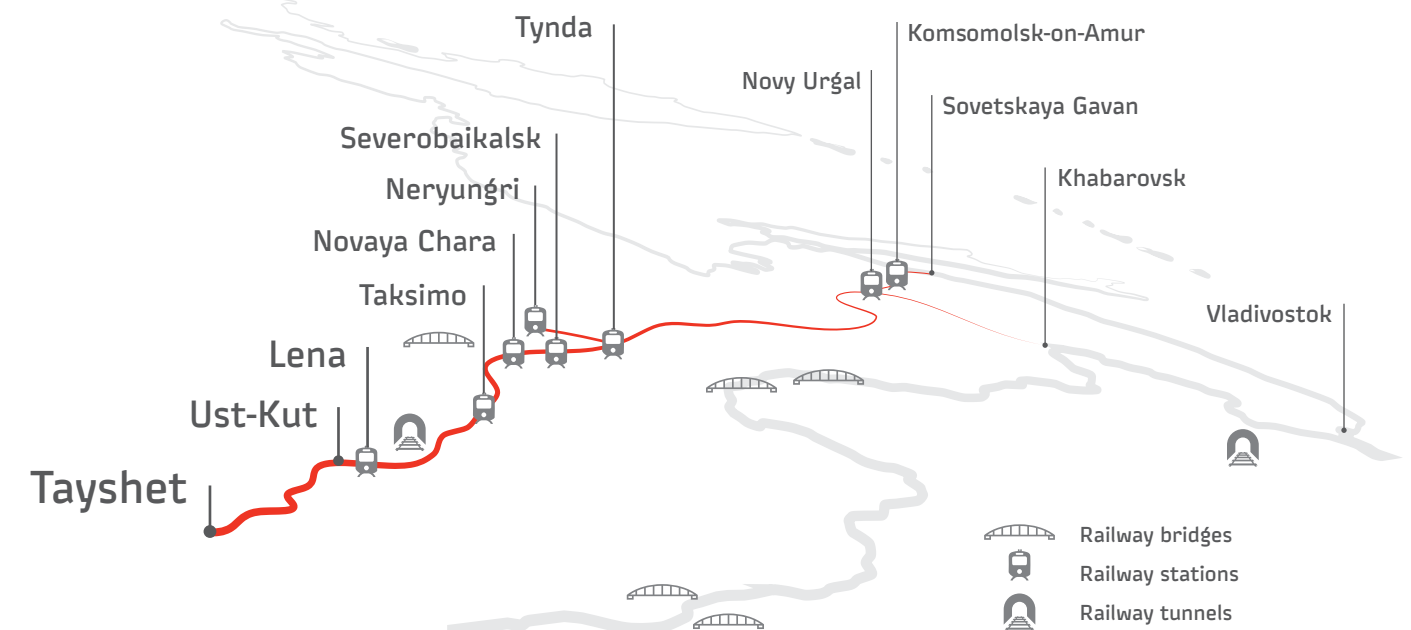
BAM turns 45



“The BAM is one of the key elements of transport infrastructure ensuring fast-paced economic growth in Russian regions. The BAM project is a powerful driver for the economy and social infrastructure development still relevant nowadays. Its practical and strategic significance is unquestionable because of great opportunities it offers for exploration and mining, as well as for freight transportation between Asia and Europe.”

Andrey Makarov

Deputy CEO



1977

The BAM–Tynda section was commissioned. The construction of the Severomuysky Tunnel started

1984

So-called golden spike was hammered at the Kuanda station to link the two sections of the mainline

2003

The Severomuysky Tunnel was commissioned

2018

The last section of the Baikalsky Tunnel was completed

1974

A train carrying the first Komsomol members to become BAM construction workers departed from the Yaroslavy station in Moscow

1979

The Tynda–Berkakit section was commissioned

1989

A 3,000 km section of the mainline was commissioned

2013

Russian Railways' comprehensive development programme for the Eastern Operating Domain was launched

2019

Five railway bridges were commissioned. The Vladivostoksky Tunnel renovation and the Baikalsky Tunnel construction were completed



Revamping stations for the BAM's anniversary

To mark the 45th anniversary of the BAM, Russian Railways completed the overhaul of eight railway stations: Tynda, Neryungri, Novy Ural, Komsomolsk-on-Amur, Novaya Chara, Taksimo, Lena and Severobaikalsk. The Company refreshed the stations' interiors and exteriors, improved the adjacent territories, upgraded the utility systems, and renovated ticket office areas. The biggest project worth nearly RUB 185 m was implemented at the Tynda station. It included:

- refurbishment of the station's exterior and lighting system, replacement of doors and windows;
- repairs of the roofing and the island passenger platform;
- adjacent area improvement;
- installation of three variable-message signs and a queue management system;
- security system upgrade;
- installation of new security screening equipment.

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 and ultra high-speed railway services, advanced development of railway infrastructure, improvement and expansion of the services range for customers, and continuous improvement of transportation safety. The final result is the Company's contribution to the achievement of national development goals.

RUB 417.2 bn
RAS EBITDA in 2019

RUB 53.5 bn
RAS net profit in 2019

+0.4% vs the Long-Term Development Programme guidance¹

+98.9% vs the Long-Term Development Programme guidance¹

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

Letter from the Chairman of the Board of Directors



Dear Partners, Clients and Investors,

In 2019, Russian Railways saw most of its key performance indicators improve, with freight and passenger turnover hitting all-time records and labour productivity showing continued growth.

The highest growth rates were seen in transit container transportation, which increased by 11.8% y-o-y in line with strategic development goals set for the Russian transport industry.

More than RUB 670 bn was allocated to finance the Company's 2019 investment programme, which is 30.8% higher than last year. A key contributor to the long-term development of the Company and the railway industry, the Company's investment programme is also essential for the national economy as a whole, helping drive its growth and development.

Our continued focus on operational efficiency improvements and cost control helped us keep the cost of production growth below the inflation rate. In 2019, we adopted the Russian Railways Long-term Development Programme and Digital Transformation Strategy until 2025 – our key strategic documents setting the Company's direction for the medium term.

I would like to thank the previous Board of Directors for their hard work and contribution towards the Company's sustainable development.

Efficient and reliable railway service becomes even more important in 2020. Shifts in the global markets caused by the coronavirus pandemic, and their economic effects

seen both in Russia and worldwide, pose new challenges before the Board of Directors, the Company's management and the entire Russian Railways' team.

Against this backdrop, our goal is to ensure uninterrupted and safe use of railway network while also staying committed to serving our customers, passengers, partners and employees.

I am confident that Russian Railways and our entire team will work hard to meet the expectations of our clients, our communities and the government.

Andrey Belousov

Chairman
of the Board of Directors

Letter from the CEO and Chairman of the Management Board



Dear Partners and Colleagues,

2019 was the year of important milestones and new achievements for Russian Railways.

The Government of the Russian Federation approved the Company's Long-Term Development Programme until 2025. This is a fundamentally new system document providing for the digitalisation of programme initiatives, including the projects envisaged by the Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024. The targets set by the Comprehensive Plan for 2019 were met in full.

In 2019, we achieved unparalleled results in certain areas of our business.

Russian Railways topped the UIC Global Safety Index (GSI), exceeding the global average by 22%.

The International Energy Agency (IEA) ranked Russian Railways No. 1 globally by energy efficiency of freight services.

The Company reconfirmed its commitment to being a responsible employer, ranking among the Top 3 most attractive companies in Russia. In 2019, we fulfilled

all our social obligations and signed a new collective bargaining agreement for 2020–2022. All our social commitments are supported by outstanding productivity improvements achieved in recent years. In the reporting year, the Company raised average monthly salary across all operations by 6.5%, or 1.9% in real terms.

2019 marked the 45th anniversary of launching the construction of the Baikal–Amur Mainline. The Eastern Operating Domain projects provide a new impetus

for the BAM development, and our key focus is on ensuring decent working conditions for all employees involved.

The Company is proud to have provided top quality transportation services to guests and participants of the XXIX Winter Universiade in Krasnoyarsk.

We delivered strong performance in the passenger transportation segment with 1,198 m passengers transported – a record high in the last 11 years. A large-scale upgrade programme for all types of passenger rolling stock was implemented. We launched new suburban trains in 18 regions, and extended long-haul routes to improve availability of transportation services in 27 regions across Russia.

In 2019, the Company firmly established itself on the urban transportation market, launching its Central Transport Hub projects, including the Moscow Central Circle and Moscow Central Diameters 1 and 2. On top of that, 12 cities were covered by the Urban Commuter Train project.

2019 marked the 10th anniversary of our high-speed Sapsan trains, which have since transported over 39 m passengers.

We completed the key projects to upgrade our rail infrastructure on the island of Sakhalin based on a 1,520 mm gauge track, and also launched a bypass for the Krasnodar Transport Hub, a key infrastructure development project in southern Russia boosting the carrying capacity on routes leading to the ports of the Azov and Black Seas.

In the freight segment, we maintained our focus on flexibility and agility needed to adjust to market trends. The strongest growth was seen in container shipments, with a 12.6% increase y-o-y and a record of over 5 m containers shipped. 96.3 m tonnes of coal – an all-time high – was shipped to Russia's Far East.

In 2019, Russian Railways further strengthened its reputation as an environmentally responsible business. In May, we became the first Russian company to enter the green bond market, achieving the lowest ever borrowing rate for a Russian issuer.

We continued our digital transformation journey, taking it further to cover more business processes, technologies and interactions with passengers, freight owners, suppliers, operators and authorities.

We launched all processes to ensure a breakthrough in quantum communications in line with the targets set by the President of the Russian Federation.

Today, we focus on implementing the Russian Railways' Long-Term Development Programme and the Comprehensive Plan for Upgrading and Expanding Core Infrastructure while also supporting the delivery of national projects. The coronavirus outbreak has brought new challenges, so we need to maintain maximum flexibility to respond to changes while making sure that we retain our top-notch team through this time. I am certain that the hard work and dedication of our employees will help Russian Railways deliver on its goals to ensure stability and prosperity in Russia.

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 Strategy¹ (“Russian Railways’ Strategy”) sets out the Group’s goals and objectives, defines 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

In 2019, the Strategy was implemented in line with Russian Railways’ Long-Term Development Programme until 2025.

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.

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.

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.

Strategic goals until 2030:

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

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.

Strategic goals until 2030:

- 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.

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.

Strategic goals until 2030:

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

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.

Strategic goals until 2030:

- 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.

^{1.} Approved by the Company’s Board of Directors (Minutes No. 19 dated 23 December 2013).

Russian Railways Long-Term Development Programme until 2025: first performance results

The Long-Term Development Programme of Russian Railways until 2025¹ was approved by the Russian Government’s Order No. 466-r dated 19 March 2019. It was developed in furtherance of the goals set forth in the Address of the President of the Russian Federation to the Federal Assembly dated 1 March 2018 and in line with the Russian President’s Decree No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018 (in terms of Russia’s goal to enter the Top 5 of the world’s largest economies).

The Programme also aims to contribute to achieving the goals set forth in the Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024, the action plan to expedite capital investment growth and increase its share to 25% of the GDP, the Transport Strategy of the Russian Federation until 2030, Russia’s Railway Transport Development Strategy until 2030, Russia’s Innovative Development Strategy until 2020 and the Russian Railways Group’s 2030 Development Strategy. The Company’s Development Strategy and Long-Term Development Programme are aligned through a list of Group-wide key performance indicators (KPIs).

In order to achieve the goals set by the Russian President, the Programme provides for:

- an increase in the carrying capacity of the Baikal–Amur and Trans-Siberian main lines to 180 mt by 2024;
- an increase in the carrying capacity of the approaches to the ports of the Azov and Black Seas;
- a throughput increase to ensure a fourfold growth of transit container transportation;
- a reduction of container travel times (in particular, to seven days for containers transported from Russia’s Far East to its western border).

Programme implementation in 2019

In 2019, the Company drafted the Standard for Assessing the Implementation of the Long-term Development Programme and KPI Achievement and the Terms of Reference for Assessing the Implementation of the Long-term Development Programme until 2025 and KPI Achievement in 2019. Both documents² were verified at the meeting of the Audit and Risk Committee on 28 January 2020 and recommended for further approval by Russian Railways’ Board of Directors.

In 2H 2019, the Company faced continued negative macroeconomic headwinds due to trade wars, stagnation in some European economies, and a slowdown in China, leading to muted manufacturing activity and unfavourable global commodity prices for Russian exports, which resulted in lower demand for transportation services from shippers affecting the handling volumes and freight turnover.

product portfolio and enhanced customer experience in rail travel.

As a result of lower handling volumes and freight turnover, Russian Railways’ 2019 revenue was below the target. However, thanks to operational efficiency improvements, the Company’s net profit was nearly twice as high as the Programme’s target.

Passenger turnover in 2019 exceeded the target, with the growth mainly driven by increased mobility of people, expanded

Achievement of selected KPIs as part of the Long-Term Development Programme (LTDP) in 2019

KPI (unit of measurement)	LTDP target ³	2019 performance	Target achievement, %
Freight handling, mt	1,309.2	1,278.1	–2.4
Total freight turnover, bn tkm	3,373.4	3,305.0	–2
Loaded freight turnover, bn tkm	2,656.8	2,601.9	–2.1
Passenger turnover, bn pkm	127.4	133.4	+4.7
Passengers transported, m people	1,135.4	1,197.8	+5.5
Investment programme, RUB bn	681.9	674.1	–1.1
Length of public railway lines with limited throughput, thousand km	8.3	10.6 ⁴	+27.7
Length of railway tracks with exceeded limits of throughput in tonnes and useful life, thousand km	24.5	23.9	–2.4
Container transit volumes, thousand TEU	615	618 ⁵	+0.4
Average daily performance of a freight train locomotive, thousand tkm gross	2,165	2,139	–1.2
Average loaded freight car delivery speed, km/day	392	395	+0.7
Adherence to freight train schedules, %	74.67	69.58	–5.1 pp
Adherence to passenger train schedules, %	98.35	98.01	–0.3 pp
Integrated KPI for innovation efficiency	1	1.26	+26
Procurement from small and medium-sized businesses, %	18	62.8	+44.8 pp
Russian Railways’ revenue, RUB bn	1,874.2	1,848.1	–1.4
Russian Railways’ EBITDA (under RAS), RUB bn	415.5	417.2	+0.4
Russian Railways’ net profit, RUB bn	26.9	53.5	+98.9
EBITDA margin (under RAS), %	22.2	22.6	+0.4 pp
Labour productivity growth in transportation operations, %	5	3.3	–1.7 pp

^{1.} Approved by the Company’s Board of Directors (Minutes No. 14 dated 8 April 2019).

^{2.} Approved at the meeting of the audit and risk Committee of the Board of Directors of Russian Railways (Minutes No. 7 dated 28 January 2020).

^{3.} Under the base case scenario of Russian Railways’ Long-Term Development Programme until 2025.

^{4.} Estimate.

^{5.} Including the return of empty containers from Europe to China as per new logistics schemes.

Development prospects in 2020

The Company’s development prospects were assessed taking into account the following key objectives for 2020:

- achieve targets under Russian Railways’ Action Plan¹ to Deliver against the Russian President’s Address to the Federal Assembly dated 1 March 2018 and the Russian President’s Decree No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018;
- achieve targets under the Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024²;
- strictly follow strategic priorities outlined in the Company’s Long-Term Development Programme until 2025; implement unified and balanced principles of financial, operating, technical, technological, investment, social and HR policies ensuring social stability and development of the Russian Railways Group under the Long-Term Development Programme until 2025;
- leverage competitive advantages of rail transport, including by developing freight transportation quality standards based on availability, timeliness and reliability of transportation services and cargo safety, and increase train speed for transit, interline and local freight transportation;
- strengthen the Company’s market position in passenger transportation by developing route network, improving service quality, expanding the product offering, renewing the rolling stock, and upgrading and refurbishing infrastructure; implement a set of technical and technological measures, including infrastructure preparations, to ensure uninterrupted transport service during the celebration of the 75th anniversary of the victory in the Great Patriotic War, and summits of the Shanghai Cooperation Organisation (SCO) and BRICS³;

- reach a break-even point in the operations of suburban passenger companies, including through maintaining a dialogue with Russian regions on the reimbursement of the subsidiary carriers’ income lost as a result of the tariffs for suburban passenger transportation being regulated by the government, in line with completed public transportation service orders;
- develop digital competencies and harness digital technology to improve efficiency of internal processes, enhance the service offering and increase adaptability of customer relations models;
- enhance environmental and traffic safety, improve the traffic safety management system, develop the traffic safety culture, and prevent occupational injuries across the Russian Railways Group;
- expand Russian Railways’ international footprint and increase its portfolio of overseas projects;
- set the groundwork for the development of high-speed and ultra high-speed railway services between major cities, including the design of the Moscow–St Petersburg line and preparations for the construction of the Moscow – Nizhny Novgorod High-Speed Railway;
- harness Russian Railways’ vast organisational and technology potential for the Group to become a national leader in quantum communications;
- enhance cooperation with Russian technology initiative centres, branches of the Russian Academy of Sciences, and other R&D centres, in the field of R&D and innovation development.

¹. Russian Railways’ Action Plan to Deliver against the Russian President’s Address to the Federal Assembly in 2018–2020 and the Russian President’s Decree No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018 approved by Order No. 635/r of the Company’s CEO and Chairman of the Management Board Oleg Belozеров on 20 March 2020.

². Approved by the Russian Government’s Order No. 2101-r dated 30 September 2018.

³. BRICS is an association of five countries: Brazil, Russia, India, China and South Africa.

Changes in the macroeconomic environment driven by the COVID-19 outbreak may require the adjustment of key 2020 goals and targets.

PERFORMANCE OVERVIEW

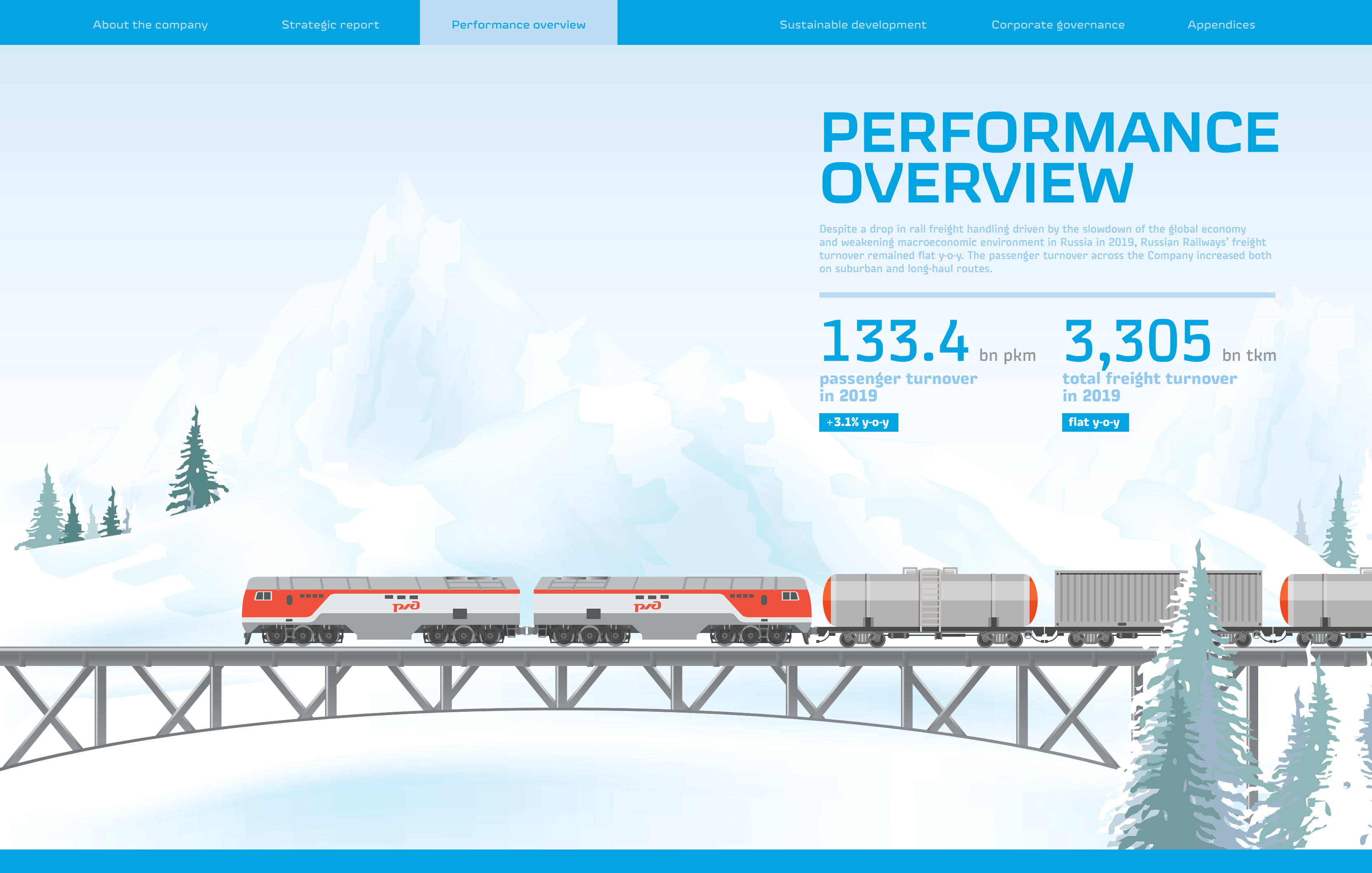
Despite a drop in rail freight handling driven by the slowdown of the global economy and weakening macroeconomic environment in Russia in 2019, Russian Railways' freight turnover remained flat y-o-y. The passenger turnover across the Company increased both on suburban and long-haul routes.

133.4 bn pkm
passenger turnover
in 2019

+3.1% y-o-y

3,305 bn tkm
total freight turnover
in 2019

flat y-o-y



Market overview

Russian economy in 2019

In 2019, Russia saw its macroeconomic fundamentals deteriorate. The country's GDP growth dropped from 2.5% in 2018 to 1.3% in 2019 (hereinafter as per the data of the Russian Federal State Statistics Service, unless indicated otherwise). This was driven by:

- a slowdown of global economic activity;
- lower annual average prices of crude oil and some other major Russian exports;
- a drop in export volumes;
- continued sanctions pressure;
- a drop in the domestic consumer and investment demand;
- VAT increase;
- weaker than planned progress in implementing national projects.

The positives included strong performance of Russia's agriculture, low inflation contributing to a stable macroeconomic environment in the country, low unemployment rate and monetary easing, which should help boost economic activity, though in a somewhat deferred manner.

Transport industry in Russia

Industrial production growth, which is of critical importance to the rail freight transportation sector, dropped from 3.5% in 2018 to 2.3% in 2019 in no small part due to:

- a drop in the mining industry (from 3.8% in 2018 to 2.5% in 2019);
- a drop in the manufacturing sector (from 3.6% in 2018 to 2.6% in 2019).

for a major share of export rail freight transportation also dropped in volume terms.

across the transport modes, except for the sea (–1%) and air (–5.4%) transport and inland waterways (–4.9%). Loaded freight turnover in the railway segment added 0.2%.

Freight turnover

According to the Russian Federal State Statistics Service, in 2019, freight turnover in Russia increased by 0.6% y-o-y to 5,670.9 bn tkm. Growth was reported

Russia's freight turnover by transport mode

Transport mode	2019		Share in total freight turnover, %	
	Bn tkm	Y-o-y change, %	2018	2019
All transport modes	5,670.9	0.6	100.0	100.0
Railway ¹	2,602.5	0.2	46.1	45.9
Including the infrastructure of Russian Railways and Yakutia Railways	2,601.9	0.2	46.1	45.9
Road	275.4	6.3	4.6	4.9
Sea ²	36.5	–1.0	0.7	0.6
Inland waterways ²	62.8	–4.9	1.2	1.1
Air (transport aviation)	7.4	–5.4	0.1	0.1
Pipeline	2,686.2	0.7	47.3	47.4
For reference:				
Share of railway transport excluding pipelines			87.5	87.2
Share of Russian Railways excluding pipelines			87.5	87.2

PASSENGER TRANSPORTATION MARKET

Passenger turnover

In 2019, Russia's passenger turnover increased by 7.2% y-o-y to 570.5 bn pkm, including:

- 133.6 bn pkm in railway transport;
- 113.3 bn pkm in road transport;
- 323.0 bn pkm in air transport.

Passenger turnover growth in the public transport segment was mainly driven by a 12.6% increase in air transportation.

Despite a 3.1% y-o-y growth, railway transport saw its share in total passenger turnover go down by 1 pp to 23.4%. Passenger turnover in the road transport (bus service) segment decreased by 1.7% to 19.9%.

Passenger turnover by transport mode

Transport mode	2019		Share in total passenger turnover, %	
	Bn pkm	Y-o-y change, %	2018	2019
Public transport total	570.5	+7.2	100.0	100.0
Railway ³	133.6	+3.1	24.4	23.4
Including Russian Railways' infrastructure ⁴	133.4	+3.1	24.3	23.4
Road (bus service)	113.3	–1.3	21.6	19.9
Inland waterways	0.54	–5.4	0.09	0.1
Air	323.0	+12.6	53.9	56.6

^{1.} Loaded freight turnover.

^{2.} For reference: freight transportation by sea and inland 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.

^{3.} Excluding intra-urban transport.

^{4.} Russian Railways' data.



Analysis of operating results

Transportation and logistics

Russian Railways operates railway infrastructure, owns rolling stock (through subsidiaries and affiliates) and provides both basic transportation and 3PL/4PL services. 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.

KEY GROWTH AREAS UNDER THE LONG-TERM DEVELOPMENT PROGRAMME

- 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)



“ Amid high volatility in the key sales markets, we focus strongly on driving demand for the Russian Railways services and drawing freight to rail. We also keep streamlining communications with our clients across all aspects of our operations, including tariff policies, regulatory issues and logistic arrangements.”

Alexey Shilo

Deputy CEO, Head of the Centre for Corporate Transport Services

Key achievements in 2019

- Loaded freight turnover reached 2,601.9 bn tkm (up 0.2% vs 2018).
- Handling volumes went up for iron ore (up 3.5 mt, or 3.0%), chemical and mineral fertilisers (up 1.3 mt, or 2.2%), cement (up 1.2 mt, or 4.7%) and containerised cargoes (up 4.1 mt, or 13.1%).
- The first container train was dispatched from the Bely Rast terminal and logistics centre.
- As part of the initiative to support non-commodity exports, a new Agroexpress service was launched for fast container train shipments of Russian agricultural and food products to China.
- In Q2 2019, Russian Railways jointly with FESCO launched Trans-Siberian LandBridge, a new multimodal transit service for fast transportation of various cargoes, including auto parts and household appliances, from Japan's ports and South Korea via the Commercial Port of Vladivostok and the Trans-Siberian railway, with subsequent delivery to the consignee's warehouse in Europe by road. The service helps to halve the overall lead time to 21 days as compared to the traditional deep-sea route and also provides the opportunity to send containers back from Europe to Japan or South Korea. Total Trans-Siberian LandBridge shipments since its launch in May and through the end of 2019 amounted to 27 thousand TEU.
- A certificate of compliance was received for a universal container and piggyback flatcar of 13-5205 type, which can also be used for carrying wheeled transport (100 flatcars are expected to come online in Q1 2020).
- To maintain top-notch quality of service, Russian Railways launched regular Client Days.
- We kept using new logistic technologies to expand our portfolio of integrated end-to-end services (door-to-door, just-in-time, last-mile delivery and others) based on consolidated efforts of all divisions and business units involved in the Company's transportation and logistics operations.
- New capabilities were launched as part of the Freight Transportation electronic trading platform (FT ETP), including trading in bids to supply rolling stock, transportation planning services for domestic routes, transportation orders for indirect international routes (via Russian sea ports), and cloud services for service providers.
- The Group further developed free IT services, taking a completely new approach to providing information services in 2019. For instance, Russian Railways decided to provide basic information on freight transportation and the technical condition of rolling stock free of charge as part of basic transportation services starting January 2019.
- The Autoagent project was launched to enable automatic execution of the clients' transportation documents for empty cars. In 2019, it was also expanded to cover document execution for loaded cars and automatic release of bills of lading.



FREIGHT
TRANSPORTATION USING
RUSSIAN RAILWAYS’
INFRASTRUCTURE

Handling

In 2019, 1,278.1 mt of freight, or an average of 3,501.7 kt per day, was handled by Russian Railways (down 0.9% vs 2018). The decrease was due to reduced transportation of grain, oil and petroleum products, ferrous metals, timber, coal, ferrous scrap metals and industrial commodities.

The reporting year saw lower handling volumes across the board. Domestic and export handling volumes decreased

by 1.2% (to 788.2 mt) and 0.8% (to 478.3 mt) respectively.

The shares of domestic and export transportation in the handling breakdown remained almost unchanged vs 2018 and accounted for 61.7% and 37.4% respectively. Shipments of hard coal, bulk oil, construction materials and ores made up the largest part of handling volumes, with their aggregate share amounting to 66.4%.

In 2019, handling volumes declined across tariff classes. The most expensive cargoes (Class III) were the most sensitive to changing market conditions with a drop of 4.4%, while Class II and the cheapest

Class I freights only fell by 0.4% and 0.5% respectively.

In Class I, timber was the worst performer with a 8.1% decline. In Class II, grain showed a considerable decrease of 20.1%. Finally, Class III saw ferrous metal handling volumes go down by 5.6%.

Low-margin cargoes dominated the freight shipment structure, gaining 0.2 pp since 2018. The shares of mid- and high-margin cargoes grew by 0.2 pp and decreased by 0.4 pp respectively.

Highlights of freight transportation using Russian Railways’ infrastructure

Item	Measurement unit	2015	2016	2017	2018	2019	Change vs 2018, %
Handling volumes	mt	1,214.5	1,222.3	1,261.3	1,289.6	1,278.1	−0.9
daily average	thousand t	3,327.3	3,339.5	3,455.7	3,533.2	3,501.7	−0.9
Total freight turnover	bn tkm	2,954.9	2,997.8	3,176.7	3,304.8	3,305.0	0.0
Including:							
loaded turnover	bn tkm	2,304.8	2,342.6	2,491.9	2,596.9	2,601.9	0.2
empty turnover	bn tkm	650.1	655.2	684.8	707.9	703.0	−0.7
Share of shipments delivered within required (contractual) period	%	92.9	96.1	96.7	97.1	98.4	1.3 pp
Average loaded car delivery speed	km/day	372	381	386	390	395	1.3
Average loaded and empty car delivery speed	km/day	341	361	362	370	372	0.6

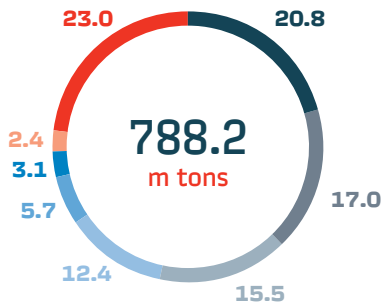
Handling by transportation type

Item	2018		2019		Change vs 2018, %
	mt	share, %	mt	share, %	
Handling	1,289.6	100.0	1,278.1	100	−0.9
Domestic	797.6	61.8	788.2	61.7	−1.2
Export	482.3	37.4	478.3	37.4	−0.8
Including:					
via ports	306.3	23.8	316.9	24.8	3.5
via border crossings	176.0	13.6	161.4	12.6	−8.3
Import and transit	9.8	0.8	11.6	0.9	19.1

Handling volumes evolution, mt

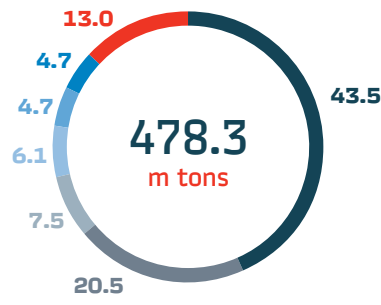


Domestic handling by cargo type in 2019, %



- Hard coal
- Oil and petroleum products
- Construction cargoes
- Iron and manganese ore
- Ferrous metals
- Chemical and mineral fertilisers
- Timber
- Other

Export handling by cargo type in 2019, %



- Hard coal
- Oil and petroleum products
- Iron and manganese ore
- Ferrous metals
- Chemical and mineral fertilisers
- Timber
- Other



Freight turnover

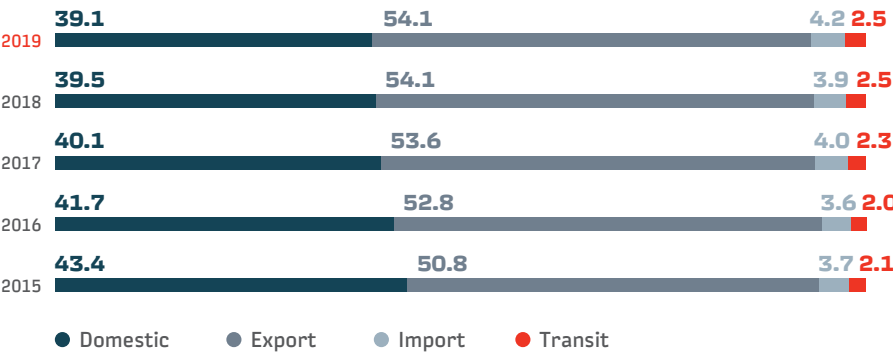
Despite the 0.9% decrease in handling volumes in 2019, the total freight turnover was in line with the 2018 figure, amounting to 3,305.0 bn tkm. Loaded freight turnover accounted for 2,601.9 bn tkm of that, up 0.2% y-o-y. The 0.9% increase in the average haul (from 1,835 km to 1,851 km) was the main factor contributing to the turnover increase.

Domestically, loaded freight turnover contracted by 0.9% to 1,017.0 bn tkm in 2019, which was offset by export shipments via railway stations near ports (up by 5.3%). The export, import and transit turnover increased by 0.2% (to 1,408.5 bn tkm), 8.7% (to 110.3 bn tkm) and 2.5% (to 66.1 bn tkm) respectively. The strong growth in exports is further reducing the share of domestic shipments in overall loaded freight turnover.

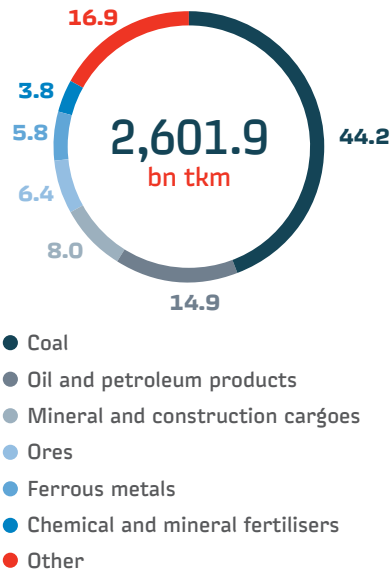
In terms of cargo types, in 2019, coal's and ore's shares grew by 0.3 pp each, and that of mineral and construction cargoes – by 0.2 pp. The share of oil and petroleum products decreased by 0.4 pp and the share of ferrous metals – by 0.1 pp, compared to 2018.

Loaded freight turnover breakdown, %

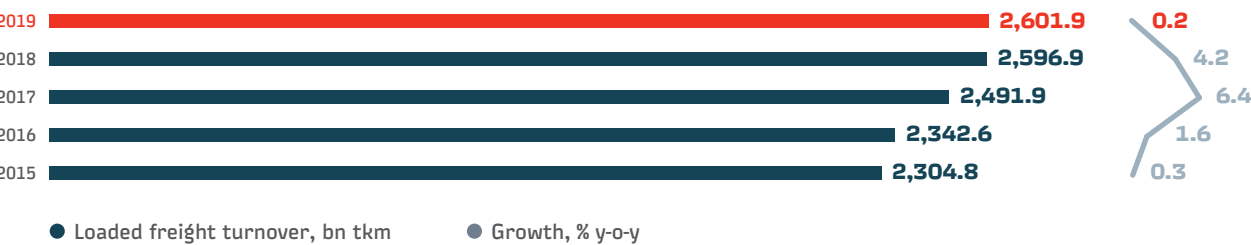
In direction



By cargo type



Loaded freight turnover evolution





TRANSPORTATION
AND LOGISTICS SERVICES

Operating in a highly competitive and volatile market, Russian Railways seeks to provide comprehensive services across all transportation types and expand its customer offering. Advanced 3PL/4PL logistics technologies lie at the centre of our business, ensuring our ability to serve the maximum number of consumers.

Below are the key achievements made as part of fine-tuning transportation products and services to meet the shippers’ needs and developing new products and services:

- purchases using RZD Market software piloted, with a rail freight transportation service introduced on the Freight Transportation e-commerce platform;
- a memorandum of cooperation signed between the Federal Antimonopoly

Service of the Russian Federation, SPIMEX, and Russian Railways to organise exchange trading via a company from the Russian Railways Group acting as the commodity pool operator;

- the Methodology of Using Distributed Ledger (Blockchain) Based Smart Contracts in Russian Railways’ Transportation and Logistics adopted;
- eleven new core transportation and logistics products implemented.

Container solutions remain one of the most promising areas in the transportation and logistics business. Container trains cover more than 450 routes, both domestically and internationally, travelling on average around 800 km/day. The average speed of container trains carrying perishable freight and transit freight is 1,000 km/day and 1,150 km/day respectively.

In 2019, container transportation through Russian Railways’ network reached 5,001.9 thousand TEU, up 12.6% y-o-y, including 3,012.5 thousand TEU carried by container trains, up 20% (506 thousand TEU) vs 2018. As a result, the share of containers transported by container trains in 2019 exceeded 60%, while the share of full train shipments and container shipments increased by 4% vs 2018.

Transit transportation in 2019

In 2019, transit transportation (including empty railcars) stood at 28.54 mt, up 0.4% y-o-y. Container transit, including the return of empty containers from Europe to China under the new logistic arrangements, totalled 618 thousand TEU, up 11.8% y-o-y, including along the following key routes:

- 347.7 thousand TEU via the East–West transport corridor;

- 162.6 thousand TEU on routes to Central Asia;
- 52.6 thousand TEU along the China–Belarus–China axis.

Performance highlights of major transportation and logistics subsidiaries and affiliates

RZD Logistics

RZD Logistics is the largest multimodal logistics operator in the CIS and the Baltics established as part of the development of the logistics business of the Russian Railways Group. The company arranges freight transportation to more than 50 regular delivery destinations in Russia, Europe and China and provides logistics services for foreign trade in Eurasia (the CIS, the Baltics, China, Japan, Vietnam, India, and the European Union).

In 2019, Russian Railways launched Trans-Siberian LandBridge, a new multimodal transit service

for fast transportation of various cargoes from Japan and South Korea via the Commercial Port of Vladivostok and the Trans-Siberian Railway, with subsequent delivery to the consignee’s warehouse in Europe by road. The service helps to reduce the overall lead time as compared to the traditional deep-sea route and provides the opportunity to send containers back from Europe to Japan and South Korea.

Major projects for industrial companies in 2019 include the expanded partnership with Severstal to provide services to Severstal’s steel mill in the Vologda Region, resulting in a 20% increase in transportation services to the mill, and the arrangement of round runs to transport LPG, sulphur and empty railcars for Tengizchevroil.

In 2019, the company’s revenue was RUB 36,253 m, while net profit totalled RUB 449.3 m, down 11% and 65% y-o-y respectively. The decrease in the company’s performance is attributable to the general macroeconomic conditions and the expiry of the contracts for transportation of socially important cargoes in April 2019.

GEFCO

GEFCO (a French-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 among Europe’s Top 10 logistics operators. Russian Railways holds a 75% stake in GEFCO.

The company’s revenue in 2019 grew 2% y-o-y to EUR 4.739 bn. Net profit for the same period totalled EUR 118.2 m (up 22.2%).



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.

A number of promising projects were implemented in automobile logistics, the company’s core customer service segment that relies on a fleet of its own auto carriers. In 2019, over 1.6 thousand railcars arrived from Kaliningrad at the operator’s site in Domodedovo. In the reporting year, GEFCO organised transit transportation of over 1 thousand finished cars along the Silk Road from Europe to China.

GEFCO was the first to arrange export shipments by rail from Bystrinsky Mining and Processing Plant owned by Norilsk Nickel.

UTLC ERA¹
UTLC Eurasian Rail Alliance (UTLC ERA) develops transit railway container 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 shareholding of 33.33%.

In 2019, its revenue was RUB 27.1 bn and net profit stood at RUB 2.6 bn. Container transit services provided by UTLC ERA totalled 333.02 thousand TEU.

China remains the main driver of transit shipping. The total value of goods shipped by UTLC ERA in 2019 exceeded USD 25 bn. The company’s container transportation footprint in 2019 spanned across 83 routes from China to Europe and 59 routes from Europe to China.

In the reporting year, UTLC ERA was able to significantly increase the speed of transit container trains, with the transit time along the China–Europe–China axis reduced to less than five days².

^{1.} Here and further: UTLC ERA is a joint venture of Russia, Belarus and Kazakhstan.
^{2.} On the base route of UTLC ERA Dostyk/Altynkol-Brest/Bruzgi/Svisloch.



Read more
about RZD Logistics
at rzdlog.com



Read more
about GEFCO
at gefco.net



Read more
about UTLC ERA at
www.utlc.com/en

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 railway freight operators in Russia. FFC runs 15 branches and transport service agencies and has representative offices in Moscow and Kazakhstan.

The company accounts for over 95% of all empty rolling stock offered via the Freight Transportation electronic trading platform (FT ETP).

In 2019, FFC’s revenue was RUB 108.3 bn (up 9.6% y-o-y, under RAS), sales revenue reached RUB 27.8 bn (up 16.3%) and net profit grew to RUB 23.5 bn (up 9.8%).

As at the end of 2019, FFC:

- remained one of the best performing railway operators, according to the INFOLine Rail Russia TOP ranking;
- recognised as the best subsidiary of the Russian Railways Group in terms of economic and financial performance;
- started providing 4PL logistics services to industrial companies;

- carried out pilot RoLa shipments using universal 13-5205 type flatcar;
- started supplying rolling stock as part of the new Rolling Stock Lots service launched at the Freight Transportation electronic trading platform (FT ETP);
- tested the loading and unloading of grain products and mineral and construction cargoes to/from special bulk and unit load containers;
- started developing innovative rolling stock for expedited container transit along the China–Europe route;
- continued to be a leader of the freight rolling stock market in terms of:
 - the share in Freight turnover, total (12,3%);
 - the average annual size of fleet under management (134,600 units);
 - the share in the Russian railcar fleet (11.2%).



IMPROVING THE QUALITY OF TRANSPORTATION SERVICES

FT ETP progress

The Freight Transportation electronic trading platform (FT ETP) integrates transportation, rolling stock supply, terminal, warehousing and logistics services of Russian Railways’ subsidiaries into a single marketplace.

The platform currently connects over 70 service providers, including 55 rolling stock operators, three terminal and warehouse operators, three carriers and six stevedores.

Over 250,000 railcars were dispatched across Russian Railways’ network via FT ETP, with over 16 mt of freight

shipped, including 4 mt of freight exported. The number of users registered on the platform exceeded 4,600.

In 2019, the Russian Railways Group expanded its offer of digital services, introducing such options as trading in bids to supply rolling stock, empty railcar management, cargo protection and logistics support. On top of that, international freight transportation to Latvia and Finland is now also available.

Creating freight transportation and logistics centres

The Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024 provides for the implementation of Transport and Logistics Centres federal project.

By now, the first phase of the project has been completed to establish the Kaliningrad transportation and logistics centre and its satellite facility at the Chernyakhovsk station. This is where transit containers going on the Chongqing–Duisburg–Chongqing route are transhipped 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.

The first phase of the Bely Rast project has been piloted. Since 27 December 2019, the transportation and logistics centre has been accommodating container trains.

In 2019, as part of its efforts to introduce new integrated terminal and warehousing

solutions, Russian Railways joined forces with Logbox to implement the Smart Logistics Project. The idea of the project is to create a powerful transportation and logistics centre in the Moscow Metropolitan Area (MMA) to split the current container rail freight flow in two: shipments for Moscow consumers and for those outside the Moscow Ring Road.

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. To this end, the Group launched the following high-speed services: Scheduled Freight Traffic and Freight

Express. In 2019, 43,410 trains (up 33.5% y-o-y) were dispatched as part of the fixed schedule freight transportation service delivering 79.17 mt of cargo (up 9% y-o-y).

The option of consolidating small-sized cargo batches offered as part of the Freight Express service helps more than halve the delivery time and make transportation by rail as expedient as transportation by road. In 2019, 1,990 trains (up 23%) were dispatched, delivering 2.3 mt of cargo (up 28% y-o-y).

To attract potential customers and provide easier access to its services and infrastructure, Russian Railways opened sales offices across all its network in Russia. Russian Railways is currently operating 45 regional

and local sales offices. In 2019, sales offices attracted around 1,000 new railway customers.

Russian Railways employs a multi-channel monitoring system to collect customer feedback. The Company engages Russian Public Opinion Research Centre (VCIOM) and RZD-Partner to conduct comprehensive service quality assessment surveys.

According to VCIOM, as at August 2019, 53% of the respondents were satisfied or quite satisfied with the service quality (up 1 pp y-o-y).



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 services, including high-speed and ultra high-speed transportation between metropolitan areas.

Russian Railways carries out long-haul and suburban transportation in 77 and 66 regions of Russia, respectively.

In the long-haul segment, the Company seeks to provide all Russian regions with affordable passenger transportation. It lays a strong emphasis on developing high-speed and ultra high-speed transportation to encourage travel between major metropolitan areas.

In the suburban segment, Russian Railways focuses on developing an affordable high-speed alternative to personal cars and public buses in large metropolitan areas.

KEY FOCUS AREAS OF THE LONG-TERM DEVELOPMENT PROGRAMME

In line with the Long-Term Development Programme, the Company intends to fully maintain the volume of socially significant transportation, including through implementing initiatives in Russia's Far East.

Key initiatives for the long-haul passenger transportation development:

- building an efficient route network and train schedule;
- developing high-speed rail transportation through operation of 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 for the development of multimodal transport.

Key initiatives for the suburban passenger transportation development:

- integrating suburban transport into the urban transport environment of metropolitan areas;
- ensuring 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 suburban

passenger transportation vs other transport modes;

- launching multimodal transportation (with the possibility of building an integrated route network for several transport modes) along with the comprehensive development of bus transportation services within the Group;
- defining economic incentives for upgrading rolling stock and infrastructure facilities;
- introducing suburban transportation standards for accessibility, quality and safety of passenger transportation;
- enhancing the Central Transport Hub;
- reducing the interval between passenger trains on certain routes, including the Moscow Central Circle.

Key initiatives for the railway station development:

- 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).



“ We consistently focus on improving transport availability and increasing mobility of people. In passenger transportation, our priorities are convenient railway stations, trains, ticket offices and online capabilities coupled with the top-notch quality of service.”

Dmitry Pečov

Deputy CEO of Russian Railways

Key achievements in 2019

- In 2019, the Company transported 1,197.8 m people (up 3.5% y-o-y).
- In November 2019, Moscow Central Diameters covering the routes from Odintsovo to Lobnya (MCD 1) and from Podolsk to Nakhabino (MCD 2) were launched as part of the Moscow Transport Hub.
- The Urban Commuter Train project covered 12 cities.
- During the XXIX Winter Universiade in Krasnoyarsk, the Company used 23 pairs of long-haul trains and 58 daily intracity trains to transport sports delegations and fans.
- 40 suburban trains were used during the WorldSkills international skills competition in Kazan.
- In 2019, for the fourth year running, the Company sponsored a 50% ticket discount for children aged 10 to 17 travelling in open sleeping and sitting cars on long-haul routes between 1 June and 31 August. Over the four years, the discount was provided to 10 m children.
- In August 2019, Russian Railways launched the first train with special seats for passengers with children, travelling between Moscow and Anapa.
- Additional 156 pairs of suburban trains were used to transport the guests of the 2019 MAKS International Aviation and Space Salon.
- The Innovation Centre station was added to the Smolensk route to provide transport accessibility for residents of Skolkovo Technopark.
- The Company celebrated the 75th anniversary of the victory in the Great Patriotic War of 1941–1945 by introducing free tickets for life for the war veterans and disabled servicemen and their accompanying persons.
- Russian Railways started selling non-refundable tickets.
- Online ticket sales were launched for all suburban commuter companies of Russian Railways.
- On 7 June 2019, Russian Railways signed an agreement with Siemens Mobility GmbH and Ural Locomotives for the purchase of Sapsan electric trains, as part of the St Petersburg International Economic Forum. The trains will be delivered and commissioned between September 2022 and July 2023.



PASSENGER
TRANSPORTATION IN 2019

In 2019, the Company’s passenger transportation volumes reached an eleven-year high of almost 1.2 bn people (up 3.5% y-o-y). The growth both in suburban and long-haul transportation was driven by the launch of new services, rolling stock upgrades and improvements in service speed, quality and accessibility.

In 2019, Russian Railways’ long-haul passenger turnover rose by 3% y-o-y to 99.1 bn pkm, with over 116.5 m passengers transported (up 5.6% y-o-y).

Suburban passenger turnover rose by 3.5% y-o-y to 34.3 bn pkm, with 1,081.3 m passengers transported (up 3.3% y-o-y).

The growth in the number of passengers transported was partly driven by the launch of Moscow Central Diameters and increased use of the Moscow Central Circle.

Rolling stock renewal

In 2019, the Company purchased 572 new passenger cars, including 257 innovative passenger cars (up 3.9x y-o-y), 154 out of which were double-deckers (up 2.4x y-o-y).

We also acquired 199 new Lastochka cars (up 10.5% y-o-y), 33 of which are powered by electricity.

The latter are fitted for people with reduced mobility, passengers with children, bicycles and strollers.

In 2019, the Company also purchased 50 novel open cars (model of 2019) with improved facilities. All seats on these trains are equipped with curtain holders to give passengers more privacy.

We also purchased 158 cars arranged in 19 trains for suburban transportation.

Suburban passenger
transportation

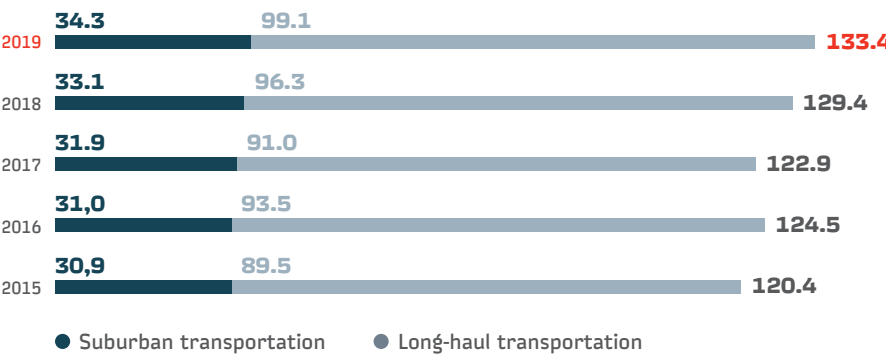
The suburban rolling stock renewal helped to satisfy the demand for this kind of transportation in the Russian regions.

On the sidelines of the St Petersburg International Economic Forum in June 2019, Russian Railways signed an agreement with Siemens Mobility GmbH and Ural Locomotives for the purchase of additional Sapsan electric trains. Thirteen newly manufactured ten-car single-voltage Sapsan trains will be travelling between Moscow and St Petersburg. Their delivery and commissioning will start in September 2022.

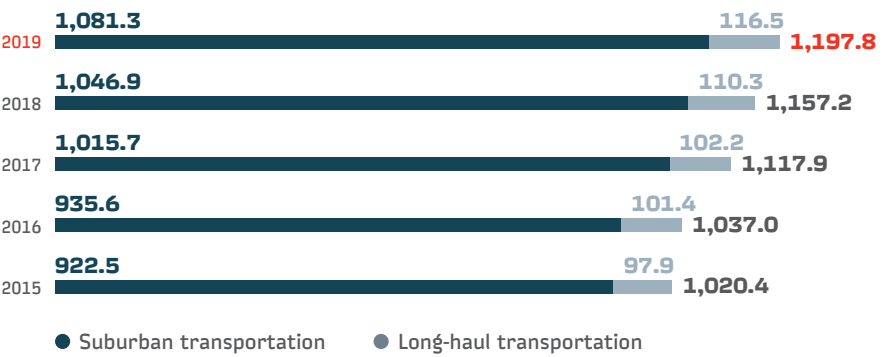
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Railway passenger turnover, bn pkm



Passengers transported by rail, m people



Russian Railways’ passenger transportation highlights

Indicator	2015	2016	2017	2018	2019	Change y-o-y, %
Passenger turnover, bn pkm	120.4	124.5	122.9	129.4	133.4	3.1
Suburban transportation	30.9	31.0	31.9	33.1	34.3	3.5
Long-haul transportation	89.5	93.5	91.0	96.3	99.1	3.0
including high-speed and ultra high-speed trains	3.7	4.6	6.1	7.3	7.9	8.0
Passengers transported, m people	1,020.4	1,037.0	1,117.9	1,157.2	1,197.8	3.5
Suburban transportation	922.5	935.6	1,015.7	1,046.9	1,081.3	3.3
Long-haul transportation	97.9	101.4	102.2	110.3	116.5	5.6
including high-speed and ultra high-speed trains	7.7	9.2	12.4	15.6	17.1	9.9

133.4
bn pkm
passenger turnover in 2019
+3.1% y-o-y



SUBURBAN PASSENGER
TRANSPORTATION

Suburban transportation services are provided by 25 suburban passenger companies (SPCs), with Russian Railways, regional executive authorities, private investors and Aeroexpress among the co-founders. Russian Railways holds more than 50%.

The government support of suburban transportation, by way of reimbursed infrastructure costs and a discount

factor of 0.01, makes it possible to set the price of tickets at a socially affordable level. In 2019, most regions opted not to increase rail fares.

Development of suburban transportation

The Moscow Central Circle and Moscow Central Diameters are a perfect example of how effectively suburban railways can be integrated into the urban environment. The resulting increase in carrying capacity, load lifted off the existing public

transport system, convenient transfers, unified ticketing system and navigation across the Moscow Transport Hub speak for the development of similar projects in other parts of the country.

The Urban Commuter Train, a rapidly growing regional project, received positive response from passengers. The project encompassed 12 metropolitan areas: Moscow, Krasnoyarsk, Ufa, Rostov-on-Don, Tambov, Voronezh, Volgograd, Kaliningrad, Kazan, Tyumen, Vladivostok and Nizhny Novgorod.

In March 2019, the Urban Commuter Train in Krasnoyarsk made a significant contribution to the transport accessibility of sports facilities during the Universiade. The trains served more than 20,000 residents and guests.

On 1 June 2019, the Urban Commuter Train was launched in Vladivostok.

Progress on multimodal routes and hubs in 2019

The most successful approach to the integration of urban passenger

systems is the creation of transport interchange hubs, where the passengers can switch between railway and other types of urban and suburban transport. The new hubs are accessible to people with reduced mobility and meet all modern requirements.

In 2019, seven suburban passenger companies launched 14 new multimodal routes. There are currently 120 multimodal suburban routes provided by 14 companies.

Over the year, suburban
trains transported

1,081.3
m passengers

+3.3% y-o-y



Moscow Central Circle
performance in 2019

In 2019, MCC transported 147.5 m passengers, up 13.8% y-o-y. The daily average exceeded 405,000 people, with a record high of over 580,000 passengers achieved on 25 December. In 2019, the growing popularity of MCC required an increase in the throughput and carrying capacities. The intervals were reduced to four minutes at peak hours and eight minutes at other times (initially, the trains arrived every six minutes during peak hours and every twelve minutes during off-peak hours on weekdays, and on the weekends these intervals stood at eight and 15 minutes, respectively). This is expected to increase the estimated daily capacity of trains by 36% on weekdays and by 40% on weekends and holidays.



LONG-HAUL PASSENGER
TRANSPORTATION

Long-haul passenger turnover stood at 99.1 bn pkm, up 3% y-o-y. Passenger traffic increased by 5.6% to 116.5 m.

Long-haul transportation services are provided by six carriers: Federal Passenger Company, Grand Service Express

TC, Tverskoy Express, TransClassService, Sakhalin Passenger Company, and High-Speed Transportation Directorate (branch of Russian Railways).

In 2019, the share of Russian Railways' subsidiaries and affiliates in the long-haul passenger traffic decreased to 93.8% (down 0.8 pp). Private carriers increased their market share to 1.6% (up 0.2 pp).

Russian Railways' share in the total passenger turnover also grew to 4.6% (up 0.6 pp).



Federal Passenger Company's
performance

Federal Passenger Company is Russian Railways' subsidiary, which provides long-haul passenger and freight luggage transportation services.

In 2019, Federal Passenger Company's passenger turnover totalled 93.6 bn pkm (up 2.2% y-o-y). The Company transported some 105.8 m people. For the trains made up by Federal Passenger Company, passenger turnover along the route was 90 bn pkm (up 2.5% y-o-y).

In 2019, Federal Passenger Company's income from core operations amounted to RUB 236.9 bn (up 4.8% vs 2018), including RUB 213.4 bn of income from passenger transportation (up 5.5%). The net profit totalled RUB 6.6 bn (+9%).

International transportation

In 2019, besides the CIS and the Baltics, Federal Passenger Company served direct and transit routes to eleven countries of Europe and Asia – Germany, France, Poland, Austria, the Czech Republic, Monaco, Italy, Finland, China, Mongolia, and North Korea.

In 2019, 6.55 m passengers were transported in the international segment, down 3.2% y-o-y.

Non-CIS segment showed a rising number of passengers travelling to and from Finland. In 2019, Allegro trains transported 557,200 passengers between St Petersburg and Helsinki (both ways), up 15.7% y-o-y. Higher passenger volumes were also recorded on routes to Mongolia, Germany, and Italy.

High-speed passenger
transportation

High-speed transportation services are provided by Federal Passenger Company and High-Speed Transportation Directorate (a branch of Russian Railways). The latter serves Moscow–St Petersburg, Nizhny Novgorod–Moscow–St Petersburg, St Petersburg–Bologoye, Moscow–Ivanovo, and other routes.

In 2019, high-speed and ultra high-speed passenger turnover totalled 7.9 bn pkm (up 8% y-o-y). The number of passengers transported stood at 17.1 m (up 9.9%), including 5.69 m passengers transported by Sapsan (up 4%).

Number of long-haul passengers transported, m people



Read more
about Federal
Passenger
Company at
eng.rzd.ru



DEVELOPMENT OF RAILWAY STATION INFRASTRUCTURE

In 2018, the Company adopted the Long-term Development Programme for its railway stations until 2025. In 2019, the Company upgraded six stations (Krasnoyarsk, Abakan, Moğocha, Nizhny Novgorod, Volgograd, Ulan-Ude) and nine platforms (main platform in Tambov, main platform in Krasnoyarsk, No. 1 in Krasnoyarsk, No. 2 in Krasnoyarsk, No. 1 in Saratov, No. 1 in Ivanovo, No. 1 in Petrozavodsk, No. 5 at the Finland Station, and No. 1 in Abakan).

At Belorussky railway station, a passenger terminal was built to decrease intervals in the cyclic timetable between suburban

commuter trains on the Moscow–Odintsovo route. At the Leningradsky station in Moscow and the Moskovsky station in St Petersburg, passengers can enjoy new refurbished business lounges.

In 2019, 71 stations were equipped with additional security screening and other equipment to improve safety.

Accessibility for people with reduced mobility

Russian Railways focuses on helping people with reduced mobility and making a growing number of stations fully accessible. As at the end of 2019, 48 stations were adapted.

By 2025, the Company plans to increase their number to 137.

In 2019, Russian Railways modified the Krasnoyarsk station to suit people with reduced mobility ahead of the XXIX World Winter Universiade. The station was fitted with accessible ticket offices, new retiring rooms, lifts, and wheelchair ramps.

The Company is also expanding its Mobility Assistance Centre, covering over 900 stations and transport stops (up 67% y-o-y). Help desks are available at 400 large stations and transport stops (up 3x vs 2018). In 2019, they provided assistance to over 225,500 passengers with reduced mobility (up 5.9% vs y-o-y).



Steam-powered retro train

In June 2019, the Company launched the Ruskeala Express, a steam train travelling between Sortavala and Ruskeala Mountain Park. The train consists of two corridor coaches and a dining car, styled after the Nikolaevsky Express. Its schedule is coordinated with Lastochka trains on the St Petersburg–Sortavala–St Petersburg route and Meteor MVs going to Valaam.

CUSTOMER SERVICE

Russian Railways aims to offer its customers a new level of service quality in a timely manner. Passenger feedback contributes to its continuous improvement.

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

In 2019, the Centre handled 10.6 m queries (up 2.1% vs 2018).

The quality of passenger services provided by the Russian Railways Group is measured by the customer satisfaction index (CSI).

In 2019, the Company conducted four internal surveys – in January, April, July and November.

Key service innovations implemented in 2019

Long-haul transportation

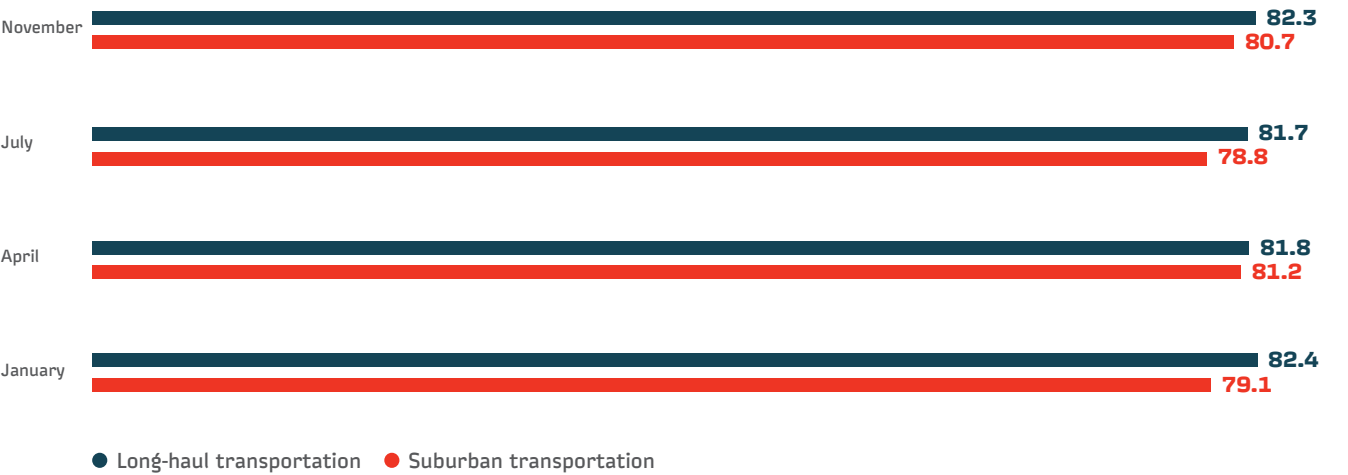
- Non-refundable tickets. Since April 2019, customers can opt for a non-refundable fare instead of a regular one to save 5–20% of the ticket price.
- Increase in the advance booking horizon for certain domestic long-haul routes to 120 days.
- Wider use of dynamic tariff management and demand stimulation for international trains.
- Sale of Electronic Business Pass for the Red Arrow trains (Moscow–St Petersburg–Moscow).
- Reduced fares for the veterans and disabled servicemen of the Great Patriotic War and their accompanying persons (from 1 May to 31 December 2019).
- Whole Family Travel: 20% discount for multi-child families on domestic routes (from 1 June to 31 July 2019).
- Food delivery from city restaurants to the train car (available in Moscow; in 2020, the service is planned to be rolled out to St Petersburg, Yaroslavl, Rostov-on-Don, Chita, Novosibirsk and Samara).
- Electronic tickets: buying and reissuing. In 2019, the share of e-tickets for Federal Passenger Company's long-haul trains amounted to 57.4%.
- Pilot sales of all-in-one tickets valid on various types of public transport (rail and road) within the Kursk Region.
- Pilot e-ticket sales for corporate clients through the Russian Railways website using the unified billing account.
- Purchase of new rolling stock.
- New routes for double-decker railcars and high-speed Lastochka trains.
- Availability of all sections of the Sapsan's infotainment system in English and Chinese.
- New children's section of the Sapsan's infotainment system.
- Electronic feedback form for Sapsan passenger requests.

Suburban Transportation

- Upgrade and reconstruction of railway stations and passenger platforms.
- Development of suburban multimodal transportation routes (train & bus).
- New Wi-Fi hotspots and multimedia portals.
- Thematic children's cars.
- Free suburban train travels for veterans and their accompanying person in May 2019.
- New excursions and tourist routes, including on steam-powered retro trains.



Results of the passenger satisfaction index survey in 2019, points





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;

- introducing automation equipment with moving blocks within sections, including a distributed computer-based interlocking system at stations with identification of main tracks, differentiated departure sections and automatic cab signalling;
- 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 and long 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 an increase in the throughput capacity of the Baikal–Amur and Trans-Siberian Railways to 180 mt by 2024;
- 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 by 2024;
- 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.



“2019 saw a number of landmark events. In August, we completed the main phase of gauge conversion on Sakhalin. We have taken the first steps towards traffic control and further steps towards removing infrastructural restrictions as well as significantly improved the condition of the track structure, and are now working to renew power supply equipment. All development projects have supporting programmes in place. Large-scale investment projects are underway to ensure the necessary throughput capacities for prospective freight traffic. Our absolute priority is to increase the carrying capacities at BAM and Trans-Siberian Railway bottlenecks.”

Anatoly Krasnoshchek

First Deputy CEO of Russian Railways

Key achievements in 2019

- The Company ensured the export handling of coal to the ports of Russia at the request of key coal companies, including the enterprises of Kuzbass. More than 7 mt of coal was exported (up 7.5%), with an almost 12% growth in shipments to the ports of the North-West.
- Handling of containerised cargo grew by 13.1% vs 2018.
- The total freight turnover amounted to 3,305 m tkm, flat vs 2018.
- The loaded car delivery speed increased to 395 km/day, up 1.3% vs 2018.
- The share of shipments delivered within required period increased by 1.7 pp vs 2018, reaching 98.4%.
- The average weight of a freight train was 4,090 t, up 0.3% vs 2018.
- The average daily performance of a freight train locomotive reached 1,610 thousand gross tkm, up 1.3% vs 2018.
- The railway infrastructure on the island of Sakhalin was converted, resulting in an expansion of the 1,520 mm gauge network by more than 770 km.
- The interval between the MCC trains in the same direction was reduced to four minutes.

IMPROVING THE EFFICIENCY OF INFRASTRUCTURE

Repairs and upgrade of infrastructure facilities

In 2019, expenses on all types of track repairs amounted to RUB 145 bn, which is 10.8% higher than in 2018. Capital renovation in 2019 covered 6,017.2 km of tracks.

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.

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.

New technological solutions allowed the Company to increase the speed of transit freight transportation across the country. The average speed of transit container trains in 2019 stood at 1,097 km/day, or 17.8% above the target set in the Comprehensive Plan for Upgrading and Expanding Core Infrastructure (931 km/day).

HIGHER TRACTION STOCK EFFICIENCY

Traction stock in 2019

As at the end of 2019, the operating locomotive fleet of Russian Railways comprised 14,031 units (down 1.7% vs 2018), including:

- 7,592 freight train locomotives (–1.4%);
- 1,562 passenger train locomotives (–0.3%);
- 1,726 service train locomotives (+0.1%);
- 3,151 locomotives involved in special and other shunting operations (–4.0%).

As at the end of 2019, the active locomotive fleet of Russian Railways comprised 10,108 units (down 1.1% vs 2018), including:

- 5,714 freight train locomotives (–0.3%);
- 742 passenger train locomotives (–0.2%);
- 976 service train locomotives (+2.0%);
- 2,676 locomotives involved in special and other shunting operations (–4.1%).

In 2019, the Company purchased 738 locomotives as part of the investment programme. Additional 3,236 locomotives will be acquired in 2020–2025.

Improving locomotive utilisation

Measures to improve locomotive fleet utilisation in 2019:

- optimisation of 103 units of operating freight locomotive fleet by improving daily performance;
- optimisation of 91 units of operating shunter fleet involved in special shunting operations;
- optimisation of 19 units of operating shunter fleet involved in other shunting operations;

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.

In 2019, 710 locomotives were purchased under supply contracts with compulsory service during the life cycle. This scheme makes locomotive manufacturers more responsible for the technical condition of rolling stock, ultimately reducing downtime.

In 2019, Russian Railways retrofitted its locomotives with safety devices as part of the investment programme. Driver's digital route sheet is implemented across the railway network.

Developing heavy-duty traffic

Heavy-duty traffic and higher weight standards of freight trains are key to optimising the transportation process.

Russian Railways continues to develop heavy-duty traffic. Over the year, 162,700 trains weighing over 6 kt were dispatched, allowing for the transportation of additional 30 mt of cargo on the basis of the same infrastructure.

The average train weight across the network increased to 4,090 t (up 0.3% vs 2018).

INNOVATIVE LOCOMOTIVE FLEET MANAGEMENT SYSTEMS

The Intelligent Railway Transportation Management System (IRTMS) is aimed

at creating an automated centre to support decision-making enabling real-time process management, operation planning, and high-level modelling and forecasting. The project is still in progress, but certain subsystems already operate on parts of the network, including the October Railway and the Eastern Operating Domain.

PERFORMANCE OF RAILCAR REPAIR SUBSIDIARIES IN 2019

In 2019, RRC-1 and RRC-2, subsidiaries of Russian Railways used to repair freight rolling stock, showed improved financial and operational performance. The growth was achieved by expanding the client portfolio, improving service quality and optimising costs.

RRC-1

Income for the reporting period amounted to RUB 28.5 bn (up 6% vs 2018), sales revenue stood at RUB 1.1 bn (flat vs 2018), and net profit totalled RUB 407 m (down 14% vs 2018).

RRC-2

In 2019, RRC-2's revenue and net profit increased by 22% and 13%, to RUB 18.6 bn and RUB 559 m, respectively.

The average train weight across the network increased to

4,090 t

+0.3% vs 2018



Upgrade of rail infrastructure on the island of Sakhalin

2019 became a milestone year for Sakhalin as its railway tracks were converted to the 1,520 mm gauge. Previously, the island's rail network operated on the 1,067 mm Cape Gauge widely used in Japan.

The conversion process that required several temporary closures of tracks for passenger and freight traffic in 2019–2020 consisted of six stages, five of which were completed in 2019. The Kholmsk–Arsentievka and Korsakov–Nogliki sections saw freight and passenger transportation launched since 1 September 2019. The Kholmsk–Shakhty line will start operating on the 1,520 mm gauge in August 2020.

Foreign projects and international cooperation

Russian Railways operates in Europe, Asia, Africa, and Latin America. Its key business lines abroad include logistics services to foreign partners, passenger and freight transportation on international and transit routes, engineering and management of railways, machine building, and personnel training. The key companies of the Russian Railways Group engaged in its operations abroad are RZD International, RasonConTrans, South Caucasus Railway, UTLC ERA, GEFCO and RZD Logistics.

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:

- 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.

FOREIGN OPERATIONS AND KEY INTERNATIONAL PROJECTS

The long-term priorities of Russian Railways' business abroad are outlined in the Foreign Operations Strategy approved by the Company's Management Board. The Strategy was aligned with the Long-Term Development Programme. All targets set for the reporting period were achieved.

In 2019, revenue from foreign operations¹ totalled RUB 489.8 bn (up 3.8% vs 2018 and up 3.1% vs the Long-Term Development Programme target) or nearly 20% of the Group's profit, which is made up of three major elements: transit shipments, international logistics and overseas infrastructure projects. EBITDA exceeded RUB 41.5 bn (up 12.8% vs the target).

The Company's brand covers innovative competencies and state-of-the-art engineering technologies, and complementary services such as consulting (including feasibility studies and railway development programmes), supplies of equipment and rolling stock, and employee training. Russian Railways diversifies its income sources by promoting domestic products and related services in the rail industry. The Company's export portfolio includes all kinds of products and services to create an efficient railway network.

Revenue from foreign operations¹ in 2019

489.8
RUB bn

+3.8% vs 2018



“ Russian Railways enjoys a long-standing status of an international company with a nearly global presence. We operate in more than 40 countries. This image is complemented by decent financial results that are significant both for the Company and our country. The Group's projects are socially-oriented as all the products and services we sell abroad seek to improve the quality of living for local residents.”

Sergey Pavlov
First Deputy CEO of Russian Railways



Key achievements in 2019

- The portfolio of overseas projects was expanded with two new contracts (in Serbia and Cuba).
- The income from transit container shipments and international logistics grew by 3.6% vs 2018.
- To further develop the transportation and logistics business, Russian Railways implemented initiatives to boost Russia's transit potential and create efficient transportation routes between Europe and Asia.
- As a member of international industry organisations, the Company continued its efforts to lay the regulatory groundwork for attracting additional cargo traffic and boosting transit volumes through Russian Railways' network.
- The Group solidified its standing as an integrator throughout the 1,520 mm gauge network, in large part thanks to the work of the Council for Rail Transport of the Commonwealth Member States.
- The INTERTRAN project was launched within the framework of the UIC Asia-Pacific Regional Assembly action plan.
- The Company continued supporting the development of the framework for regular meetings of heads of railway administrations previously established by the Shanghai Cooperation Organisation (SCO) member states.
- The goals related to ensuring Russian representation on the BRICS Business Council were achieved.
- The implementation of previously started infrastructure projects in Serbia and infrastructure management in Mongolia and Armenia continued. A feasibility study for the project in India was completed. Railway infrastructure upgrade projects in Egypt, Vietnam, Slovenia and other countries are being reviewed.

¹. Including the standalone 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.



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

The Council for Rail Transport of the Commonwealth Member States (the “Council”) remains the key international interagency body ensuring technological continuity and practical interaction across the 1,520 mm gauge network. The networks of the Council’s member countries are used to transport 2 Bt of cargo and 18.6 m people each year.

In 2019, the Council expanded its geography. At its 71st meeting, representatives of Mongolia and Turkey railway administrations sat in as special guests. The two agencies are considering joining the Council.

UTLC Eurasian Rail Alliance (UTLC ERA), a project that is being successfully implemented jointly with the Company’s Belarus and Kazakhstan partners, aims to boost transit transportation between China and Europe. In 2019, the total container volumes transported using the UTLC ERA services exceeded 333,000 TEU, up 18.7% y-o-y.

Over 3,100 container trains ran on the main UTLC ERA routes.

Together with Belarusian Railway, Russian Railways developed an action plan to establish daytime (high-speed) passenger transportation between Moscow and Minsk, with the first trains slated to run at the end of 2020.

As part of developing the International North–South Transport Corridor (INSTC), the Company signed memorandums with Azerbaijan’s and Turkey’s railway operators to promote transit transportation services and implementation of joint projects.

Russian Railways lent support to Abkhaz experts repairing the railway bridge across the Psou River, thus preserving the direct railway connection to Abkhazia.

The Company continued to honour its commitments under a concession agreement to manage the Armenian Railways. The key operational and financial indicators of South Caucasus Railway are growing consistently, many of them having reached record-high values for the company. In 2019, the freight

and passenger turnover increased by over 8% (upwards of 790 m tkm) and by 14% (to 68 m pkm) respectively. Following its investment programme, Russian Railways is renewing its railcar fleet.

Cooperation with countries in the Asia-Pacific region

In 2019, Russian Railways continued its work to expand transit traffic along the China–Europe route, which included developing railway border checkpoints. The Company is leveraging its strategic partnership with Ulaanbaatar Railways (Mongolia), a stake in which has been under the Company’s trust management since December 2009. This has been a fruitful relationship that saw schedule speeds rise along with throughput and carrying capacities, and on top of that traffic has been steadily increasing since 2010. In 2019, a new milestone was achieved when freight transportation reached 28.1 mt (up 9.2% y-o-y).

Higher volumes necessitate further railway development, including its infrastructure and fixed assets. To that end, Ulaanbaatar Railways’

Management Board has developed and approved a priority action plan to increase the throughput capacity as part of the operator’s modernisation and long-term development programme until 2030. In addition, Russian Railways takes an active part in implementing the programme to establish the Russia–Mongolia–China economic corridor.

On the East–West side, the Company joined efforts with partners to unlock the significant potential in the Japan and South Korea markets. It launched and worked on developing a service to transport transit shipments from Japan to Europe using the Trans-Siberian Railway. In order to strengthen the Company’s presence in the region and coordinate the work with potential shippers, Russian Railways decided to open a representative office in Japan.

The Company is also fostering its cooperation with South Korea. In 2019, the Russian Railways Group and FESCO partnered with a South Korean company Pantos to launch a multimodal transit service for fast transportation of containerised cargo to Europe via the Commercial Port of Vladivostok.

Russian Railways and Yingkou Port Group Corporation continued to work under their cooperation agreement to develop the Bely Rast terminal and logistics centre.

The Company is also coordinating the implementation of the Khasan-Rajin project and supports the operation of the RasonConTrans JV.

Cooperation with European partners

In 2019, the Group strengthened its positions on the Western European market by signing a number of documents with the leading European railway companies.

To accommodate and capitalise on the steadily rising demand for the Sapsan high-speed electric train service, as well as the overall growth of passenger traffic between Moscow and St Petersburg across all transport types, Russian Railways, Siemens Mobility GmbH and Ural Locomotives entered into an agreement for the manufacture of additional Sapsan trains, signing the document on the sidelines of the St Petersburg International Economic Forum.

The Company also signed a cooperation agreement with Sinara Group and Siemens Mobility GmbH in the field of engineering consulting that envisions the creation of an engineering centre for innovative technical and technological solutions.

On 28 August 2019, at the PRO//Motion.Expo fair of railroad machinery and technologies designed for the 1,520 track gauge, Russian Railways and the consortium German Initiative for High-Speed Transportation in Russia signed a memorandum of cooperation on the design and implementation of the Moscow–St Petersburg high-speed railway.

Russian Railways kept up the joint efforts to create a new Eurasian transport corridor extending the broad gauge tracks to Bratislava and Vienna and establishing a Vienna–Bratislava international logistics centre. Currently, the third stage of the feasibility study has been completed. The state and municipal authorities of Austria and Slovakia are conducting environmental certification.

Cooperation with international organisations

In 2019, Russian Railways continued its work with the Organisation for Cooperation between Railways (OSJD) to draft regulations on international cargo and passenger transportation. On 1 July 2019, amendments to the Agreement on International Goods Transport by Rail (SMGS) went into effect. These changes were related to the review of complaints in respect of transportation using electronic documents. The electronic CIM/SMGS consignment note was introduced. These amendments will help bring information technologies to transportation and embrace paperless processes.

As a result of the work done to agree on cargo transportation volumes along the export/import and transit lines for all border crossings of Russia, China, Mongolia, Kazakhstan, Vietnam and North Korea in 2018–2019, new routes were launched and cargo transportation volumes increased.

In June 2019, a decision was made to set up the OSJD Academy. To that end, Russian Railways implemented two pilot projects utilising the OSJD's regulatory framework. There are currently talks to create competency centres in the OSJD member countries. As part of the International Diplomatic Conference and under the auspices of the OSJD, the work on the adoption of the main text of the Convention on Direct International Railway Traffic was almost completed. Russian Railways spearheaded the efforts to develop its provisions.

Another important highlight is that during a UNECE Inland Transport Committee (ITC) session of February 2019 the text of the Convention on the Facilitation of Border Crossing Procedures for Passengers, Luggage and Load-Luggage carried in International Traffic by Rail was adopted and opened for signing to countries starting April 2019. The document is the result of work started at Russian Railways' initiative.

In 2019, the Russian Railways Group continued active cooperation with the International Union of Railways (UIC), including as part of its European and Asia-Pacific Regional Assemblies. The highlight of that cooperation was Russian Railways' UIC Day on 1 October 2019 in Moscow, when the heads of the Company's departments and the Group's business units met with all directors of the UIC headquarters. The resulting roadmap of further cooperation outlined the areas and format of future interactions.

OVERSEAS INFRASTRUCTURE PROJECTS

In early 2019, RZD International (a controlled entity of Russian Railways) and Serbian Railways Infrastructure signed a new contract for the design and construction of railway infrastructure and a single dispatch centre for train traffic control in Serbia.

In India, a feasibility study was completed for a project to increase train speed on the Nagpur–Secunderabad line. As the next step, the preparation of an intergovernmental agreement was initiated to modernise this section.

In October 2019, Havana hosted the signing of a ten-year contract to reconstruct and modernise railway infrastructure in the Republic of Cuba for approximately EUR 1.9 bn.

In Mongolia, the Russian Railways Group embarked on a project to develop the Central Railway Corridor of the Russia–Mongolia–China corridor: first priority actions of a long-term modernisation and development programme until 2030 were approved to complete major track repairs and upgrade locomotives of Ulaanbaatar Railways until the end of 2020. In December 2019, a contract was signed

for RZD International to provide technical consulting services for the construction of the Tavantolgoi–Dzunbayan line in Mongolia for EUR 2.34 m.

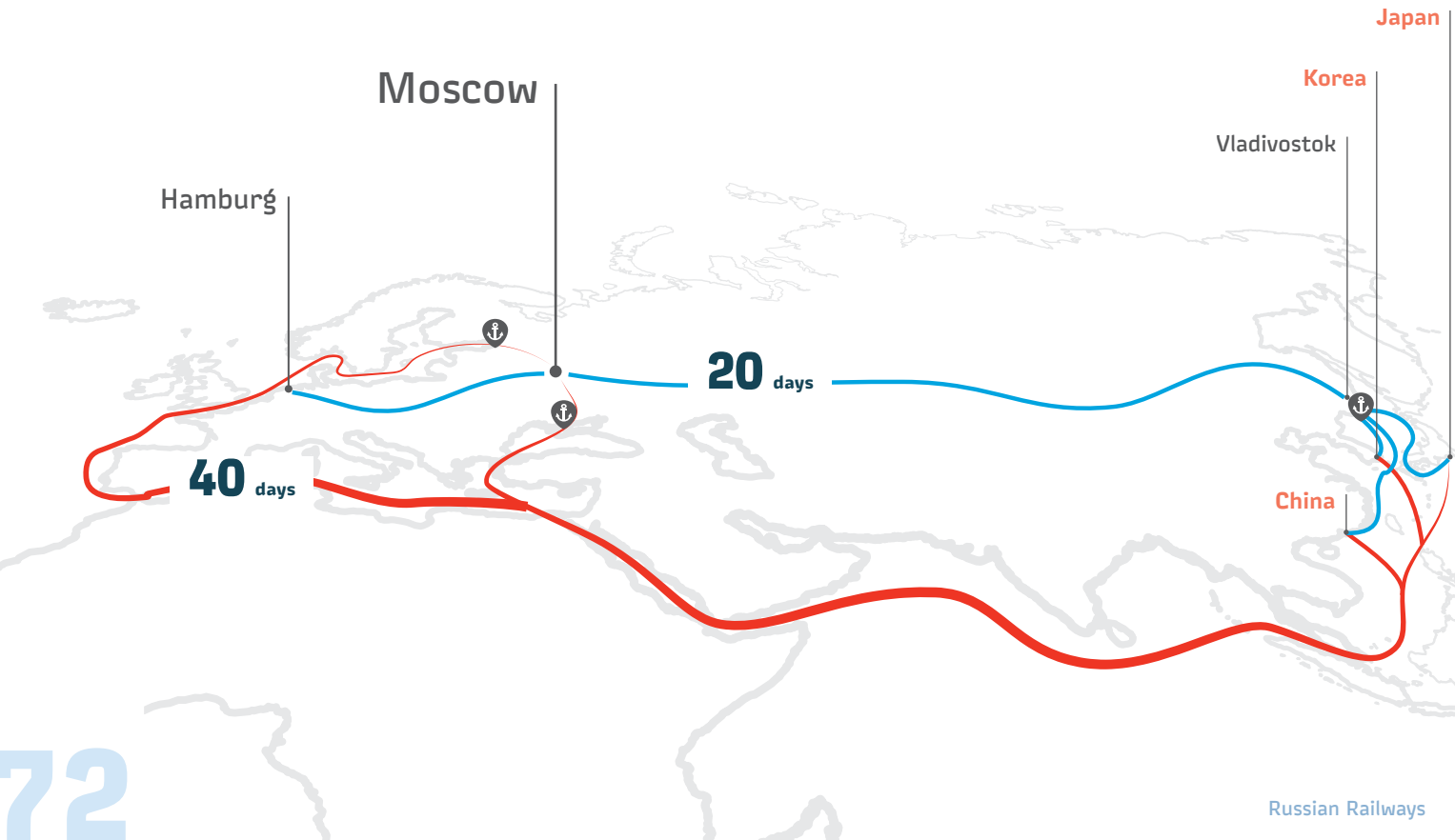
With projects in Mongolia and Armenia under its belt, the Company secured a global reputation for strong management of infrastructure assets, laying the foundation to penetrate new markets.

Work continued underway to create a new Eurasian transport corridor, which includes broad gauge railway extension to Bratislava and Vienna and construction of associated logistics infrastructure. The International Railway Congress in Vienna proved an effective venue to promote the project. As part of these efforts, the third phase of the feasibility study is now completed. Environmental impact assessments are underway at federal and municipal levels in Austria and Slovakia.

There are opportunities to expand cooperation with Vietnam, Brazil, Egypt and Saudi Arabia.

In 2020, the Russian Railways Group plans to add new projects to its overseas infrastructure portfolio and continue focusing on the key areas of its international operations by leveraging advanced competences and best practices.

Benefits of the East–West corridor as compared to a sea route



INTERTRAN

A key project being implemented part of the UIC Asia–Pacific Regional Assembly, INTERTRAN helps to reduce the cargo handling time in intermodal shipping from ports of Japan, China, and South Korea through the port of Vladivostok by four days. The project was initiated by Russian Railways in 2017. The technology makes intermodal shipping support fully electronic and can be used by all operators and freight forwarders.

To demonstrate the capabilities of the new electronic service for clearing shipping formalities, the Vladivostok Commercial Sea Port hosted a ceremony as part of the Eastern Economic Forum 2019 to have the first group of containers leave the port of Yokohama (Japan) and reach Moscow via the port of Vladivostok.

In 2019, the INTERTRAN technology helped to dispatch a total of 523 containers as part of container trains from ports of Japan, China and South Korea to the Silikatnaya station in Moscow.

In 2020, the technology is expected to be rolled out to intermodal shipments of import freight departing for stations of Russian Railways and for transit transportation departing for railway stations in the Republic of Belarus.

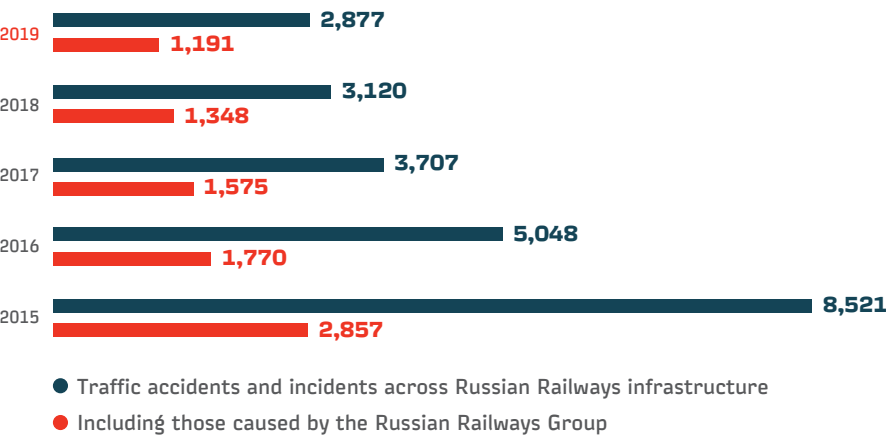
Traffic safety



Russian Railways’ Strategy for Guaranteed Transportation Safety and Reliability lays out the general principles that are underpinned by safety management and culture.

2019 saw the number of traffic accidents and incidents involving the Company’s railway infrastructure fall 8% against 2018 (2,877 vs 3,120), including a 12% decrease in accidents caused by Russian Railways (1,191 vs 1,348). The reduction was due to a risk-oriented approach to control measures based on a ranking of transport market players by operational risk, along with the company-wide implementation of a roadmap of traffic safety at the Russian Railways Group.

Safety violations across Russian Railways infrastructure



To reduce freight transportation risks, Russian Railways is introducing the latest safety systems. As part of the 2019 programme, the following steps were taken:

- Technovisor innovative systems are being installed on the railcar fleet to measure a range of metrics while the train is in motion.

- 13 railway stations were equipped with advanced automation systems for commercial inspection of trains and cars featuring laser scanners that provide information about the car/ freight profile and identify any deviations in the loading and rolling stock gauges and any occurrences of load shifting;

- to minimise the risk of traffic accidents associated with rolling stock colliding with road vehicles at level crossings, 2019 saw the start of work to design 20 innovative systems to improve level crossing safety.

Traffic safety across the Russian Railways Group



In 2019, disbursement of expenses under the project to boost safety performance totalled

RUB 3.649
bn

^{1.} Excluding safety violations caused by RRC-2 and RRC-3.

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. Russian Railways has uniform guidelines in place to assess the efficiency of investment projects¹. 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.

Budget efficiency for projects is assessed based on comparison of cash inflows (tax, customs and insurance payments) resulting from railway infrastructure development vs government-financed investments.



¹. In accordance with the Russian Government's Order No. 2991-r dated 29 December 2017.

Investment highlights in 2019

As adjusted by the Board of Directors of Russian Railways, the Company's 2019 investment programme totalled RUB 688.7 bn².

Expenses incurred in 2019 as part of the Russian Railways investment programme came in at RUB 674.1 bn, including:

- RUB 590.5 bn using the Company's own cash;
- RUB 83.6 bn in government support.

On top of that, RUB 2.1 bn was raised from third-party investors.

PROJECTS INCLUDED INTO THE COMPREHENSIVE PLAN FOR UPGRADING AND EXPANDING CORE INFRASTRUCTURE UNTIL 2024³

2019 investment expenses:

164.5 RUB bn

Upgrade of the rail infrastructure of the Baikal–Amur and the Trans-Siberian main lines (Eastern Operating Domain)

In 2019, the investment expenses amounted to RUB 35.0 bn (including RUB 16.9 bn sourced from the National Wealth Fund).

The project is aimed at developing and upgrading the rail infrastructure to increase the carrying capacity on routes to sea ports and Far East border crossings by 55–66.8 mt in 2020 vs 2012. It will facilitate transportation of 113.2–124.9 mt of hard coal and various ores from the main mineral deposits of the Eastern Operating Domain in 2020.

The key highlights of 2019 include the commissioning of five railway bridges (including a river crossing over the River Zeya) and the Vladivostok tunnel. In 2019,

the target was met with 115.8 mt of cargo transported from the main deposits of the Eastern Operating Domain.

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

In 2019, the investment expenses amounted to RUB 14.3 bn (including RUB 6.2 bn allocated by the federal government).

In 2019, the service was launched in the Krasnodar Transport Hub, a 128.8 km two-track electrified Kozyrki–Grechanaya line was commissioned, the Kirpili station was built and a fire pump station was set up at the Kuteynikovo station.

The aggregate carrying capacity of the sections serving ports of the Azov and Black Seas in 2019 stood at 93 mt (up 10.7% vs 2018).

Freight transportation by rail on this route was 83.5 mt (down 0.6% vs 2018) due to a decline in export of grain and ferrous metals.

Development of the Central Transport Hub

In 2019, the investment expenses amounted to RUB 87.6 bn (including RUB 12.6 bn allocated by the federal government and RUB 44.6 bn allocated by the Moscow government).

². Meeting of the Board of Directors of Russian Railways of 25 October 2019 (Minutes No. 5).
³. The Russian Government's Order No. 2101-r dated 30 September 2018.



The project aims to increase suburban passenger traffic of the Central Transport Hub to 850 m passengers annually by 2024.

Under the project, the following milestones were completed in 2019:

- launch of the Karacharovo station (transfer from the Gorkovsky route to the Moscow Central Circle was reduced by 500 m);
- launch of Innovation Centre, a new transport stop on the Smolensk route to provide transport accessibility for residents of Skolkovo Technopark;
- opening of a second exit at the Streshnevo station of the Moscow Central Circle providing a weather-protected transfer to the Leningradsкая transport stop, which was previously moved;
- completion of work to construct the fourth main track of the Karacharovo–Zheleznodorozhnaya section;
- opening of the Severyanin transport stop upgraded as part of a project to integrate the Yaroslavl route, marking the final stage of an effort to integrate radial routes and the Moscow Central Circle;
- launch of first priority diameter routes: MCD 1 from Odintsovo to Lobnya and MCD 2 from Nakhbino to Podolsk;
- transition to a four-minute interval service at the Moscow Central Circle during peak hours;
- completion of bulk of the work to construct the fifth main track from the Moscow-Passazhirsкая-Yaroslavskaya station to the Mytishchi station and launch of additional electric trains.

Development and renovation of the rail infrastructure serving ports of the North-Western basin
2019 investment expenses: RUB 13.5 bn.

The project is designed to facilitate 146.6 mt of projected freight transportation volume in 2020, with subsequent rise to 192 mt by 2025. Activities under the project:

- construction of the second track and electrification of the Vyborg–Primorsk–Ermilovo section;
- comprehensive upgrade of the Mga–Gatchina–Weimarn–Ivanğorod section and rail infrastructure serving ports on the southern shore of the Gulf of Finland;
- launch of high-speed passenger transportation at the St Petersburg–Buslovskaya section;
- improved throughput capacity of the Volkhovstroy–Murmansk and Dmitrov–Sankovo–Mga routes.

By the end of 2019, the project helped the Company reach its 2020 target and transport 152.5 mt of freight against the plan of 138 mt (up 10.5% against the plan).

First stage of the Moscow–Kazan High-Speed Railway
2019 investment expenses: RUB 0.1 bn.

The construction of the first stage of the Moscow–Kazan High-Speed Railway (Zheleznodorozhnaya–Gorokhovets High-Speed Railway) with the commissioning of route from Moscow to Nizhny Novgorod is the pilot project of high-speed transportation in Russia. The railway is expected to become the first section of the new Eurasian transit corridor.

In the medium term, it is planned to be extended to Kazan and Yekaterinburg and then to Beijing in the east and Berlin in the west.

Infrastructure expansion and upgrade on the Severnaya and Sverdlovskaya Railways allowing for additional cargo traffic as part of the Northern Latitudinal Railway project
In 2019, the investment expenses amounted to RUB 1.5 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.

Construction of a western bypass at the Saratov Transport Hub of the Privolzhskaya Railway with the expansion of the Lipovsky–Kurdyum section
2019 investment expenses: RUB 0.8 bn.

The main aim of this investment 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. The initiative is linked to the Development and Renovation of the Rail Infrastructure Serving Ports of the Azov and Black Seas project.

Electrification of the Rtishchevo–Kochetovka section

2019 investment expenses: RUB 0.5 bn.

The project aims to reduce operating costs by cutting down on fuel and energy expenses, decrease running times of freight trains and deliver freight faster, improve carrying capacity of the Rtishchevo–Kochetovka section taking into account plans to increase the volume of freight trains, as well as deliver savings in operating costs associated with locomotive maintenance and repairs, operations of locomotive crews, and train downtime at stations when changing traction. In 2019, drafting of design documents was underway.

Reconstruction of the Morozovskaya–Volgodonskaya railway section of the North Caucasus Railway

2019 investment expenses: RUB 0.7 bn.

The Morozovskaya–Tsimlyanskaya section was upgraded in 2019. The section is equipped with automatic block signalling and power supply systems, with receiving and departure tracks reconstructed at the Kumshalek, Kuteynikovskaya and Cherkasskaya stations. The work completed in 2019 helped to increase the capacity of the Morozovskaya–Tsimlyanskaya section to 25 train pairs per day, making it possible to divert part of transit freight traffic from the key passenger route of Likhaya–Rostov to the Likhaya–Morozovskaya–Kuberle–Tikhoretskaya route.

Development of the Perm–Solikamsk connection

2019 investment expenses: RUB 0.5 bn.

The project is designed to accommodate rising freight volumes from the Bereznikovsko-Solikamsky industrial hub by providing the Solikamsk–Perm Sortirovochnaya route for freight trains with a weight of 6 kt and a length of 71 standard cars.

Development of the Perm Railway Hub and the construction of a river crossing

2019 investment expenses: RUB 0.3 bn.

The project aims to divert railway traffic from the Perm II–Levshino section, ensure safe operation of hydraulic structures, protect local residents and territories from emergencies, and accommodate rising freight volumes of the Bereznikovsko-Solikamsky industrial hub.

Following the work completed in 2019, the Company and the government of the Perm Territory chose the final route for the railway with the construction of a railway river crossing over the Kama River and connection of the railway at the Blochnaya–Kabelnaya and Balmoshnaya–Levshino sections.

Feasibility study for the project to electrify the Ozherelye–Uzlovaya–Yelets section linked to the project to electrify the Rtishchevo–Kochetovka section

2019 investment expenses: RUB 0.5 bn.

The key objectives of the project are to divert passenger trains from the Kazan and Paveletskoye routes of the Moskovskaya Railway, increase capacity of the Uzlovaya–Yelets section to 65 train pairs by 2030

and use EP-20 dual-system locomotives at the Moscow–Rostov-on-Don–Novorossiysk–Adler section.

Upgrade of the Baikal–Amur and Trans-Siberian main lines (phase 2)

In 2019, the investment expenses amounted to RUB 4.6 bn.

The Company continued its work on designing facilities. The freight volumes in the Eastern Operating Domain were updated and the points of origination and termination of freight flows were identified. As a result, the list of activities was adjusted accordingly.

Throughput increase at the Artyshta–Mezhdurechensk–Tayshet section

2019 investment expenses: RUB 1.5 bn

The project aims to facilitate transportation of additional coal volumes from deposits in the Kuzbass region and to transport freight from the Kyzyl–Kuraĭino railway after it is commissioned. In 2019, drafting of design documents continued underway.

Key technical solutions and feasibility assessment of the project for the construction of the Selikhin–Nysh railway line with a passage across the Nevelsky Strait taking into account the construction of a new port on Sakhalin

2019 investment expenses: RUB 2.1 bn.

The project aims to ensure uninterrupted transport access to Sakhalin and develop railway transport on the island. A stationary bridge crossing will help develop the island’s port capacities.

Enhancement of the throughput and carrying capacities to achieve an increase in transit container traffic

2019 investment expenses: RUB 0.8 bn.

The project aims to increase transit container traffic fourfold by 2024 against 2018. In 2019, drafting of design documents continued underway.

OTHER RAIL INFRASTRUCTURE DEVELOPMENT PROJECTS

2019 investment expenses

7.0 RUB bn

Creation of the St Petersburg–Moscow High-Speed Railway¹

2019 investment expenses: RUB 0.3 bn.

The aim of the project is to develop design documents for subsequent construction of the St Petersburg–Moscow High-Speed Railway, which is part of a high-speed railway connecting federal cities of St Petersburg and Moscow with Nizhny Novgorod. The project’s feasibility study developed in 2009 was updated along with the financial, organisational and legal models, with potential options considered and reviewed.

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

2019 investment expenses: RUB 4.6 bn, including RUB 3.3 bn from the federal budget.

The project aims to accommodate future freight volumes at the Mezhdurechensk–Tayshet section to service increased freight transportation from the Kuzbass region to ports in the Far East.

2019 saw the commissioning of second tracks on the sections of Irba–Krasny Kordon, Zhuravlevo–Razyezd 557 km (first phase), Dzheb–Shchetinkino, and a passing loop at the Agul–Korostelev section. The main work under the project is expected to be completed in 2020.

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

2019 investment expenses: RUB 0.6 bn.

As part of the project, work was underway in 2019 to equip the Zhuravka–Bochenkovo section with centralised traffic control systems in Voronezh and Rostov-on-Don, complete the equipment of existing computer-based interlocking systems for turnout management at the section’s stations with comprehensive information protection and cyber safety systems, construct control posts for the overhead lines (with connecting tracks) at the Zaytsevka and Kuteynikovo stations, construct heating modules for signalling, centralisation and block signalling staff at the Zaytsevka and Sergeevka stations, install snow fencing and ensure afforestation, and help develop receiving and departure tracks at the Sokhranovka, Kuteynikovo and Kolodezi stations.

Development of the Tobolsk–Surĭut–Korotchaevo railway section

In 2019, the investment expenses amounted to RUB 1.5 bn.

The project aimed to ensure the transportation of the expected volumes of hydrocarbons from the Yamalo-Nenets and Khanty-Mansi autonomous areas by gradually ramping up the throughput and carrying capacity of the Tobolsk–Surĭut railway section to 66 train pairs per day.

In 2019, 25.1 km of second tracks were put into operation at the Tanginsky–Ostrovnoy–Obsky, Tobolsk–Surĭut, and Kosulino–Bazhenovo sections and as part of the upgrade of the Surĭut station. The construction of the second main track throughout the Tobolsk–Surĭut section (293.89 km) was completed. As required by the approved design documents, the throughput capacity of the section is now 66 train pairs per day.

SAFETY ENHANCEMENT INITIATIVES

In 2019, the investment expenses amounted to

139 RUB bn

This set of investment projects is aimed at upgrading fixed assets, including those whose useful life has ended, and bringing the railway infrastructure in line with regulatory requirements. These include projects to renovate the track infrastructure, upgrade the overhead lines and automation and telematics equipment at railway sections and stations, renew power supply equipment and communication systems, locomotive and railcar fleets, and fixed assets at the engineering and utility facilities.

¹. In pursuance of Instruction of Russian President Vladimir Putin No. Pr-623 dated 10 April 2019.



Other initiatives aim to improve transportation safety, increase efficiency of anti-terrorism measures at railway facilities, prevent injuries among the public at railway infrastructure facilities, improve traffic safety, and develop the corporate informatisation programme.

INFRASTRUCTURE DEBOTTLENECKING

In 2019, the investment expenses amounted to

167.3
RUB bn

In this area, Russian Railways' investment programme includes projects to build second tracks, extend station tracks, develop railway hubs and border crossing stations, develop marshalling yards, construct and upgrade engineering structures, upgrade the tracks and railway infrastructure on the island of Sakhalin, and develop the Tobolsk–Surгут–Korotchaevo railway section.

Upgrading railway tracks

In 2019, the investment expenses amounted to RUB 138.8 bn.

In 2019, Russian Railways upgraded 5,980 km of railway tracks. This allowed the Company to:

- reduce the length of railway tracks with exceeded limits of throughput in tonnes by 900 km of tracks;
- increase the speed of passenger trains on 1,090 km of tracks;
- increase the speed of freight trains on 1,110 km of tracks;
- reduce the length of permanent speed limit sections on 1,300 km of tracks;
- increase the length of continuous welded rails by 1,600 km of tracks.

Upgrade of rail infrastructure on the island of Sakhalin

In 2019, the investment expenses amounted to RUB 7.6 bn.

The project seeks to increase the railway efficiency and improve the transport services on the island of Sakhalin to ensure transportation of the expected freight volumes. In 2019, over 114 km of tracks were converted from 1,067 mm to 1,520 mm gauge.

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

In 2019, the investment expenses amounted to RUB 7.8 bn.

The reporting period saw completion of the project to upgrade the Ust-Pera station on the Trans-Baikal Railway. On the Privolzhskaya Railway, we finished the renovation of railway tracks and signalling control system at the rail yard of LUKOIL-Trans along with the renewal of public railway infrastructure at the Tatyanka station.

We also completed the construction of two and extension of one railway track at the Vostochny rail yard of the Balezino station on the Gorky Railway.

PROJECTS TO ENHANCE TRANSPORTATION ACCESSIBILITY

In 2019, the investment expenses amounted to

10.1
RUB bn

The projects are aimed at upgrading suburban and long-haul passenger transportation operations.

In the reporting year, we completed the renovation of the Pridacha and Sbeġa suburban train stations and created the suburban transportation infrastructure for the XXIX Winter Universiade in Krasnoyarsk. The Company finished the construction of the passenger infrastructure at the Kuteynikovo station.

The year also saw the completion of projects to upgrade the train stations in Volgograd, Yekaterinburg, and Ulan-Ude, construct a passenger terminal at the train station in Abakan, and renovate the Ulan-Ude train station.

ROLLING STOCK RENEWAL

In 2019, the investment expenses amounted to

141
RUB bn

The Company's initiatives to upgrade the rolling stock seek to reduce its wear and tear, increase performance and boost safety.

In 2019, Russian Railways purchased 738 locomotives:

- 461 locomotives (357 electric and 104 diesel locomotives) for freight transportation, including those used for pulling heavy-duty trains,
- 223 shunting diesel locomotives used for shunting, road-switching and hump-shunting operations;
- 54 passenger locomotives (35 electric and 19 diesel locomotives).

On top of that, in 2019 the Company purchased 357 cars for multiple unit trains:

- 199 Lastochka cars;
- 80 cars for electric trains;
- 16 railbus cars;
- 62 locomotive traction cars.

OTHER PROJECTS

In 2019, the investment expenses amounted to

45.1
RUB bn

This category includes projects to introduce resource-saving technologies, support social initiatives, fund activities aimed at creating Russian Railways' subsidiaries and affiliates, and pursue R&D efforts.

Introduction of resource-saving technologies in railway transport

In 2019, the investment expenses amounted to RUB 2.8 bn.

The project aims to reduce the Company's operating costs, increase efficiency, upgrade fixed assets, improve labour safety, and ensure compliance with the regulatory requirements for energy efficiency.

HIGH-SPEED LINES

Pursuant to Russian President’s Instruction No. Pr-623 of 10 April 2019, Russian Railways will start engineering and surveying under the St Petersburg–Moscow high-speed railway line project in 2020.

The St Petersburg–Moscow–Nizhny Novgorod high-speed railway line project consists of two parts.

1. The Moscow–Nizhny Novgorod high-speed railway line:

 - 301 km – construction of a new track for the Zheleznodorozhnaya–Gorokhovets high-speed line section;
 - 20 km – construction of a new track (connecting the Gorokhovets station of the high speed railway line and the Gorokhovets station of the Gorky railway line);
 - 100 km – upgrade of the existing infrastructure;
2. St Petersburg–Moscow high-speed railway line:

 - the aggregate length is 421 km;
 - the train travel time will be 2 hours and 5 minutes (without stops).

the length is 684 km;

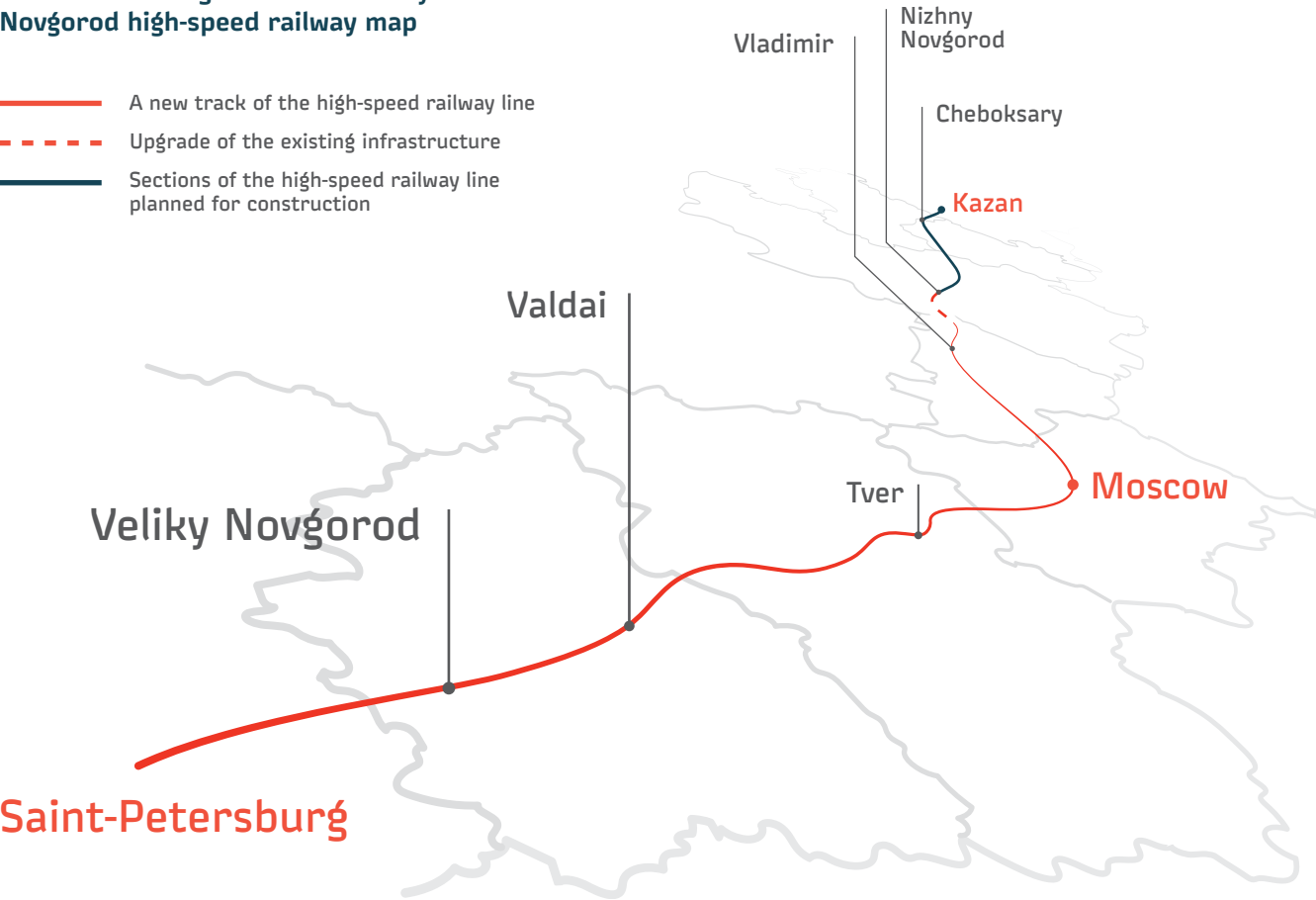
 - the train travel time will be 2 hours and 15 minutes (without stops).

The project serves the interests of the government, general public and businesses, creating a new platform for long-term economic growth. Over 90% of equipment and materials will be sourced from Russia, including new high-speed trains capable of reaching speeds of up to 400 km/h. The project will help connect metropolitan areas with a total population of over 30 m people. Over 370,000 jobs will be created, including new jobs for more than 48,000 people engaged in the construction of the high-speed railway line. In addition to the above project, priority is also given to the following lines that may form part of the high-speed Eurasian freight and passenger rail corridor:

- Kazan–Yekaterinburg;
- Yekaterinburg–Chelyabinsk;
- Moscow–Krasnoye.

Saint Petersburg–Moscow–Nizhny Novgorod high-speed railway map

- A new track of the high-speed railway line
- - - Upgrade of the existing infrastructure
- Sections of the high-speed railway line planned for construction



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.

The Group’s Comprehensive Innovative Development Programme (the “CIDP”) lays the groundwork for implementing the Long-Term Development Programme.

In 2019, a new CIDP until 2025 (“CIDP 2025”) was developed.

It provides for the implementation of 11 groups of key projects, contains proposals for the development of the organizational structure of innovation management, and lays down partnership mechanisms based on the principle of open innovation.

Russian Railways’ 2019 R&D capex amounted to

1,031
RUB m

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.

KEY INNOVATION
DRIVEN DEVELOPMENT
PROJECTS IN 2019

Passenger transportation

In 2019, the Company started selling tickets of 24 suburban passenger companies to all destinations across Russia through its RZD Passengers mobile app.

The app users can now contact support staff via online chat, buy tickets in exchange for RZD Bonus points and order goods via FPC Market. For frequent travellers, there are itinerary templates that make it easier to buy tickets to favourite destinations. Tickets of most suburban passenger companies can be paid in-app using a bank card or a one-tap payment system such as Apple Pay, Google Pay and Samsung Pay.

Innovative Mobility, Russian Railways' controlled entity, is developing an IT-platform that will leverage modern digital technologies to bring various modes of transportation under one roof. The platform has a multimodal trip builder that allows users to plan trips involving four modes of transport: rail transport (long-haul trains, Aeroexpress), buses (a network of more than 3,472 destinations, including foreign countries), planes (routes within Sirena and Sabre travel networks) and river transport (20 seasonal routes between seven Lower Volga destinations).

Freight transportation

Distributed ledger technologies

In 2019, the Company joined a pilot project to create a blockchain-based freight transportation platform. The project is implemented as part of cooperation between Russian Railways, shippers, consignees, railcar fleet owners, freight operators, ports, terminal operators, customs authorities and banks.

As part of a project to introduce smart contracts on the October Railway, the distributed ledger technology was put to use for container freight shipments starting July 2019. In 2019, the technology was used for over 70 shipments carried by container trains.

On top of that, the blockchain-based platform was integrated with corporate automated systems, new functionality was added to allow smart contract parties to see identical information, accurate geolocation data for moving objects was obtained using geolocation sensors.

Railcar fleet management

Russian Railways uses a uniform corporate automated system for rolling stock control that has been developed for railcar fleet management on a nationwide basis.

Communications

Quantum communications

In July 2019, Russian Railways and the Russian Government signed an agreement to facilitate the development of quantum communications in Russia. In August 2019, Russian Railways established a Quantum Communications Department to engage in dialogue with the scientific community and tech companies on the use of quantum technologies for data transfer and protection.

Russian Railways developed a draft road map entitled Quantum Communications. In January 2020, the Ministry of Digital Development, Communications and Mass Media of the Russian Federation submitted it to the Russian Government.

Together with ITMO University, Russian Railways created a National Quantum Internet Research Centre. Russian Railways provides funding for the project by developing a Moscow–St Petersburg

quantum communications network. When implemented, it will enable the Company not only to satisfy its own business needs, but become the main network operator for other consumers, resulting in more investment funds being raised for the 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 align with the Group's main business lines and include:

- providing IT services for external customers in freight and passenger transportation;
- developing new end-to-end digital solutions for transportation management ("Digital Railway") as part of Russian Railways' Digital Transformation Strategy until 2025;
- improving the quality of internal IT services;
- ensuring the business continuity while meeting the highest IT security requirements.



DIGITAL TRANSFORMATION STRATEGY

In 2019, the Company approved its Digital Transformation Strategy until 2025 and updated its IT Development Strategy until 2025.

The Digital Transformation Strategy (the "Strategy") was elaborated in accordance with the relevant resolution of the Board of Directors made in September 2018. The strategy is aligned with the Company's Long-Term Development Programme until 2025 as regards the timeline, financial terms, actions and targets. Apart from the integration of digital technology, the digital transformation projects

are geared towards improving business processes, updating regulations and creating a digital culture within the Company.

- The digital transformation in Russian Railways will be focused on the following eight digital platforms:
- multimodal passenger transportation;
 - multimodal freight transportation;
 - transportation and logistics hubs;
 - local infrastructure operator;
 - logistics operator in e-commerce;
 - transportation management;
 - business support processes;
 - traction stock.

Each platform will offer digital services for both internal and external customers. In accordance with the Strategy,

55 digital projects across six business lines are planned to be delivered by 2025.

Based on the market analysis, high-potential end-to-end digital transformation technologies were identified, including technologies based on the Internet of Things, big data, distributed ledgers (blockchain), artificial intelligence, virtual and augmented reality, advanced data transmission solutions (such as quantum communications). Developing corporate culture is no less important. The Company has already introduced a new role of Change Agent who will be responsible for educating others, taking part in change management initiatives, exploring new workflow organisation opportunities, identifying and promoting best practices in the Company.

Analysis of financial results

In the context of slowing economic growth in 2019, Russian Railways fulfilled and improved its key financial results in comparison with the Long-Term Development Programme guidance. The negative dynamics of freight traffic volumes has become an indicator of the deterioration of the General economic situation, which is compensated by the growth of passenger traffic.



“ Looking back at the 2019 performance, I am happy to say that the Company was able to deliver on key operational and financial targets, even amid considerable external pressure. This was made possible through our systematic efforts to increase the internal efficiency, including cost management to offer discounts to shippers, pricing under long-term contracts with suppliers and effective engagement with investors in capital markets. The Company’s RAS income rose by 2.8% y-o-y to RUB 1,848 bn. Our RAS EBITDA increased by 9.7% to RUB 417 bn.”

Vadim Mikhailov

First Deputy CEO of Russian Railways

RUSSIAN RAILWAYS’ PERFORMANCE IN 2019

While Russia’s GDP grew by 1.3% (2018: 2.5%) and industrial production rose by 2.3% (2018: 3.5%) in 2019, freight handling declined by 0.9% in the reporting year. Yet, Freight Turnover total remained unchanged from the previous year.

At the same time, passenger transportation continued a steady growth (up 3.1% vs 2018) across all segments, despite the effect of a high base on the back of the 2018 FIFA World Cup in Russia.

In 2019, the Company focused on ensuring a balanced operating performance and cost management. Income from transportation operations added 3.6% y-o-y. Freight transportation yielded 3.4% more income compared to 2018.

Amid changes in the freight transportation structure, the revenue rate growth stood at 3.4%. Income from passenger transportation increased by 11.9% y-o-y.

As a result of implemented performance improvement initiatives, transportation costs were up by only 1.9% y-o-y as consumer prices grew by 4.5% and producer prices rose by an average of 2.9% per annum.

Income from other operations amounted to RUB 22.9 bn. As a result, sales profit for the year increased by 18.1% and amounted to RUB 166.3 bn.

Dividends from subsidiaries and affiliates stood at a record high of RUB 28.7 bn, while sales of their shares amounted to RUB 11.8 bn yielding RUB 0.8 bn¹.

Outstanding loan debt at the end of 2019 stood at RUB 1,477.5 bn. 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 interest rate to 5.89% as at the end of 2019.

As a result of the Company’s push to improve operational efficiency and financial policy, net profit increased to RUB 53.5 bn compared to RUB 18.4 bn in 2018 (target – RUB 27 bn).

In 2019, EBITDA went up by 9.7% y-o-y to RUB 417.2 bn (2018: RUB 380.2 bn).

Russian Railways continued implementing its large-scale investment programme. In 2019, capex on expanding and upgrading fixed assets exceeded RUB 674 bn, hitting new record highs.

¹. Due to a complicated structure of the sale of TransContainer, the effect of the disposal of the controlling stake will be reflected in Russian Railways’s RAS financial statements in 2020 after the receipt of dividend from UTLC.

Russian Railways’ performance in 2019 (under RAS)

Handling

1,278.1

mt

–0.9% y-o-y

–11.5 mt y-o-y

Income from transportation operations

1,641.9

RUB bn

+3.6% y-o-y

RUB +56.8 bn y-o-y

EBITDA

417.2

RUB bn

+9.7% y-o-y

RUB +37 bn y-o-y

Freight turnover total

3,305.0

bn tkm

flat y-o-y

Cost

435.3

kopecks / 10 virtual tkm

+1.9% y-o-y

Net profit (RAS)

53.5

RUB bn

up 2.9x y-o-y

RUB +35.1 bn y-o-y

Passenger turnover

133.4

bn pkm

+3.1% y-o-y

+4 bn pkm y-o-y

Growth in productivity for transportation operations

+3.3%

y-o-y

Investments

674.1

RUB bn

up 1.3x y-o-y

Revenue rate

454.9

kopecks / 10 tkm

+3.4% y-o-y

+14.8 kopecks / 10 tkm y-o-y

Weighted average borrowing rate

5.89%

–20 pp y-o-y

Tax and insurance contributions paid

318.3

RUB bn

–0.2% y-o-y

–RUB 0.8 bn y-o-y



INCOME FROM TRANSPORTATION OPERATIONS

In 2019, income from transportation operations increased by 3.6% y-o-y to RUB 1,641.9 bn.

Income from freight transportation

In 2019, income from freight transportation reached RUB 1,503.4 bn, up 3.4% y-o-y (+RUB 48.8 bn).

In the context of the formation of the volume of traffic (cargo turnover) at the level of last year, the increase in revenue from cargo transportation was formed due to the growth of the revenue rate per ton-kilometer.

In General, at the end of 2019, the revenue rate was RUB 4.55 per 10 tkm with an increase of +3.4% compared to the previous year, which almost corresponds to the level of indexation of tariffs for cargo transportation +3.5%

(established by FAS order No. 1482/18 of October 30, 2018). At the same time, in 2019, there were a number of negative changes in the structure of transportation that affected the decline in revenue, such as an increase in the share of low-income cargo (coal) transportation, and an increase in the share of export traffic to ports with a long range of transportation.

Income from long-haul passenger transportation

Russian Railways carries out long-haul passenger transportation in the high-speed segment (Sapsan, Lastochka and Allegro). In 2019, income from transportation operations totalled RUB 21.7 bn, up by RUB 1.9 bn (+9.7%) y-o-y. The increase is attributable to the rise in demand for Sapsan train trips and passenger transportation by additionally introduced Lastochka trains.

Income from suburban passenger transportation

In 2019, income from transportation services provided by Russian Railways

within the Moscow Central Circle amounted to RUB 6.2 bn, up by RUB 1.1 bn (+20.6%) due to a transition to a four-minute interval service from 21 November 2019 and an increase in transportation operations.

Income from infrastructure services

In 2019, income from infrastructure services for freight and passenger transportation totalled RUB 110.6 bn, up 4.7% (RUB 4.9 bn) y-o-y.

In 2019, income from freight transportation reached

1,503.4

RUB bn

+3.4% y-o-y

TRANSPORTATION EXPENSES

In 2019, transportation expenses amounted to RUB 1,498.5 bn, up 2.0% y-o-y.

Transportation expenses, RUB bn

Indicator	2018 (actual)	2019		Change y-o-y		2019 (actual) vs 2019 (plan)	
		Plan	Actual	+ / -	%	+ / -	%
Transportation expenses	1,469.5	1,515.1	1,498.5	+29.0	+2.0	-16.6	-1.1
Payroll expenses	439.9	454.6	453.5	+13.7	+3.1	-1.1	-0.2
Social expenses	124.9	129.4	129.2	+4.3	+3.5	-0.2	-0.1
Material expenses	537.3	555.3	544.4	+7.2	+1.3	-10.9	-2.0
Materials	63.4	51.5	52.8	-10.6	-16.8	+1.3	+2.5
Fuel	110.7	117.5	113.1	+2.4	+2.2	-4.4	-3.7
including for train traction	97.2	101.5	99.2	+2.0	+2.1	-2.3	-2.2
Electricity	166.7	178.9	175.6	+8.9	+5.3	-3.3	-1.9
including for train traction	148.0	159.2	156.7	+8.6	+5.8	-2.6	-1.6
Other	196.5	207.4	203.0	+6.5	+3.3	-4.5	-2.1
Depreciation	230.3	241.4	240.1	+9.8	+4.3	-1.3	-0.5
Other expenses	137.2	134.3	131.2	-6.0	-4.4	-3.2	-2.4

COST OPTIMISATION

Russian Railways remains committed to enhancing its internal efficiency.

In 2019, the Company implemented RUB 30.5 bn worth of initiatives to improve operational efficiency and optimise costs.

Key effects of Russian Railways’ efficiency improvement initiatives in 2019

1

Assessment and optimisation of operating expenses

3.8 RUB 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

2

Higher efficiency of the procurement and supply chain management system

3.6 RUB bn

- Lower prices resulting from tender procedures for services procured

3

Introduction of cutting-edge technologies and innovations

1.3 RUB bn

- Lean production and other projects

4

Higher asset management efficiency

7.7 RUB 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

5

Improvements in labour productivity

9.4 RUB bn

- Set of technical and organisational measures

6

Other initiatives

4.7 RUB bn

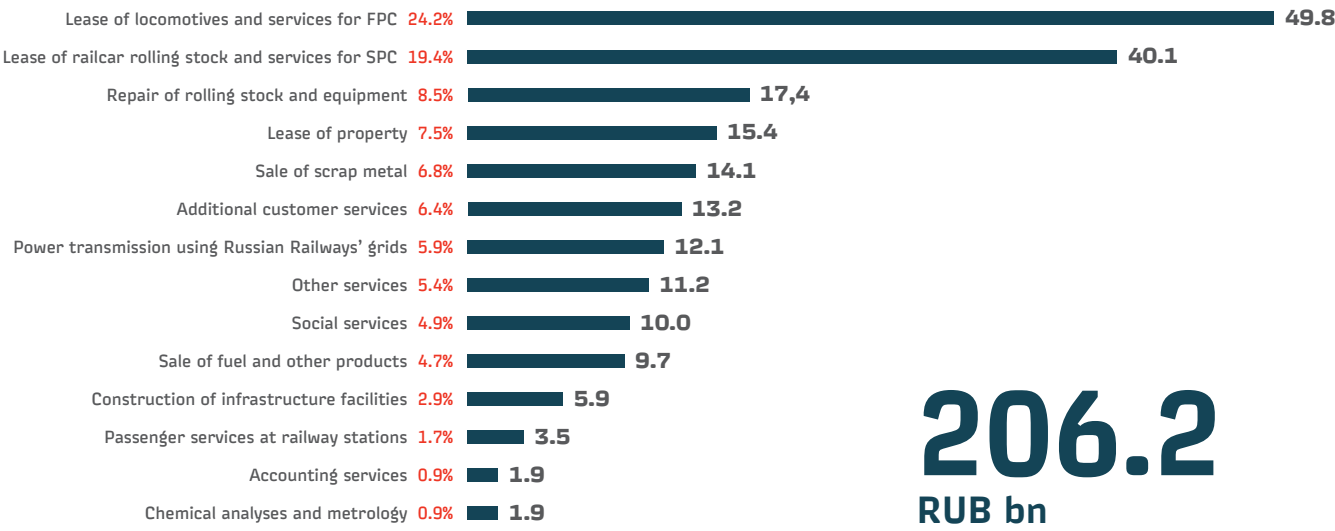
- Tax benefits
- Optimisation of travel and other expenses

Total 30.5 RUB bn

INCOME FROM OTHER OPERATIONS

In 2019, the Company’s income from other operations decreased by 3.3% y-o-y to RUB 206.2 bn.

Breakdown of income from other operations, RUB bn



OTHER INCOME AND EXPENSES

In 2019, the financial result from other income and expenses amounted to –RUB 68.0 bn, with a positive effect up by RUB 15.9 bn y-o-y.

This was largely due to the positive revaluation of FX-denominated debt with the use of FX revenue hedging tools and the appreciation of the rouble against major currencies coupled with improvements in the performance and investment

appeal of Russian Railways’ subsidiaries and affiliates evidenced by the 1.5 times y-o-y growth of dividend payments. These achievements helped partially offset the negative impact of bigger interest paid associated with the growth of the FX-denominated debt portfolio in 2019.



PROFITABILITY ANALYSIS

ROE

In 2019, ROE (return on equity) totalled 1.19%.

Sales profitability, operational efficiency, and EBITDA margin (under RAS)

In 2019, sales profitability stood at 9.0%, up 1.2 pp y-o-y, while EBITDA margin (under RAS) amounted to 22.6%, up 1.5 pp y-o-y.

This strong performance was secured by a 18.1% y-o-y increase in sales revenue, including through more efficient cost management (in 2019, transportation costs increased by 1.9% as consumer prices grew by 4.5% and producer prices rose by 2.9%), and a 3.4% growth of revenue rate amid changes in the freight turnover structure.

Operating profitability (net profit margin)

Our continued effort to improve operational efficiency and positive effects of the financial policy (debt portfolio cost optimisation), as well as the appreciation of the rouble resulted in a 1.9 pp increase in net profit margin (operating profitability).

GOVERNMENT SUPPORT OF RUSSIAN RAILWAYS IN 2019

In 2019, Russian Railways received RUB 121.8 bn from the government budget and the National Wealth Fund, including RUB 96.6 bn from the federal budget (of which RUB 40.2 bn was allocated from the budget of Moscow via inter-budget transfers), RUB 19.5 bn from the National Wealth Fund, and RUB 5.7 bn from regional budgets and extra-budgetary funds.

TAXES AND INSURANCE FEES

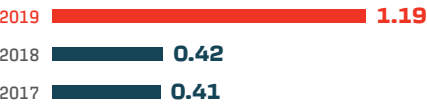
The total amount of taxes and insurance fees accrued in accounting statements for 2019 stood at RUB 324 bn, or up 102% y-o-y, including:

- RUB 34.4 bn (or up 87.4% y-o-y) owed to the federal budget;
- RUB 135.2 bn (or up 102.7% y-o-y) to the regional and local budgets;
- RUB 154.4 bn (or up 105.3% y-o-y) owed to the extra-budgetary funds.

In 2019, to pay current taxes and insurance premiums (including offsets and refunds) RUB 318.3 bn was allocated, including:

- to the Federal budget – RUB 39.9 bn;
- to the budgets of the subjects of the Russian Federation and municipalities – RUB 135.2 bn;
- to non-budgetary funds – RUB 143.2 bn.

ROE (net income / equity), %



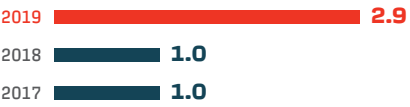
Sales profitability, %



Revenue rate, kopecks / 10 tkm



Operating profitability (net profit margin), %



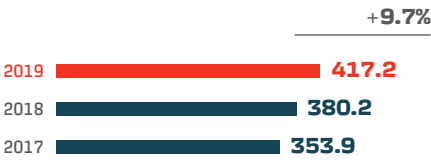
Transportation costs, kopecks / 10 virtual tkm



EBITDA margin (under RAS), %



EBITDA (under RAS), RUB bn



RUSSIAN RAILWAYS’ FINANCIAL RESULTS BASED ON ITS CONSOLIDATED IFRS FINANCIAL STATEMENTS FOR 2019



“ Our strong balance sheet was underpinned by the initiatives seeking to improve the efficiency of freight transportation and streamline rolling stock management despite somewhat weaker operating growth. As a result, the Group’s income in 2019 grew by 3.9% y-o-y to RUB 2,508 bn vs RUB 2,413 bn in 2018. Our EBITDA rose by 9.4% to RUB 577 bn, while EBITDA margin amounted to 25.8%¹ on the back of strong operating results and cost controls.”

Vadim Mikhailov

First Deputy CEO of Russian Railways

In 2019, the Group’s income grew by 3.9% y-o-y to RUB 2,508 bn vs RUB 2,413 bn in 2018.

This growth was mainly attributable to income from freight transportation and infrastructure services going up by 4.4% y-o-y to RUB 1,598 bn.

Income from passenger transportation grew by 6.3% to RUB 267 bn, while income from logistics services provided by GEFCO grew by 2.0% to EUR 4.739 bn.

In 2019, the Group’s operating expenses increased to RUB 2,348 bn (up 1.3% y-o-y) vs RUB 2,318 bn in 2018 due to higher prices for consumed products and fuel and energy. Payroll and social expenses went up as a result of a phased salary indexation programme implemented during 2019.

The Group’s net profit reached RUB 155.7 bn.

In 2019, EBITDA went up by 9.4% y-o-y to RUB 576.9 bn vs RUB 527.4 bn in 2018.

As at 31 December 2019, the Group’s net debt / EBITDA stood at 2.49x, an evidence of our sound financial health.

Net profit
155.7
RUB bn

EBITDA
576.9
RUB bn

EBITDA margin
25.8%

^{1.} Here and elsewhere, the EBITDA margin factors in a revenue adjustment of RUB 268 bn, which constitutes the cost of third parties’ integrated forwarding and logistics services.



DEBT POLICY

Debt portfolio performance in 2019

In 2019, the Company’s medium and long-term debt totalled RUB 321.3 bn. The borrowed funds were largely raised through public debt instruments held by Russian investors as well as CHF-denominated bank loans.

Russian Railways repaid a total of RUB 133.8 bn in obligations in the reporting year. The Company’s debt portfolio was significantly impacted by the rouble depreciation causing revaluation of the FX-denominated debt and 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 461 m.

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 and refinancing of liabilities. As at the end of 2019, short-term liabilities stood at RUB 231.8 bn.

In the reporting year, the Company’s total debt stood at RUB 1,459.9 bn (excluding accrued interest).

As at the end of 2019, the long-term portion of the debt portfolio (maturing in more than 3 years) went down to 62% as the share of medium-term instruments increased.

The short-term (less than a year) debt increased from the beginning of the year to 21.7% as the Company was preparing to redeem the three series of local

bonds totalling RUB 55 bn in April 2020, and includes long-term debt maturing in 2020.

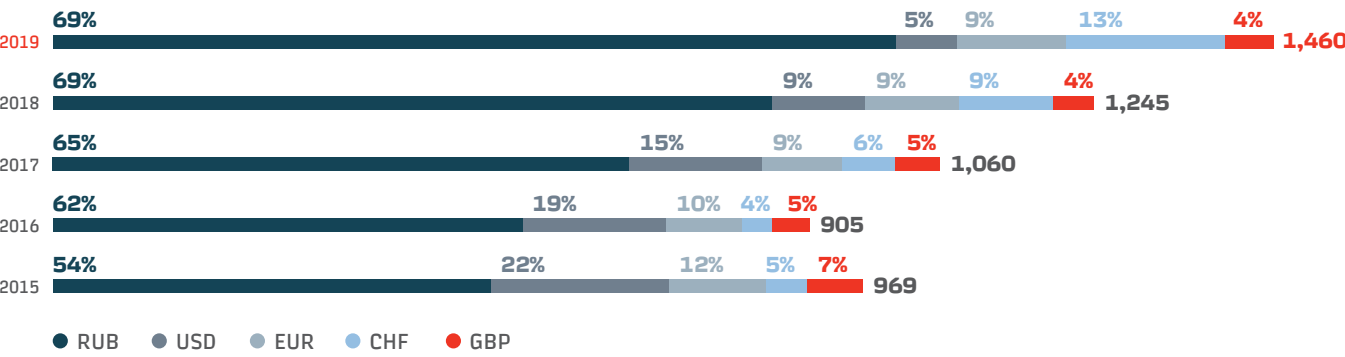
As the maturity dates of the relevant liabilities approach, the Company replaces them with new long-term borrowings, determines their maturity taking into account the existing repayment schedule and maintaining the share of short-term liabilities for the entire scheduled horizon at a level not exceeding 20%.

As at the end of 2019, the average maturity across the Russian Railways’ debt portfolio (excluding short-term liquidity management tools) was approximately 7.5 years with payments evenly distributed over the long-term horizon, thus mitigating the refinancing risks.

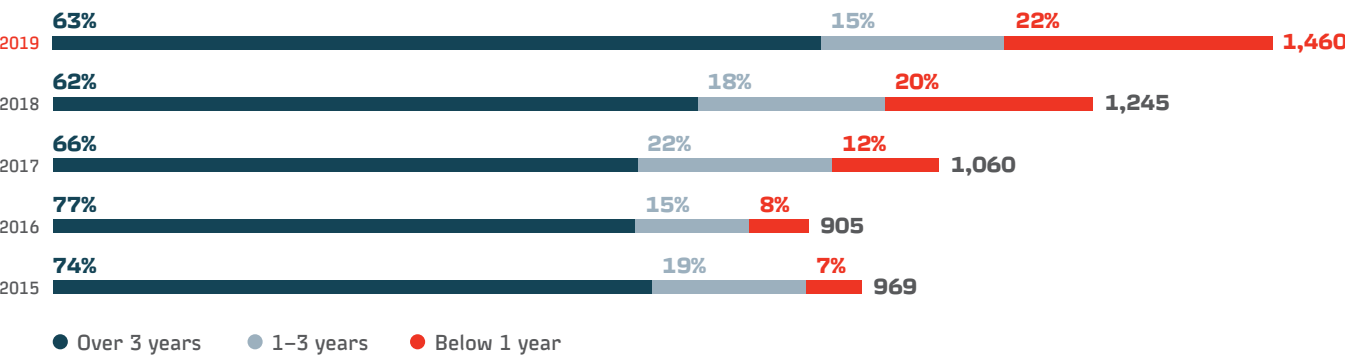
Russian Railways’ debt portfolio

Items	2019 value indicator	Targets	Comments
Share of FX-denominated debt, %	30.6	No more than 40	FX-denominated debt in the Company's debt 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, %	15.9 ²	No more than 20	Short-term obligations in the debt portfolio offer greater flexibility in managing the portfolio
Average maturity ¹ , years	7.5	7	The Company works to increase and maintain the average maturity of the debt portfolio that would be consistent with the long payback period of the investment projects financed by such loans

Russian Railways’ debt portfolio breakdown by currency³, RUB bn



Russian Railways’ debt portfolio breakdown by maturity³, RUB bn

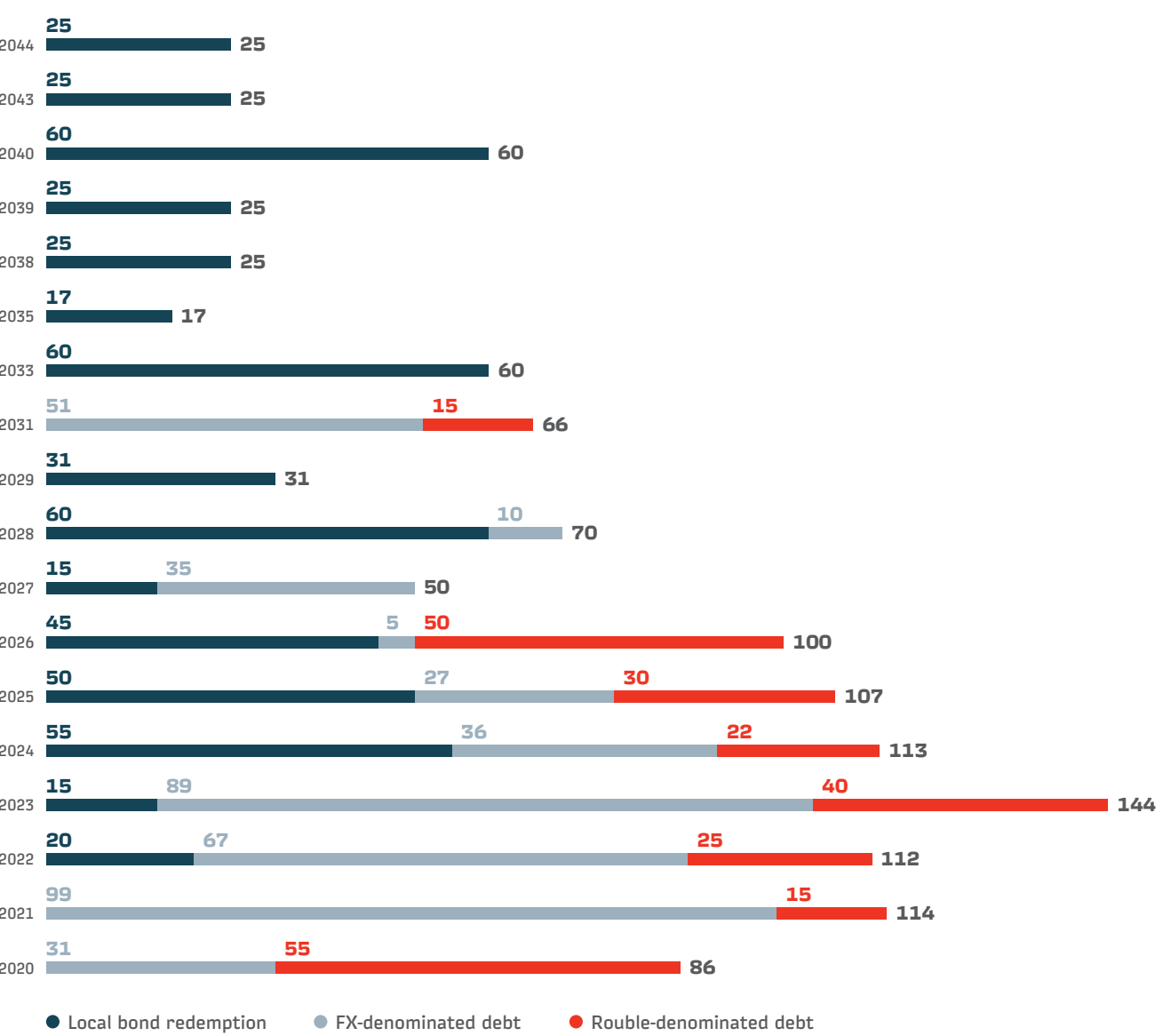


^{1.} Excluding short-term liquidity management tools.

^{2.} Short-term bank and intra-group loans.

^{3.} Principal debt only (principal debt less accrued interest) as at 31 December of the respective year. Rounded to whole numbers.

Russian Railways’ debt portfolio breakdown by maturity⁴, RUB bn



^{4.} Principal debt. Debt obligations as at 31 December 2019. FX payments calculated on the basis of the FX rates as at 31 December 2019.

Securities

Finance highlights

In 2019, Russian Railways became the largest borrower among corporate issuers in the local capital market, raising a total of RUB 106 bn through six local bond offerings. Moreover, the Company moved to the top of the list of the biggest Eurobond issuers in the CIS (ranking second to the Russian Federation, according to Cbonds¹). In 2019, Russian Railways completed five offerings in different currencies (euro, Swiss francs and roubles) for a total equivalent of USD 1,607 m.

It is also worth noting that the Company completed the offering of Green Eurobonds, first of its kind in Russia and the CIS. The offering was priced at 2.2%, the lowest ever coupon rate for a Euro-denominated bond of a Russian issuer. The deal won the Best Primary Eurobond Deal award from Cbonds, which is a testament to its success.

BONDS

Global capital markets

In April 2019, Russian Railways placed 6.5-year rouble-denominated Eurobonds for a total of RUB 20 bn. The issue attracted more than 50% of international investors, thus enabling the Company to diversify its investor base.

Russian Railways was the first in Russia and the CIS to place Green Eurobonds in May 2019. The 8-year 2.2% Green Bond helped the Company raise EUR 500 m.

In August 2019, Russian Railways successfully completed its first private placement of RUB 15 bn Eurobonds with a maturity of 7+ years

to the Singapore’s sovereign wealth fund. The issue was the first for the Company to be listed on the Vienna Stock Exchange.

In September 2019, order books were closed for the two tranches of franc-denominated 6- and 8.5-year CHF 500 m Eurobonds. The tranches were priced at the lowest coupon rates ever offered by Russian bond issuers (0.898% and 1.195% for 6- and 8.5-year Eurobonds, respectively). Moreover, the 8.5-year tranche became the longest-term offering of franc-denominated bonds by Russian borrowers.

In November 2019, Russian Railways successfully redeemed its USD- and GPB-denominated Eurobonds for approximately USD 461 m, having refinanced them with franc-denominated instruments at lower rates.

In 2019, the Company borrowed a total of CHF 1.26 bn from banks.

Russian Railways optimised the cost of its debt maintaining interest payments at a comfortable level. In 2019, an equivalent of ca. RUB 209 bn was raised using global instruments.

Local capital market

In 2019, the Company successfully placed six primary rouble bond issues in the local market along with secondary bond offerings. The proceeds from local bonds were partly used to replace its short-term debt.

In 2019, Russian Railways first tapped the local bond market in late January, placing a five-year 8.7% issue for RUB 15 bn.

In March 2019, the Company successfully placed a 10-year 9.1% issue for RUB 20 bn, closing the largest and longest running deal in the local market since the beginning of the year. In the same month, it took advantage of the additional demand generated by the previous offering, closing the order book for another RUB 11 bn on similar terms.

In April 2019, the Company successfully placed an eight-year 8.8% issue for RUB 15 bn.

In July 2019, it completed another seven-year bond offering, raising a record RUB 30 bn in the local market. The coupon rate was set at 7.9% with a minimum premium to the government bond yield.

In November 2019, the Company successfully placed a six-year 6.75% issue for RUB 15 bn, securing the lowest coupon rate among all its local public offerings since 2006.

Green Bonds

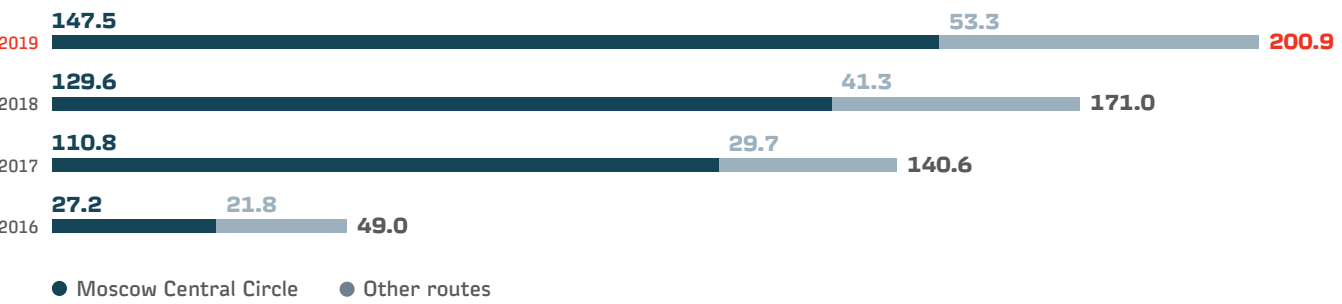
On 23 May 2019, Russian Railways successfully completed its international Green Eurobond offering, marking the first issue for this type of bonds in Russia and the CIS.

The Company developed the Green Bond Framework to ensure the transaction implementation in line with international best practice. The Framework was aligned with the Green Bond Principles (2018) of the International Capital Market Association (ICMA) and the Low Carbon Land Transport Standard of the Climate Bonds Initiative (CBI).

The eight-year Green Bond helped Russian Railways raise EUR 500 m and was finally priced at 2.2%, achieving the lowest ever coupon rate for a Euro-denominated bond of a Russian issuer. Green investment funds accounted for approximately 25% of the final order book.

The capital raised was used to refinance the purchase of Lastochka electric passenger trains in 2016–2018.

Passengers transported by Lastochka electric trains², m people



^{1.} Cbonds is the leading news agency in Russia, specializing in information disclosure and analytics on the global financial markets, in particular in the area of debt instruments. The agency monitors news and market conditions, maintains a database on all issues of debt securities of issuers.

^{2.} Including the Moscow Central Circle.

About the project to purchase Lastochka electric trains

The Lastochka is an electric high-speed passenger train based on the Siemens Desiro platform. As at the date of this report, Russian Railways purchased about 200 Lastochka trains used for both suburban and long-haul transportation.

The project is intended to handle the growing flow of passengers and offer them improved service quality on both new and existing routes, while also supporting the modal shift from road to rail.

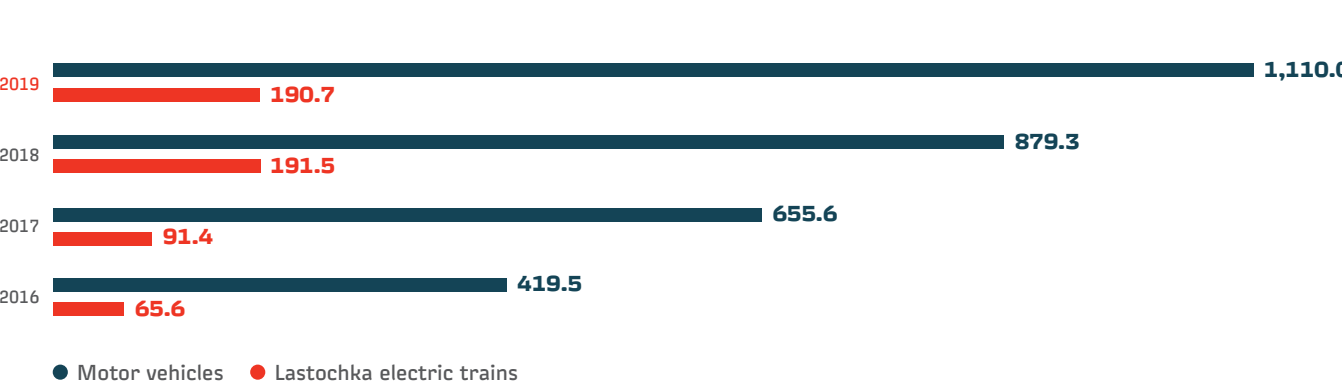
The purchase qualifies as a Clean Transportation Project in line with the Green Bond Principles.

The indicative environmental impact of Lastochka electric trains calculated by the Company showed a significant advantage of rail passenger transportation as compared to motor vehicles. In 2019, CO₂ emissions from Lastochka trains were 5.8 times lower than those from motor vehicles used to transport the same number of passengers.



For more details on Green Bonds see the Investor Relations section of the Company’s website

Indicative CO₂ emissions from Lastochka electric trains vs motor vehicles¹, kt CO₂



^{1.} Based on the same number of passengers transported.

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.

The Russian Federation is the founder and sole shareholder of Russian Railways. The Government of the Russian Federation 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 31 December 2019, the charter capital amounted to RUB 2,379,420,680,000.

Dividend policy

In 2019, Russian Railways paid dividends on ordinary shares for 2018 pursuant to Order No. 1393-r of the Government of the Russian Federation dated 29 June 2019.

- The following amounts were allocated to dividend payments for 2018:
- RUB 7 m, or 0.01% of the nominal value (RUB 70 bn) of preference shares, payable to preference shareholders;
 - RUB 13,357 m, or 72.74% of the RAS net profit, payable to ordinary shareholders.

Pursuant to Order No. 1393-r of the Government of the Russian Federation dated 29 June 2019, RUB 918.1 m was allocated to reserve capital in 2018. No other allocations were made.

Distribution guidance for the 2019 net profit

In 2019, Russian Railways earned RUB 53.5 bn in net profit. Pursuant to Clause 42, Section 6 of the Company’s Charter, RUB 2.673 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 2019 in accordance with the Russian Government’s directive.

In accordance with the Comprehensive Plan for Upgrading and Expanding Core Infrastructure until 2024, the Russian Railways Long-Term Development Programme until 2025, and the Company’s investment programme and financial plan for 2020–2022, Russian Railways is entitled to use the full amount of net profit to finance its large-scale investment programme.

Net profit distribution, RUB bn

Items	2014	2015	2016	2017	2018
Net profit	–44.078	0.318	6.500	17.500	18.363
Reserve capital	0.000	0.016	0.325	0.875	0.918
Dividends accrued on					
ordinary shares	0.045	0.297	5.142	8.750	13.357
preference shares	–	0.005	0.005	0.005	0.007

100%
in Russian Railways
are owned by the Russian
Federation

RATING AGENCIES AND INVESTORS

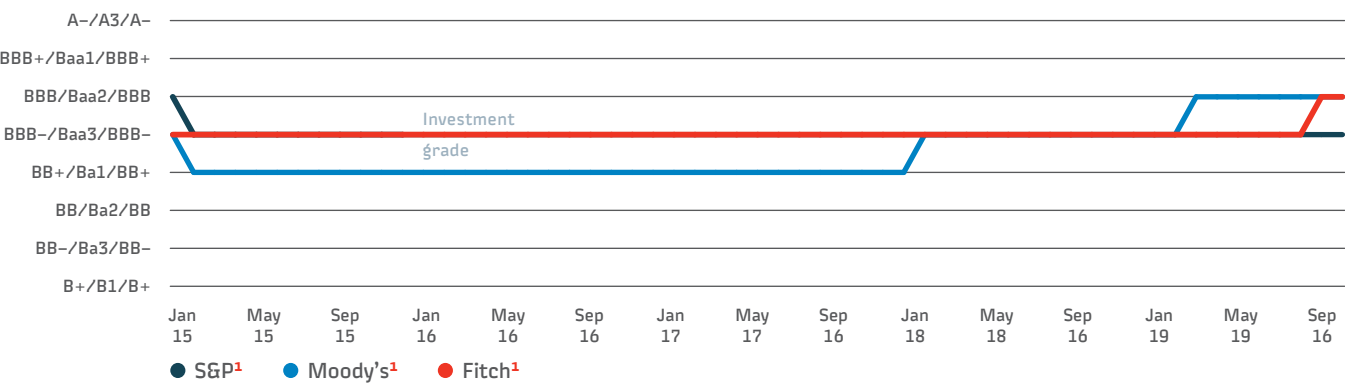
In 2019, global rating agencies took a number of positive actions on Russia's sovereign ratings on the back of the government's sound and consistent financial policy, improvements in macroeconomic conditions and the country's stronger resilience to external risks. Early in 2019, Moody's upgraded Russia's sovereign rating to the investment grade Baa3 with a stable outlook from Ba1 with a positive outlook, and in Q3 2019, Fitch raised the country's investment grade rating to BBB from BBB- with a stable outlook.

In February 2019, following Russia's sovereign rating upgrade and Russian Railways' strong performance in 2018, Moody's raised the Company's credit rating from investment grade of Baa3 (positive outlook) to Baa2 (stable outlook), one notch higher than the sovereign. Only three out of twelve 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 of them. The agency noted the Company's strong operating and financial performance in 2018, sufficient liquidity position, long-term nature of its debt portfolio, diversified

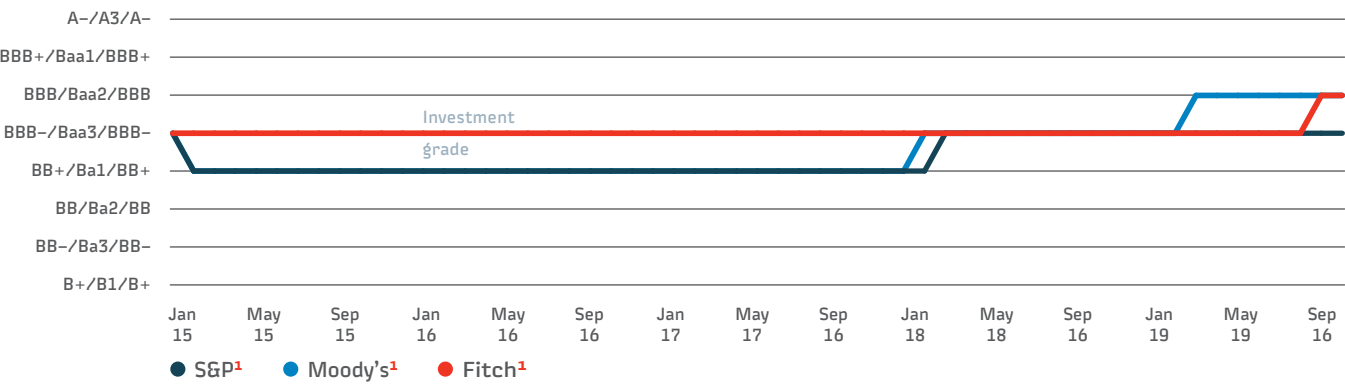
borrowing sources, and a comfortable leverage despite a massive investment programme.

In August 2019, Fitch upgraded Russian Railways by one notch from BBB- (positive outlook) to BBB (stable outlook) to reflect its "good creditworthiness". The upgrade was driven by Russia's sovereign rating upgrade in early August and the Company's strong ties with the government, leading to the alignment of the Company's final rating with the sovereign rating. At the same time, the standalone credit rating of Russian Railways (excluding country risks) was affirmed at BBB+, one notch above the basic rating.

Russian Railways' credit ratings in local currency



Russian Railways' credit ratings in foreign currency



¹. International rating scale.

As a result, the Company's ratings from the three global rating agencies are all investment grade since Q1 2018, i.e. for two years running.

The credit ratings of Russian Railways from national rating agencies were confirmed at the highest level of the issuer's credit rating – AAA(RU) with a stable outlook by ACRA and ruAAA with a stable outlook by RAEX. Therefore, the Company additionally maintains an independent assessment of its sound financial health and robust credit profile as a borrower.

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

Russian Railways is now two steps down from the A rating tier of Moody's and Fitch and three steps down from that of S&P.

In 2019, Russian Railways continued its dialogue with Russian and global financial investors at bilateral meetings and industry conferences.

Among the highlights of the year were the participation of the Company's management in the St Petersburg International Economic Forum in June 2019 and the signing of a number of cooperation agreements with international and Russian banks. In November 2019, the Company took part in VTB Capital's 11th Annual Investment Forum "Russia Calling!", which included meetings with major Russian and foreign investors who reaffirmed their interest in the Company's corporate debt instruments, in particular green bonds. In November, a series of meetings between Russian Railways' management and representatives of major Asian investment funds, banks and insurance companies was held in Tokyo as part of the Company's efforts to develop relations with foreign investors. A traditional annual Investor Day with the participation of the Company's management was held in London in December 2019.

DISCLOSURE AND REPORTING POLICY

Russian Railways is committed to ensuring full transparency of its operations in line with applicable legal requirements

and the interests of investors and other stakeholders. Information is disclosed pursuant to the Regulation on the Information Policy adopted by Russian Railways' Board of Directors.

Russian Railways discloses its financial and accounting statements in line with Russian (RAS) and international (IFRS) standards. As an issuer of securities traded on the Moscow Exchange, it also makes online disclosures in accordance with the Russian securities market laws.

The Company's annual report provides essential details about its operations in line with regulatory requirements and is submitted to the shareholder in preparation for the general meeting. The corporate website offers a wealth of more information about the Company, including access to its internal regulations. Some essential information relevant for foreign stakeholders is disclosed in English.

Credit ratings of the Russian Federation and Russian Railways as of the end of 2019

Issuer	Agency	Rating	Outlook
Russia	Standard & Poor's	BBB-	Stable
	Moody's	Baa3	Stable
	Fitch	BBB	Stable
Russian Railways	Standard & Poor's	BBB-	Stable
	Moody's	Baa2	Stable
	Fitch	BBB	Stable
	ACRA	AAA(RU)	Stable
	RAEX	ruAAA	Stable

SUSTAINABLE DEVELOPMENT

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 743,000 people, Russian railways maintains a priority focus on compliance with the sustainable development principles and social responsibility towards employees, the society, and the state.

+3.3%

labour productivity growth
in transportation operations in 2019

+6.5%

average monthly
salary growth



Sustainable development management



“ 2019 was a year of human capital development at Russian Railways. This is our key priority as people, their professional skills, experience, power and desire to excel and grow personally and as a company, are our most valuable asset. The Company has always paid great attention to developing its talent pool and ensuring decent working conditions and will continue to do so for many years to come.”

Dmitry Shakhanov

Deputy CEO of Russian Railways

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 corporate social responsibility policy, the Company complies with international treaties, laws and regulations of the Russian Federation, local laws and regulations.

Russian Railways' strategic priority in terms of sustainability is to achieve the UN Sustainable Development Goals (SDGs) that focus on efficient use of limited

resources, implementation of environmentally friendly and resource/energy saving technologies, and support social and cultural stability, as well as integrity of biological and physical ecosystems.

The Company's commitment to the 17 UN SDGs is reflected in its efforts to ensure economic stability, environmental safety and social security.

Stakeholder engagement

Stakeholders	Interaction formats and mechanisms
Staff	• Labour relations under the Collective Bargaining Agreement • Social partnership • Employee surveys and sociological monitoring • Management functions • Conflict resolution procedures
Educational institutions	• Targeted student admission arrangements • Benefits for children of Russian Railways' employees • Joint academic and cultural events • Input to the work of educational institutions from Russian Railways' employees
Shareholders and investors	• Arranging the issuance of technical specifications • Arranging assessment of the project's economic efficiency for Russian Railways and its investor • Creating project teams • Drafting and signing of cooperation agreements on project implementation • Regular working meetings at various levels • Signing of agreements to connect the investor's non-public infrastructure assets to Russian Railways' infrastructure
Government authorities and local communities across the Company's footprint	• Implementation of master cooperation agreements associated with railway transportation • Drafting, signing, and implementation of mid-term social and economic cooperation agreements with Russia's regional authorities • Organising train days attended by heads of regions and Russian Railways Group's representatives • Regular working meetings with Russia's regional leaders • Joint participation in the events held to support the image of Russian regions and the Russian Railways Group • Meetings of interregional and regional transportation coordination councils, permanent working groups and committees involving representatives of Russian regions and local enterprises • Preparation for and cooperation during conference calls with the Ministry of Transport of the Russian Federation involving representatives of the Russian Railways Group, SPC and Russian regions • Maintaining dialogue with regional legislative bodies during the meetings of dedicated committees • Expert support to members of the State Duma and the Federation Council • Drafting and implementation of Russian Railways' action plans in line with the legislative work schedule of the Federation Council and the State Duma, taking into account the legislative activities of the Government of the Russian Federation • Monitoring and organising events at the Federal Assembly's platforms • Monitoring and analysis of the information disclosed in the State Duma's automated system for supporting legislative activity • 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 • Handling of queries from members of the State Duma and the Federation Council • Focus on preventive management of the external environment
Social partnership	• 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 • Liaising with industry trade unions in ensuring social security of employees and retirees • Non-financial/sustainability reporting

Stakeholders	Interaction formats and mechanisms
Mass media and non-governmental organisations	• Press releases covering Russian Railways' operations • Replies to media enquiries • Accompanying journalists during photo and video tours at infrastructural facilities
Passengers	• Railway station services • Passenger transportation services • Catering services on board • Developing feedback channels: – questionnaires at railway stations – Unified Information Service Centre – Enquiries via the mobile app – Russian Railways' website – surveys at www.opros.fpc.ru and on Sapsan trains • Passenger satisfaction surveys
Freight transportation clients	• Basic freight transportation services • Transportation and logistics services related to basic freight transportation services, including public railway infrastructure services • Russian Railways' information services • Developing feedback channels: – Unified Freight Transportation Call Centre, part of Russian Railways Unified Information Service Centre – personal account of the client of JSC "Russian Railways" – Enquiries via the RZD Cargo mobile app – Freight section of the Russian Railways website – Sales offices • Client satisfaction surveys

Social policy

The development of the social sphere of the Holding is carried out on the basis of an objective assessment added value created by social support of the team and the use of assets, a set of socially significant objects for the provision of market services. The main function is to implement a policy of social responsibility to employees, society and the state.



Russian Railways’ key ethical principles

- Make people our top priority.** People are the Company’s main asset. We see real people – employees, passengers, and clients – behind the statistics. Everything that we do is about people’s welfare and comfort.

Do our best. We work hard to perform our duties to the letter, deliver on all promises, achieve the targets, while having zero tolerance to any kind of corruption, and measuring up to the privilege of being part of Russian Railways.

Be proud to work at Russian Railways. Every Russian Railways employee feels honoured to be part of a company that has a unique history, rich traditions and ambitious plans for the future. We respect traditions and pay tribute to industry veterans. We strive to maintain and augment Russian Railways’ reputation as a rapidly growing national transportation company.
- Promote teamwork.** Being part of a team means being attentive and honest with colleagues, managers and subordinates, putting the Company’s interests before our own. Mutual trust and well-coordinated teamwork are our main strengths.

Rely on experience. We learn from our predecessors and use their experience in a creative way to excel in what we do and develop professional skills and competencies, and pass it on to young talent.

Be result-oriented. In following this principle, we always keep in mind that we work to deliver specific results such as higher profits for Russian Railways, completion of new projects, client satisfaction and people’s trust.

Make well-informed decisions. As our decisions can affect many people and organisations, we always think them through focusing on safety and risk mitigation, as well as economic
- feasibility and commercial interests of Russian Railways.

Promote commercial interests of Russian Railways. We develop the culture of continuous improvement, multiply and save our earnings to the extent that does not contradict law and ethics, or affect quality and safety.

Be a leader. As Russian Railways is a leading Russian company, we expect our employees to have leadership qualities to set the pace, embrace changes, and serve as role models for colleagues and people outside of Russian Railways.

Aspire to change and evolve. We constantly strive for excellence seeking ways to improve efficiency, introduce innovations, acquire new knowledge, and develop personal and professional skills. Innovations are key to Russian Railways’ growth and prosperity and personal development of our employees.

Performance under the Collective Bargaining Agreement and social support of employees in 2019

- 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.
- In 2019, a new Collective Bargaining Agreement of Russian Railways for 2020–2022 was signed. It provides for the same guarantees and obligations towards the Company’s employees, their families, veterans and retirees as the previous agreement.

Costs associated with the benefits package under Russian Railways’ Collective Bargaining Agreement:
- RUB 44 bn for employees and their families;
 - RUB 3.8 bn for retirees.

On top of that, the corporate support programme helped 4,388 employees to improve their housing conditions with the Company’s financial aid totalling RUB 1.97 bn in 2019.

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

The Company has a Coordination Council tasked with improving the conditions of work, leisure, and social support of women. The council regularly holds onsite meetings with female employees and organises video conferences with railway coordination councils to collect feedback from female employees and discuss any concerns they might have. To monitor women's working conditions, Russian Railways completed three rounds of surveys in two years assessing job satisfaction among its female workers.

In 2019, 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:

- developed the Regulations on the Procedure and Principles of Self-Nomination at Russian Railways in order to promote employment of women, including to managerial positions, through a transparent competition-based procedure;
- conducted a comprehensive assessment of working conditions to expand the list of railway jobs available to women. Starting from 2021, women will be able to work as assistants to traction stock operators. The relevant documentation is being drafted and once it is approved, the Company will start recruiting women to train them for the job;
- developed a Reference Book for Female Employees of Russian Railways containing information on their employment rights and obligations,

- and the Company's guarantees in terms of health and safety improvement;
- launched an educational project aimed at developing corporate competencies of Russian Railways managers and office workers through self-education via an online distance learning system, which works well for women on childcare leave;
- conducted a new wave of study on the working conditions of Russian Railways female employees through an online survey of women working across the railway network and at the Company's executive office. Furthermore, an additional stress survey was held;
- improved sanitary conditions and amenities for women;
- developed comprehensive preventative healthcare programmes for women;
- launched special programmes for women at the Company's healthcare facilities and RZD-ZDOROVIE.

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.

Russian Railways' corporate pension programme is operated by the Blaġosostoyanie Private Pension Fund. More than 607,000 Russian Railways current and former employees have pensions with the Blaġosostoyanie Private Pension Fund. 314,000 retired employees receive corporate pension¹.

In 2019, corporate pensions were granted to 11,771 Russian Railways employees. The average corporate pension granted in 2019 was RUB 9,329.

Russian Railways' youth policy

As at the end of 2019, the proportion of employees under 35 years of age accounted for 40% of the total headcount, while employees under 30 made up 22.7%. This makes social support of young talent even more important.

2019 saw over 1,000 activities and projects carried out as part of Russian Railways' Youth target programme (2016–2020) in order to develop young employees' professional skills and corporate competencies, engage them in improvement of the Russian Railways's operations, increase customer focus and enhance service level. Ca. 200,000 young employees across the Company's footprint took part in the events. Particular attention was given to young engineers, managers and office workers.

The 12th Annual Youth Conference of Russian Railways became the most exciting event of 2019 in the youth calendar.

In 2019

11,771
employees
of Russian Railways were
granted corporate pensions

1.97
RUB bn
spent under the corporate
support programme
for the employees
to improve their housing
conditions



HR management

The Company's HR policy seeks primarily to ensure a stable working environment through balanced and effective personnel management and social initiatives. In accordance with Russian Railways' Code of Business Ethics, heads of the Company's branches and business units ensure equal rights and opportunities for all persons when they apply for a job or work their way up the career ladder, regardless of their gender, age, race, nationality, language, origin, financial and employment status, place of residence, religious and political beliefs.

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).

¹. Excluding pensioners transferred from the Fund of "Honor" in Blaġosostoyanie.

Headcount and staff composition

As at 31 December 2019, Russian Railways had 743,100 employees, down 1.2% y-o-y.

The reporting year saw a rise in staff education level, with the share of employees with higher education increasing by 0.7 pp to 32.8% of the total

headcount by the beginning of the year. The share of employees with secondary vocational education amounted to 28% (up 0.2 pp y-o-y).

Workforce analysis

Staff composition is well-balanced

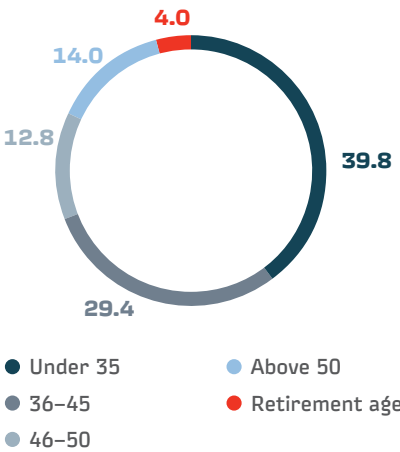
Optimal age structure achieved and maintained

Share of employees with higher education increasing

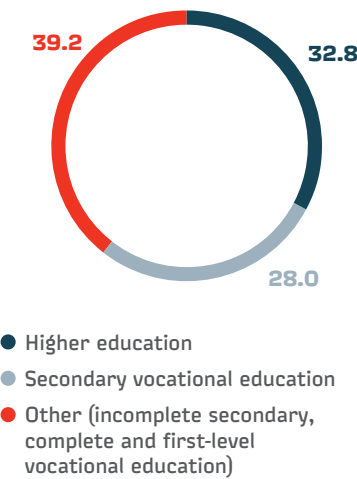
Headcount, thousand employees



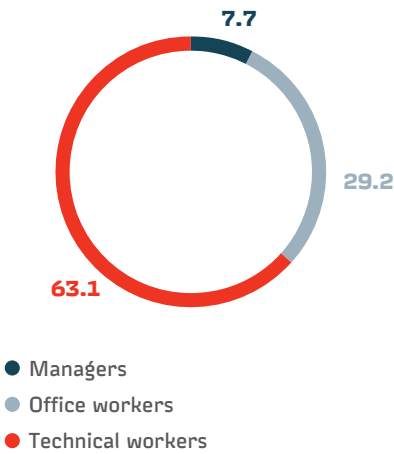
Age structure, %



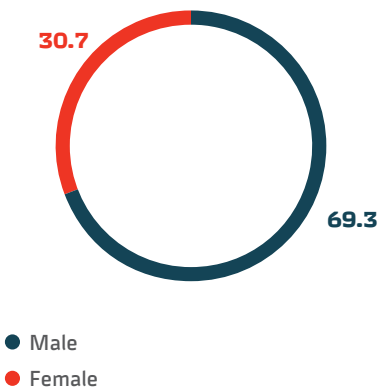
Education, %



Personnel categories, %



Gender composition, %



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 2019, labour productivity in transportation increased by 3.3% y-o-y.

Employee remuneration and incentivisation

By offering a competitive salary, the Company promotes work in the railway industry and prevents the outflow of skilled professionals. In 2019, we adjusted salaries by 6% (including 2.9% in March, 2% in July and 1% in October) as per the Collective Bargaining Agreement.

The average monthly salary across all Russian Railways operations increased by 6.5% y-o-y to RUB 58,504, while real

company-wide salaries grew by 1.9%. The Company's wages are 23% above the country's average and the pay level across nearly all Russian regions (except for Moscow, the Yamal-Nenets Autonomous Area and the Sakhalin Region).

The Company takes an ongoing, focused effort to improve its financial incentive system.

In February 2019, the employees received a lump-sum remuneration for maintaining high levels of labour productivity growth in 2018.

The Company keeps incentivising its employees to enhance efficiency, with RUB 361.2 m spent on rewarding 18,000 people for the associated achievements in 2019.

Salary

Indicator	2015	2016	2017	2018	2019
Average monthly salary across all operations, RUB	44,500	46,852	50,404	54,934	58,504
Y-o-y growth, %	108.2	105.3	107.7	109.0	106.5

Employee training and development

In 2019, Russian Railways continued cooperation with industry-based educational institutions to train specialists with higher education and secondary vocational education. As at the year-end, more than 31,000 students were taking courses at railway universities sponsored by Russian Railways. 88 new scholarships were established in 2019 to be granted to the most talented university students.

On top of that, over 170,000 Russian Railways managers and office workers upgraded their professional skills at railway universities and other educational institutions.

managers at the strategic and tactical levels of the Russian Railways Group and help them develop corporate competencies. The Corporate University serves as a centre of excellence in personnel assessment, methodology of new educational programmes, implementation of distance learning technologies and talent pool development programmes.

In 2019, the University implemented 153 upskilling and reskilling programmes in general management and modern leadership, with over 80,000 graduates.

In the same year, the University launched a number of new projects, including a new series of programmes supporting digital transformation under which trainees get introduced to design thinking and learn to create digital services for passengers, shippers and the Group employees.

The Corporate University of Russian Railways was successfully certified with GlobalCCU CU Certification Compliance level. This landmark event confirmed that training and development programmes of the Russian Railways Group are in line with the internationally acknowledged principles and standards of corporate education.

CORPORATE UNIVERSITY

The Russian Railways Corporate University was established in 2010 as part of the industry education system to train



**TRAINING
AND DEVELOPMENT
OF TECHNICAL WORKERS**

The Company’s professional training framework relies on 15 education centres made up of 67 regional branches scattered between Kaliningrad and Sakhalin.

The centres’ educational programmes and schedules comply with professional standards. In 2019, the Company developed ten new professional standards for railway industry occupations and updated 16 existing standards.

- 2019 results:
- over 51,500 workers were trained;
 - over 175,800 employees upgraded their skills at training centres, technical schools and colleges.

EMPLOYEE HEALTHCARE

Russian Railways’ structure includes 137 non-governmental and private healthcare facilities (including 83 hospitals with a total of 15,900 beds for 24/7 care and 54 outpatient clinics) for its employees.

In 2019, more than 1.8 m mandatory pre-employment and regular medical examinations and over 29.4 m pre-trip medical check-ups were conducted. This helped maintain zero level of accidents caused by employees’ poor health. The morbidity with temporary disability rate for 2019 was 55.8 cases (699.5 days) out of 100.

The reporting year saw the development and launch of a unique programme for preventive medical examination of the Company’s employees that encompasses different methods of highly informative medical screenings depending on sex and age of an individual and various risk markers.

**PROMOTION OF SPORTS
AND HEALTHY LIFESTYLE**

The Company takes consistent steps to promote healthy lifestyle. In 2019, it started developing the Russian Railways Healthy Lifestyle Programme for 2020–2025.

As part of the Collective Bargaining Agreement, the Company partners with the Russian Trade Union of Railway Workers and Transport Builders (Rosprofzhei) and Lokomotiv Russian Fitness and Sports Society to stage and run events aimed at improving health and promoting sports and fitness among its employees and their families. The reporting year saw some 165,700 people take part in the Company’s sports events.

Every year, Russian Railways team participates in championships held by the International Railway Sports Association (USIC) in various sports.



2019 Universiade

The 29th International Winter Universiade, an international sporting event for students, took place in Krasnoyarsk on 2–12 March 2019. Over 2,000 people from 58 countries took part in the event. The athletes were competing for 76 medal sets in 11 sports: biathlon, alpine skiing, curling, cross-country skiing, snowboard, ski orienteering, figure skating, freestyle skiing, ice hockey, bandy, and short track speed skating. The Universiade flame was carried along the streets of Krasnoyarsk by local citizens known for their achievements in sports, arts, culture, education or science.

Health and safety



The implementation of new instruments and measures to prevent workplace injuries within Russian Railways’ health and safety management system helps reducing the annual workplace injury frequency rates, regardless of severity.

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 core document that sets out the Company’s goals and objectives in this field is the Health, Environmental, Industrial and Fire Safety Policy of the Russian Railways Group. The health and safety management system is based on a risk-oriented approach that provides for a shift from reactive (i.e. damage

compensation) to proactive measures by minimising employee exposure to production risks, and harmful and hazardous factors.

In order to integrate the Vision Zero concept into its health and safety practices, Russian Railways has developed and approved the Vision Zero Implementation Programme for 2019–2021 that aims to create a uniform comprehensive approach to improving social and economic efficiency of health and safety management, and develop a corporate health and safety culture using synergies from the implementation of new health and safety management tools.

The reporting year saw the following reductions in workplace injuries across the Company vs the previous year:

- overall injury rate (total number of injuries¹) down by 10% (from 168 to 152 employees);

- fatal injury rate (number of fatal injuries) down by 5% (from 21 to 20 employees¹);
- severe injury rate (number of severe injuries) down by 16% (from 51 to 43 employees¹).

The workplace injury frequency rate dropped as follows:

- overall workplace injury frequency rate (number of injuries per 1,000 workers) down by 9% (from 0.234 to 0.214);
- fatal injury frequency rate (number of fatal injuries per 1,000 workers) down by 3% (from 0.029 to 0.028).

The Company has fully implemented its risk-oriented approach. Risk assessment is conducted at all management levels of the Company, at every branch with a breakdown by regional departments and business units and by type of hazardous occupations.

In 2019, production departments of the Company’s branches measured

professional risks for the main types of hazardous occupations by conducting an integral assessment, defining the acceptable risk levels and making lists of unacceptable and undesirable risks.

The measurement results were then evaluated and rated by the regional business units and summarised in risk

matrices for the main types of hazardous occupations.

The outcomes of the automated measurement of professional risks serve as a basis for managerial decision-making and health and safety improvements. For example, measures to eliminate injury factors were developed and included into

the Comprehensive Health and Safety Improvement Programme for 2018–2020 based on the risk assessment results.

In 2019, the Company carried out a special assessment of working conditions at 67,400 workplaces and improved work environment at 40,600 workplaces of 187,000 employees.

Key health and safety indicators

Indicator	2015	2016	2017	2018	2019
Health and safety improvement expenses, RUB m	18,593.5	18,715.5	20,121.1	22,596.1	23,914.6
Workplace injury frequency rate (number of injuries per 1,000 employees)	0.29	0.30	0.25	0.23	0.21
Number of workplaces with hazardous working conditions, thousand	105	95	88	84	81
Improved working conditions, thousand workplaces	23	32	37	41	41

^{1.} Among Russian Railways employees only.

Environmental protection

Russian Railways is a major natural resource user operating in 77 regions of Russia. Russian Railways has set its priorities in the rational use of natural resources and improving environmental safety until 2025 in line with the basic principles of state environmental development policy for the period through to 2030¹. 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.

Russian Railways’ key environmental initiatives in 2019:

- use green technologies at 127 facilities in the republics of Buryatia and Karelia, Krasnodar, Perm, Primorye, and Khabarovsk territories, Kaluga, Kirov, Samara, Amur, and Nizhny Novgorod regions;
- construct or upgrade eight treatment facilities for industrial, utility and sanitary effluents in the republics of Buryatia and Yakutia, Krasnodar and Altai Territories, Irkutsk, Saratov, and Orenburg regions, using the best available technologies;
- liquidate seven sites of accumulated environmental damage in the Krasnoyarsk and Khabarovsk territories, Irkutsk, Chelyabinsk, Kursk, and Kemerovo regions;
- renovate an industrial landfill in the Orenburg Region.

Reducing environmental impact

In reducing its environmental impact, the Company follows the Environmental Strategy through 2020 and potentially through 2030 and the Energy Strategy through 2020 and potentially through 2030, as well as the Climate Doctrine of the Russian Federation.

GHG emissions management is an element of Russian Railways’ corporate strategy, allowing the Company to contribute to achieving the national goal² of reducing GHG emissions to 75% of the level of 1990 or lower.

Russian Railways submits annual data for GHG emission assessment for the purpose of CDP reporting and attends working group meetings of the Russian Union of Industrialists and Entrepreneurs (RSPP) and the Ministry of Economic Development. The Company takes part in discussions on federal regulations, submitting proposals and comments based on specifics of the railway transport.

In 2015, the Company made a commitment to address climate change issues.

Russian Railways responsibly and consistently implements a programme for reducing GHG emissions in its operations. 2019 saw a reduction in CO₂ emissions (including indirect emissions from the use of heat and electricity) to 38.5 mt, 43.9% below the level of 1990, at similar transportation volumes.

In late 2019, to develop the GHG emissions accounting and management system, Russian Railways adopted a programme of organisational and technical initiatives for 2020–2025. According to the Long-Term Development Programme, specific GHG emissions will be 4.5% down vs 2018.

The decline will be attributable to new solutions which reduce fuel consumption in traction and stationary power generation. In particular, locomotives using an autonomous diesel heating system have a 10–16% lower fuel consumption

when hot idle. The deployment of modular gas-fired boilers instead of those fuelled by coal and fuel oil significantly reduces pollutant emissions. The introduction of resource-saving technologies involves resource-saving solutions for railway stations as part of the Smart Railway Station concept, transition to LED lighting, automated central heat stations, energy-efficient passenger and freight train schedules, and automatic train operation systems.

Shifting to new types of rolling stock is essential for reducing GHG emissions. In particular, the indicative environmental impact of Lastochka electric trains calculated by the Company showed a significant advantage of rail passenger transport as compared to motor vehicles. In 2019, Lastochkas emitted 190.7 kt of CO₂ vs 1,110 kt of CO₂ which motor vehicles would emit for transporting the same number of passengers over the same route (5.8 times higher).

¹. Approved by the Russian President on 30 April 2012 and by the Russian President’s Decree No. 204 On National Goals and Strategic Objectives of the Russian Federation through to 2024 dated 7 May 2018.

². Approved by the Russian President’s Decree No. 752 dated 30 September 2013.

Atmospheric air protection and noise exposure reduction

As part of the corporate Environmental Strategy, the Company cut its emissions from stationary sources in 2019 by 8.8% y-o-y. Emissions from stationary sources were reduced due to the construction of new and renovation of existing boilers, transition of boilers to greener fuel, improved efficiency of fuel combustion, introduction of electric heating, disposal of underutilised coal boilers, upgrade of existing and installation of new dust and gas collectors.

For the purpose of noise control and reducing emissions in residential

areas, the Company draws noise maps for ranking risks and developing a priority action plan to mitigate them. Other factors contributing to noise reduction:

- resilient rail fastening and continuous welded rails;
- replacing cast iron brake shoes with compound ones;
- protective screens along tracks;
- afforestation;
- rolling stock upgrade.

Emissions from stationary sources, kt



Waste management

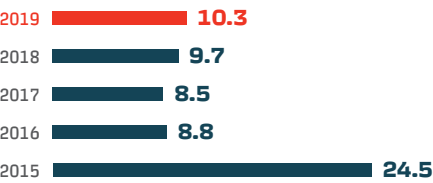
Up to 80% of waste generated by Russian Railways is reused or recycled. Most of it (ferrous and non-ferrous scrap metals and used petroleum products) is handled by waste processing professionals. Waste is also reused within the Company, including waste hazard classes 5 and 2–4 as per the waste management licence obtained by Russian Railways.

In 2019, Russian Railways generated 1.486 mt of production and consumption waste, of which 0.088 mt was disposed of or decontaminated by the Company's units. 1.386 mt of waste was transferred to third parties, including:

- 0.876 mt for subsequent disposal;
- 0.218 mt for decontamination;
- 0.274 mt for dumping.

In 2019, 82.9% of waste was decontaminated or recycled by Russian Railways (up 1.2% y-o-y).

Waste decontamination, kt



In 2019,
1,545.4^t
of paper, plastic, and glass were delivered for disposal



Biodiversity conservation

The Company pays great attention to the conservation of biodiversity in railway infrastructure areas and next to railway stations. Parts of tracks often crossed by animals are equipped with reflective tape, and are monitored together with forestry and hunting sector representatives.

In 2019, as part of its Environmental Strategy and for biodiversity conservation, Russian Railways:

- released over 2 t of fingerlings into rivers;
- planted over 560,000 trees and bushes;
- planted over 10,000 seeds in greenhouses as part of the Baikal Forest programme;

- participated in garbage cleaning as part of Green Spring, Green Friday, Victory Forest, and Green Russia Environmental Subbotnik.
- launched 51 eco-friendly suburban Green Trains;
- placed over 3,000 posters dedicated to specially protected natural areas at Russian Railways' infrastructure facilities.

Energy efficiency and conservation

Russian Railways maintains leadership in energy efficiency and environmental friendliness among global freight and passenger railway companies. In terms of energy efficiency, Russia ranks first globally in rail freight transportation and fourth in passenger transportation after India, China, and Japan.

Every year, the Company shapes and implements the Energy Savings and Energy Efficiency Programme as part of the Company's Energy Strategy through 2020 and potentially through 2030. In 2020, Russian Railways plans to develop the Energy Strategy through 2025 and potentially through 2035 based on the analysis of the current strategy implementation. The Strategy will update the Group's priorities in power generation and target energy efficiency indicators. The key tool for the Company's efforts to save energy is its investment project titled "Introduction of Resource-Saving Technologies in Railway Transport".

In 2019, the Company improved its energy efficiency by 1.2%.

In the reporting year, the Energy Efficiency Programme helped achieve fuel and energy savings of 3,446.3 TJ or RUB 2.352 bn.

The improvement of traffic management processes reduced resource consumption (by 174.5 m kWh of electricity and 11.4 kt of diesel fuel) and environmental impact (by 123 kt of CO₂).

The improved performance of traction power supply saved 4.6 m Kwh or RUB 16.3 m.

Increased energy efficiency of stationary power facilities saved more than RUB 1.2 bn.

In 2019, over 1,200 energy saving devices were introduced at a cost of RUB 2.8 bn.

This helped us replace 14 coal, one mazut, and eight diesel boilers with eco-friendly energy sources (in particular, 11 railway facilities switched to renewable power).

In 2019, initiatives implemented by the Company's divisions as part of the Energy Efficiency Programme saved:

- 311.4 m kWh of electricity for RUB 1,132 m;
- 17,6 kt of diesel fuel for RUB 757 m;
- 0.9 kt of petrol for RUB 39 m;
- 7.0 kt of mazut for RUB 106 m;
- 22.7 kt of coal for RUB 49 m;
- 10.0 mcm of natural gas for RUB 52 m;
- 110.0 Gcal of heat energy for RUB 224 m.

Energy efficiency of Russian Railways' operations

Goal	Target for 2019 ¹	Actual for 2019
Energy efficiency improvement, %	0.7	1.2

Energy intensity of Russian Railways' production activity, kJ / virtual tcm net



^{1.} As defined by the Long-term Development Programme of Russian Railways until 2025 approved by the Russian Government's Order No. 466-r dated 19 March 2019.

Charity

Russian Railways puts social responsibility at the heart of its corporate strategy. The objectives and core principles of the charity activities are set forth in the Charity and Sponsorship Policy². Under this Policy, charity predominantly covers regions of the Company's footprint and prioritises institutions, foundations, and performance groups working with Russian Railways. Relations with local communities are governed by the Russian Railways Group's regional policy.

The charity spending in 2019 amounted to ca. RUB 4.5 bn. In 2019, our charity initiatives focused on:

- delivering targeted aid to retired railway employees, honoured railway employees, and veterans of World War II;
- supporting vocational education, primarily industry-specific universities and colleges;

- supporting municipal educational institutions situated in the BAM area;
- promoting healthy lifestyle, children's and mass sports;
- providing assistance in disaster management and support to those affected by natural disasters;

- rendering assistance to children and adults with disabilities, and children without parental care;
- supporting charitable programmes of cultural and historical importance;
- supporting annual cultural events and festivals.



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. The participants compete at distances of 500, 1,520, 5,000, and 10,000 metres. In addition, the charity run programme includes a concert, while the event area offers family recreation spots, children's playgrounds, and sports facilities.

In 2019, the run was organised jointly with Russian Railways and 13 charities, including the Life Line, a charity foundation for saving seriously ill children. 17,900 people participated in the event in 20 cities where the Company operates, helping to raise RUB 12.1 m for charity foundations.

^{2.} Approved by the Board of Directors of Russian Railways on November 8, 2016.

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.

100%

of shares in the Company are owned
by the Russian Federation



Corporate governance system

Russian Railways’ corporate governance system is based on applicable standards and the nature of its operations and governance as a 100% state-owned single economic entity¹, Instructions of the Russian Government, which places a special focus on improving the quality of corporate governance in state-owned companies, are of critical importance for shaping the corporate governance practice in the Company.

In implementing its corporate governance framework and tools, Russian Railways also complies with documents issued by the Bank of Russia as the regulator and the Federal Agency for State Property Management as the corporate governance methodologist for state-owned companies.

Russian Railways’ Board of Directors is the key component of the corporate governance framework, leading the development of the Company’s best practice of corporate governance. In 2019, Russian Railways’ Board of Directors:

- resolved to establish the Digital Transformation and Innovation Committee of the Board;
- approved the Risk Management and Internal Control Policy;
- approved the Regulation on the Remuneration System for Members of the Management Board of Russian Railways;

- for the first time assessed the performance of Russian Railways’ Board of Directors, its committees and members.

Another important positive trend in Russian Railways’ corporate governance practice is the shift in the Board’s focus to issues of strategic importance for the Company. In 2019, the Board of Directors approved:

- Russian Railways’ Long-Term Development Programme until 2025;
- Russian Railways’ Digital Transformation Strategy;
- Russian Railways Group’s Intellectual Property Management Strategy.

In addition, the Board intends to approve in 2020:

- Russian Railways Group’s Comprehensive Innovative Development Programme;
- Russian Railways’ IT Development Strategy.

Russian Railways actively promotes the practice where the Board deals with matters associated with the risk management framework and the Audit and Risk Committee of the Board of Directors, i.e. with matters related to the internal audit framework. In addition, for the purpose of improving the shareholders’ monitoring function, the Board of Directors puts a special emphasis of the governance of the Russian Railways Group as a whole. For example, in 2019–2020 the Board plans to introduce the practice of reviewing the Group’s financial plan in accordance with the IFRS.

Governance structure of Russian Railways

General meeting of shareholders

The supreme governance body of Russian Railways. The Russian Federation, represented by the Russian Government, is the sole shareholder of Russian Railways.

The Board of Directors

Board of directors elected by Russian Railways’ shareholder. Pursues a policy that supports the Company’s dynamic growth, improves sustainability and increases profitability.

Chief executive officer – chairman of the management board

Appointed by the Government of the Russian Federation.

Management board

Russian Railways’ collective executive body. Members are appointed by the Board of Directors, with the exception of Chairman of the Management Board – Chief Executive Officer.

Executive office

Departments, divisions and other units of the executive office responsible for operational management.

Audit Commission

Committees of the Board of Directors

Corporate Secretary

Advisory bodies under the Chief Executive Officer – Chairman of the Management Board

Advisory bodies under the Management Board

Advisory bodies run by heads of departments and other units

General Meeting of Shareholders

The supreme governance body of Russian Railways is its General Meeting of Shareholders. As all of the Company’s 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.

The matters reserved to the General Meeting of Shareholders of Russian Railways are defined by the Federal Law on Joint Stock Companies (article 48) and the Charter of Russian Railways (clause 62). The matters reserved to the General Meeting of Shareholders of Russian Railways include:

- amendments to and modifications of the Company’s Charter or approval of a new version of the Company’s Charter;
- reorganisation of the Company;
- liquidation of the Company, appointment of the liquidation committee and approval of interim and final liquidation balance-sheets;
- determining the number and election of the Board members, as well as termination of their office;

¹. As defined by Federal Law No. 29-FZ On the Specifics of Administration and Disposal of Railway Transport Property dated 27 February 2003.

- determining the number of the Management Board members;
- election of members of the Company’s Audit Commission and termination of their office;
- approval of the Company’s auditor;
- due increase or reduction of the Company’s charter capital;
- approval of annual reports, annual financial statements, including profit and loss statements (income statements) of the Company, and distribution of the Company’s profit (including payment (declaration) of dividends except for the profit distributed as dividends for the first quarter, first half, or nine months of the financial year) or losses as at the end of a financial year;
- determining the proceedings of the General Meeting of Shareholders;
- resolutions approving material transactions and interested-party transactions, including those

- involving restricted property where so provided for by articles 79 and 83 of the Federal Law On Joint Stock Companies, and reserved by the said Federal Law to the General Meeting of Shareholders;
- resolutions on joining financial and industrial groups, associations, or other unions of business entities;
 - approval of internal documents governing the Company’s bodies (regulations on the General Meeting of Members, Board of Directors, Management Board, and Audit Commission);
 - dealing with any other matters provided for by the Federal Law On Joint Stock Companies.

In 2019, one Annual General Meeting of Shareholders and nine Extraordinary General Meetings of Shareholders were held. Russian Railways’ Annual General Meeting of Shareholders¹ adopted the following resolutions:

- approval of the annual report, balance sheet and income statement for 2018;
- distribution of net profit and losses based on financial performance in 2018;
- payment of dividends to the holders of Russian Railways’ ordinary and preference shares based on performance in 2018 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 2019.

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

Board of Directors

The Board acts pursuant to the laws of the Russian Federation, the Charter of Russian Railways² and the Regulation on the Board of Directors of Russian Railways³.

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 2019, Valery Nazarov left the Board of Directors. In accordance with the resolution of Russian Railways’

General Meeting of Shareholders, the number of the Board members was increased to 14, including the following newly elected members:

- Vladimir Puchkov – Advisor to the President of United Aircraft Corporation;
- Christian Kern (independent director).

On 24 July 2019, 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:

- Maxim Akimov
- Oleg Belozеров
- Grigory Berezkin
- Arkady Dvorkovich
- Yevgeny Ditrikh
- Kirill Dmitriev
- Andrey Ivanov
- Dmitry Patrushev
- Vladimir Puchkov
- Mikhail Rasstrigin
- Alexander Ryazanov

Independent directors:

- Kern Christian;
- Sergey Nedoroslev
- Sergey Stepashin

Members of the Board of Directors hold no stakes in the charter capital of Russian Railways.

Meetings of the Board of Directors in 2019

In 2019, the Board of Directors of Russian Railways held 24 meetings, including 5 meetings held in person and 19 conducted

in the form of absentee voting. The Board of Directors considered 188 matters focusing on a variety of the Company’s

business areas. The most important matters were discussed at meetings held in person.

Changes in Russian Railways’ Board of Directors after the reporting date

In March 2020, the Order of the Government of the Russian Federation⁴ terminated the powers of the members of Russian Railways’ previous Board of Directors prior to their expiration⁵. The number of directors was determined to be 14.

COMPOSITION OF THE BOARD OF DIRECTORS SINCE MARCH 2020

Representatives of the Russian Federation:

- Oleg Belozеров;
- Andrey Belousov;
- Yevgeny Ditrikh;
- Kirill Dmitriev;

- Andrey Ivanov;
- Maxim Reshetnikov;
- Alexander Ryazanov;
- Alexey Sazanov;
- Fayzullin Irek;
- Sergey Frank;
- Dmitry Chernyshenko.

Independent directors:

- Kern Christian;
- Sergey Nedoroslev
- Sergey Stepashin



Detailed information on the company’s website

^{1.} Order No. 1393-r of the Russian Government dated 29 June 2019.
^{2.} Approved by Resolution No. 585 of the Russian Government dated 18 September 2003.
^{3.} Approved by Order No. 265-r of the Russian Government dated 25 February 2004.

^{4.} Order No. 552-r of the Russian Government dated 6 March 2020.
^{5.} Appointed by Order No. 1393-r of the Russian Government dated 29 June 2019.

Report on the performance of the Board of Directors and material resolutions adopted in 2019

In 2019, as part of its key tasks and responsibilities, the Russian Railways Board of Directors:

- approved the Risk Management and Internal Control Policy;
- approved the Procedure for Increasing the Investment and Operating Efficiency and Cutting Costs;
- approved the Regulation on Key Performance Indicators of Russian Railways;
- approved the corporate standard on the Mandatory Process and Price Audit of the Investment Projects of Russian Railways and its Subsidiaries and Affiliates;
- approved Russian Railways Group’s Intellectual Property Management Strategy;
- approved the action plan for Russian Railways’ transition to the preferred use of domestic software in 2018–2021;
- approved the Digital Transformation Strategy;
- approved the Consolidated Programme to Improve Operational Efficiency and Optimise Costs in 2019–2025;
- approved the new version of the Non-Core Assets Disposal Programme and Non-Core Assets Disposal Plan for 2019;
- adopted resolutions on additional issues of ordinary uncertificated registered shares and an issue of preference uncertificated registered shares of Russian Railways;
- resolved to join the NP Market Council Association, National Association for Technology Transfer, National Association for International Information Security, Digital Economy autonomous non-commercial organisation, Yakutian Railway, RZDstroy, Federal Passenger Company, Express Suburb, Sakhalin Passenger Company, and to withdraw from Vaгонremmash, RASCOM, Russian Troika, Novosibirsk Switch Plant, TransContainer;
- approved the Russian Railways investment programme and financial plan for 2020 and the planning horizon extending to 2021 and 2022;
- approved Russian Railways’ Long-Term Development Programme until 2025;
- 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 2018 (including the income statement);
- pre-approved Russian Railways’ Annual Report for 2018 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 2018 dividends, and distribution of net profit for 2018;
- 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 2019 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 2018–2019 corporate year;

- approved the Regulation on Key Performance Indicators of Russian Railways, target value of the Russian Railways Group’s EBITDA for 2019 and target values of the Company’s KPIs for 2020;
- approved the Regulation on the Remuneration System for Members of the Management Board of Russian Railways;
- resolved to terminate the powers of Russian Railways’ Management Board members and appoint deputies of the Russian Railways CEO;
- authorised members of Russian Railways’ Management Board to hold positions in the governing bodies of other entities;
- approved key initiatives to be supported using the charity and sponsorship fund of Russian Railways and amounts to be allocated in 2020.

The independent performance assessment of the Board of Directors, its members and committees conducted by PwC Consulting LLC in 2019 confirmed high efficiency of the Board in exercising its key functions. Following the assessment, an action plan was developed to further improve the efficiency of the Board of Directors¹.

Remuneration of the Board of Directors

In 2019, the Annual General Meeting of Shareholders of Russian Railways adopted a resolution to pay remuneration to the Company’s directors for the 2018–2019 corporate year in the amount recommended by the Board of Directors and in the manner prescribed by the Regulation on Remuneration and Compensation Paid to Members of the Russian Railways Board of Directors.

Remuneration of a member of the Company’s Board of Directors consists of the basic and additional components. The basic component is calculated depending on the participation of directors in Board meetings. The maximum basic remuneration for a member of the Board is RUB 4,000,000.

For taking on additional responsibilities, Board members are paid additional remuneration calculated as the basic portion of remuneration multiplied by the following ratios:

- 3.5 – for the functions performed by the Chairman of the Board (excluding individuals who perform the functions of the Chairman of the Board of Directors in their absence);
- 1.5 – for the functions performed by the chairman of a Board committee;
- 0.5 – for 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.

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.

A Board member may waive their remuneration in full or in part. The Regulation on Remuneration and Compensation Paid to Members of the Russian Railways Board of Directors does not apply to directors who are members of the executive bodies of Russian Railways or who are restricted or prohibited by Russian laws from receiving any payments from commercial organisations.

In the reporting year, the Annual General Meeting of Shareholders of Russian Railways resolved to allocate a total of RUB 45.37 m in remuneration to members of the Russian Railways Board of Directors.

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;
- Digital Transformation and Innovation Committee.

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.

¹. Approved by the Company’s Board of Directors (Minutes No. 1 dated 24 July 2019).

Corporate Secretary

The Corporate Secretary of Russian Railways is a dedicated officer whose responsibilities include ensuring that the Company's bodies and officials comply with the requirements of the laws of the Russian Federation and Russian Railways' Charter and internal documents that guarantee the respect of rights and legitimate interests of the Company's shareholders, organising measures to settle conflicts involving violation of shareholder rights, and arranging interaction between Russian Railways and its shareholders and between the Company's governance bodies.

The Corporate Secretary is appointed and released from office based on a resolution of the Board of Directors passed by a majority vote. The Corporate Secretary's duties and responsibilities are listed in the Regulation on the Corporate Secretary of Russian Railways and the Office of the Corporate Secretary.

Since September 2018, Andrey Zhemchugov was appointed as the 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, unless otherwise stated by the 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.

The Management Board is responsible for¹:

- 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 2019, the Management Board of Russian Railways held 84 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 2019, the Management Board of Russian Railways held its final meeting to review the Company's operating and financial performance in 2019 and set targets for 2020.

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. In 2019, the Management Board remuneration on a comparable to 2018 basis (less the incentive for a three-year period, severance payments and overall increase in the remuneration amount due to a bigger number of the Management Board members) amounted to RUB 1,549 m².

Members of the Management Board

No	Full name	Position
1	Oleg Belozеров	CEO, Chairman of the Management Board
2	Anatoly Krasnoshchek	First Deputy CEO
3	Vadim Mikhailov	First Deputy CEO
4	Sergey Pavlov	First Deputy CEO
5	Elena Kharibina	Chief Accountant
6	Sergey Kobzev	Deputy CEO, Chief Engineer
7	Oleg Valinsky	Deputy CEO, Head of the Directorate of Traction
8	Gennadiy Verkhovyykh	Deputy CEO, Head of the Central Directorate of Infrastructure
9	Olga Gnedkova	Deputy CEO
10	Viktor Zimin	Deputy CEO, Head of the Railway Development Directorate of the Eastern polygon
11	Pavel Ivanov	Deputy CEO, Head of the Central Directorate of Traffic Management
12	Andrey Makarov	Deputy CEO
13	Anatoly Meshcheryakov	State Secretary, Deputy CEO
14	Vyacheslav Pavlovsky	Deputy CEO
15	Dmitry Pegov	Deputy CEO
16	Andrey Starkov	Deputy CEO
17	Oleg Toni	Deputy CEO, Head of Central and Saint-Petersburg Transport Hubs Development Centre
18	Nikolay Fedoseyev	Deputy CEO
19	Anatoly Chabunin	Deputy CEO, Director for Internal Control and Audit
20	Shevket Shaydullin	Deputy CEO, Head of the Traffic Safety Department
21	Dmitriy Shakhanov	Deputy CEO
22	Alexey Shilo	Deputy CEO, Head of the Centre for Corporate Transport Services
23	Vadim Bynkov	Head of the Legal Department



Detailed information on the company's website

¹. 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.

². The total 2019 remuneration of the members of the Russian Railways Management Board was RUB 3,067 m.

MANAGEMENT BOARD

1
Oleġ
BELOZEROV

3
Vadim
MIKHAILOV

5
Elena
KHARIBINA

7
Oleġ
VALINSKY

9
Olġa
GNEDKOVA

11
Pavel
IVANOV

12
Andrey
MAKAROV

14
Vyacheslav
PAVLOVSKY

16
Andrey
STARKOV

18
Nikolay
FEDOSEYEV

20
Shevket
SHAYDULLIN

22
Alexey
SHILO

2
Anatoly
KRASNOSHCHER

4
Sergey
PAVLOV

6
Sergey
KOBZEV

8
Gennadiy
VERKHOVYKH

10
Viktor
ZIMIN

13
Anatoly
MESHCHERYAKOV

15
Dmitry
PEGOV

17
Oleġ
TONI

19
Anatoly
CHABUNIN

21
Dmitriy
SHAKHANOV

23
Vadim
BYNKOV



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, the Company's Charter and the Regulation on the Audit Commission.

MEMBERS OF THE AUDIT COMMISSION

The Audit Commission of Russian Railways consisted of seven people in 2019¹. Members of the Audit Commission in 2019:

1. Alexander Tikhonov (Chairman)
2. Igor Belikov
3. Alexander Varvarin
4. Svetlana Gorbatykh
5. Olga Kabanova
6. Sergey Ubuğunov
7. Vasily Shipilov

The remuneration of the Audit Commission² amounts to RUB 7.3 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 a structural unit of Russian Railways responsible for organising and conducting follow-up internal control

of financial and business operations of the Company, its subsidiaries and other companies of the Group when required.

Internal audit serves:

- to identify violations, gaps and risks in the operations of the Company's business units, subsidiaries and other companies of the Group;
- to identify financial and internal reserves and prepare recommendations on their use to improve financial position of Russian Railways and prevent financial and tax risks and losses;
- to ensure timely and complete elimination of identified violations and gaps.

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.

The latter approves annual action plans and budgets of Zheldoraudit, reviews internal audit reports, including the assessment of the internal control and risk management systems, monitoring internal control systems of the Company's subsidiaries and other matters.

In 2019, the internal audit focused on compliance with the requirements established for a risk management and internal control system (RMICS), and involved a selective assessment of the efficiency of specific risk management initiatives and control procedures.

EXTERNAL AUDIT

The Company's auditor for 2019 was selected following an open tender to conduct a statutory audit of Russian Railways' financial (accounting) statements and the consolidated IFRS financial statements for 2019. The tender was held in accordance with the Federal Law No. 44-FZ On the Contract System in the Federal and Municipal Procurement

of Goods, Works and Services for State and Municipal Needs dated 5 April 2013.

As per Order No. 1393-r of the Russian Government dated 29 June 2019, Ernst & Young was approved as Russian Railways' auditor for 2019.

The external auditor disclosed and submitted to the Audit and Risk Committee of the Board of Directors information

on all relations and matters to be assessed for compliance with independence criteria. In performing its duties, the auditor had no conflict of interest.

Ernst & Young's remuneration for conducting the statutory audit of the Russian Railways' financial (accounting) statements and consolidated IFRS financial statements is RUB 138 m, including VAT of RUB 23 m.

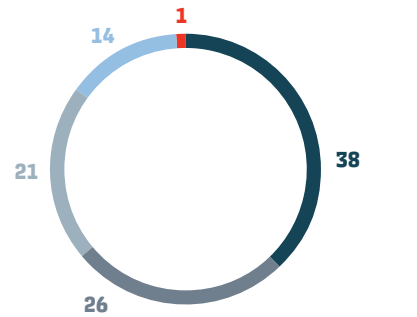
Anti-corruption

CONFLICTS OF INTEREST

Resolution of conflicts of interest is one of top priorities of the Company's anti-corruption policy. Russian Railways has put in place procedures to identify, resolve and prevent conflicts of interest.

The conflict of interest procedures for the members of the Company's Board of Directors are outlined in the Regulation

Measures to resolve conflicts of interest in 2019, %



- Renouncing of personal interest by the employee
- Suspension
- Change of job duties
- Reassignment
- Limiting of access to information

on the Board of Directors of Russian Railways³. 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 by third 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.

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.

In accordance with the Regulation on the Settlement of the Conflict of Interest of Russian Railways⁴, all employees, including the members of the Management Board, are required to disclose conflicts of interest.

In 2019, 184 cases of conflict of interest were revealed (up 75% vs 2018) due to improved ways of identifying them. Measures were taken to resolve each conflict of interest depending on the case (see the chart).

In order to identify and eliminate causes of and conditions conducive to the emergence of conflicts of interest, ensure an objective and timely consideration and resolution of conflicts of interest, and protect the legitimate interests of Russian Railways and the rights of its employees, the Company has established a Conflict of Interest Commission⁵.

¹. Appointed in accordance with Order No. 1393-r of the Russian Government dated 29 June 2019.
². As per Order No. 1393-r of the Russian Government dated 29 June 2019.

³. Approved by Order No. 265-r of the Russian Government dated 25 February 2004 (as amended).
⁴. Approved by Russian Railways' Order No. 321 dated 24 February 2016.
⁵. As per Russian Railways' Order No. 322r dated 25 February 2016.

RUSSIAN RAILWAYS’ ANTI-CORRUPTION POLICY

Key focus areas of Russian Railways’ Anti-Corruption Action Plan for 2018–2020

Identify and resolve conflicts of interest; support the work of relevant commissions	Cooperate with public prosecution and law enforcement agencies
Monitor the compliance of Russian Railways’ employees with anti-corruption requirements, restrictions, and prohibitions	Implement anti-corruption initiatives jointly with the Russian Ministry of Labour and Social Protection, non-governmental organisations, major business associations and business community in general
Make sure that employees read and acknowledge the Company’s by-laws	Assess and update the register of corruption risks
Arrange legal training and promote anti-corruption initiatives among employees	Take measures to minimise corruption risks
Train and educate employees	Take measures to prevent 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 investment community and other parties align around the idea of zero tolerance to corruption in all forms and manifestations and inevitability of punishment for corruption-related offences.

The measures taken by the Company to prevent corruption were approved by experts as meeting anti-corruption laws and provisions of the Anti-Corruption Charter of the Russian Business.

The Company operates in accordance with the National Anti-Corruption Plan¹ and Russian Railways’ Anti-Corruption Action Plan for 2018–2020.

In 2019, the Group implemented the following key initiatives:

- submission of income, expenses, assets and liabilities statements by employees holding corruption-prone positions;
- 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;
- holding best practice workshops involving representatives of government and law enforcement agencies, public organisations and Russian Railways’ employees responsible for the activities aimed at preventing and combating corruption in Khabarovsk and Rostov-on-Don;
- implementing anti-corruption initiatives jointly with the Russian Ministry

of Labour and Social Protection, Office of the Prosecutor General, Russian Union of Industrialists and Entrepreneurs, Chamber of Commerce and Industry of the Russian Federation, educational institutions and business community to improve, unify, and enforce legislation, assess anti-corruption practices, shape and encourage responsible behaviour of employees;

- notifying the Audit and Risk Committee of Russian Railways’ Board of Directors of the results of monitoring of risk management processes and internal anti-corruption control, as well as the effectiveness of anti-corruption initiatives implemented by Russian Railways.

An effective feedback channel is Russian Railways’ Anti-Corruption Hotline. In 2019, the number of messages received by the Hotline more than doubled – 654 vs 323 in 2018.

^{1.} Approved by the Russian President’s Decree No. 378 dated 29 June 2018.

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.

The coordination, implementation and improvement of the risk management and internal control system (the “RMICS”) are led by the Risk Management and Internal Control Centre (the “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.

To this end, the Centre:

- drafts corporate regulatory and methodological documents regarding risk management;
- provides methodological support to the Company’s units in connection with creating a risk register and offers risk management advice;
- provides RMICS training for employees;
- creates a consolidated risk register of the Company and consolidated periodic reporting;
- monitors the risk management process in Russian Railways’ units;
- notifies governance bodies of the effectiveness of risk management processes.

RMICS guidelines are adopted by the Company in line with Russian laws and regulations², as well as international and Russian best practices of corporate governance, risk management and internal control, including those set forth in the following documents:

- concept of the Committee of Sponsoring Organisations of the Treadway Commission (COSO): Enterprise Risk Management – Integrating with Strategy and Performance (COSO ERM, 2017);
- concept of the Committee of Sponsoring Organisations of the Treadway Commission (COSO): Internal Control – Integrated Framework (COSO IC, 2013);
- GOST R ISO 31 000:2010 Risk Management – Principles and Guidelines³.



^{2.} Also in accordance with clause 1 of the List of the Russian President’s Instructions No. PR-3013 dated 27 December 2014.

^{3.} Approved by Rosstandart’s Order No. 883-st dated 21 December 2010.



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.

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;
- raise risk awareness of RMICS participants and other stakeholders

RMICS ASSESSMENT

For a systematic and consistent approach to the integrated RMICS development, the Russian Railways Group has been implementing its Risk Management and Internal Control Development Programme for 2019–2024, which involves shaping the risk management infrastructure, continued monitoring and notification of governance bodies, conducting self-assessment, cascading

the applied methodology, and building/developing RMICS in controlled entities.

RMICS must be subject to regular assessment for higher effectiveness and timely adjustment. The Company uses both internal (including assessment by the internal audit function) and external assessment.

The internal assessment is carried out from time to time at least once a year. 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 2019

In 2019, efforts were made to improve and develop the integrated risk management model. The RMICS in general was raised to a higher standard.

2019 key achievements:

- the Group developed and adopted its Risk Management and Internal Control

Development Programme for 2019–2024, Risk Management and Internal Control Policy, Liaison Protocol for Risk Management and Reporting Processes, Risk Management and Internal Control Guidelines;

- Risk Appetite Guidelines submitted to Russian Railways' Board of Directors;
- information on risks regularly submitted to the Company's governance bodies (from the Management Board to the Board of Directors);
- information on risks reflected in the system of monitoring and control over Russian Railways' operations, including information on the number of such risks and their description, risk breakdown by operations, risk materialisation events, and risk mitigants.

For a more effective risk management and internal control process, since 2018 Russian Railways has been conducting regular workshops and training sessions in RMICS for managers of different levels (from the Management Board members to specialists across the network). In 2019, a corporate training programme was developed for Russian Railways' Corporate University to provide unified and scaled-up training based on the specific nature of the risk management process.

Risk management process

Part of the corporate governance system, risk management is a continuous and interactive process implemented across all management levels (organisational hierarchy).

RISK APPETITE

Russian Railways sets its risk appetite, which then shapes the decision-making on risk mitigants and controls and serves to maintain a balance between risks

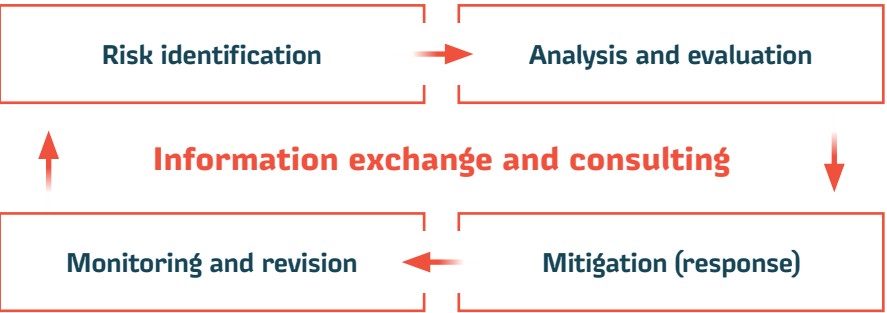
and opportunities. Risk appetite is determined by the Company's Board of Directors and represents the maximum acceptable level of risk that the Company is ready to assume and stay within the bounds of when pursuing its objectives (including those defined in the Long-Term Development Programme)

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.

Risk management process



Key risks

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.

The most significant of them are:

- insufficient revenue rate growth below the indexation of tariffs amid growing prices for products consumed by Russian Railways;

- no government resolutions on long-term financing of the railway transport development or a failure to implement such resolutions;
- significant changes in freight and passenger transportation markets with a contracting share of the Russian Railways Group across transportation segments.

To prevent these risks and respond to them in a timely manner, Russian Railways maintains an ongoing dialogue with government authorities and key customers keeping them informed about potential adverse effects

of the adopted decisions. To mitigate potential negative risk impacts, the Company enhances its customer focus and the quality of services while also running an efficiency improvement programme.

Risk category	Risk description	Probability	Mitigants
Macroeconomic	Weaker than forecasted macroeconomic performance and lower freight volumes, including as a result of more rigorous sanctions	High	- 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	High	- 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		
	Liberalisation of the railway freight transportation market		
	Reduced public financing		
	A gap between the existing regulatory framework and ongoing railway transformations		

Risk category	Risk description	Probability	Mitigants
Market	Significant changes in cargo types and transportation routes versus the forecast	High	- 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
Investment	Insufficient investment in infrastructure development	Medium	- Optimising technical solutions - Improving the investment project management framework
	Failure to comply with the investment programme implementation schedule		
Tax	Higher tax burden driven by tighter fiscal policies in Russia amidst social and economic uncertainties	High	Staying in constant contact with the federal and regional tax authorities
Management	Insufficient management competencies	Low	Improving the management framework
HR	Deficit of qualified staff due to the insufficient competitiveness of Russian Railways as an employer	Medium	- 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 need
	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	Implementing the Comprehensive Innovative Development Programme of the 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	Low	- Keeping in constant touch with the operators of associated transport modes to synchronise the investment programmes - Cooperating with rolling stock operators to improve railcar fleet management efficiency
	Failure to meet the freight transportation market needs due to the inefficient freight railcar fleet		

RISKS
BY BUSINESS LINE

Russian Railways' risk profile reflects its strong focus on key business lines and continuous improvement of risk management practices to ensure the Company's ability to work towards its ambitious goals amid constantly changing external environment. In 2019, Russian Railways managed to meet its overall targets, despite materialised risks across the following business lines:

- freight transportation;
- traffic management;
- capital construction, upgrade and overhaul;
- legal support and compliance;
- rolling stock operation, maintenance and repairs;
- international operations.

Key measures to mitigate risks implemented in 2019 included:

- review and improvement of internal processes for identifying key gaps, developing and implementing systematic mitigants to reduce risk impact and prevent future negative developments (including enhancement of the Company's internal regulations), based, among other things, on the best market practices;
- automation and digitisation, including measures to improve the reliability and efficiency of data, reduce the human factor and manual labour, and increase the speed of management decision-making;
- legislative initiatives aimed at increasing the transparency of the Company's operations, including through implementing the regulatory guillotine mechanism to eliminate outdated regulations;
- employee training and increasing the level of employee competencies.

RISKS REQUIRING
PARTICULAR ATTENTION

Russian Railways pays particular attention to certain types of risks.

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.

A single approach to anti-corruption management is implemented across the Company, covering central, regional and line management levels of corporate governance.

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 2019, Russian Railways took steps to implement and maintain an automated information security management system, a centralised access node for information systems, a solution for monitoring and controlling information transmission channels, hardware and software for controlling access of privileged users, a system for evaluating the security of automated information and telecommunication systems of Russian Railways, and a system for detecting and preventing cyberattacks on information infrastructure.

The Company also assessed the security of its web portal, information infrastructure (with external users connected), Internet access nodes and a single customer mobile application. Plans for 2020 include further development of information security control and monitoring systems and enhancement of the Company's information security regulations and guidelines.

Climate change risks

The Company pays great attention to climate change risks, analysing the climate change impact and taking it into account when planning its activities. The key threat that can potentially affect the Company's business is the growing number of meteorological hazards. Railway operations can be jeopardised due to higher precipitation (especially in liquid and mixed forms) and increasing number of dangerous natural phenomena such as fog, heavy rains and others. To address these risks to infrastructure, the Company implements various strengthening solutions (anti-washout slab covers, rock dumping, rock anchorage) and builds structures for protection of the track bed from natural hazards (such as mudflows, landslides, avalanches and rockfalls).

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.

In 2019, key objectives in the realm of financial risk management included framework adjustment to potential adverse geopolitical and macroeconomic factors, and further efforts to ensure implementation of uniform financial risk management principles across the Group.

The key internal regulation governing financial risk management at Russian Railways is the Company's Financial Risk Management Policy. All related decisions are made by the Financial Risk Management Commission, a collective body headed by the First Deputy CEO of the Company.

Russian Railways approaches to financial risk management are based on best practices in 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 operations 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.

Liquidity risk

The Company manages its liquidity based on the balance of payments, payment schedule and payment position as per the approved budgets. Depending on the current liquidity situation, the Company promptly raises or deposits funds under the best market conditions. The Company manages its liquidity based on Reuters and Bloomberg systems. The Company is also promoting the use of cash pooling for intercompany liquidity management purposes.

Currency and interest risks

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

Assessment of Russian Railways' currency risks and selection of a currency risk management tool are based on the analysis of the Company's foreign currency exposure. In order to estimate the foreign

currency exposure, the Company's operations are broken down into and analysed by investment, operating and financial activities.

The Company minimises its foreign currency risks by reducing its foreign currency exposure, which includes the use of financial derivatives, and seeks to keep it close to neutral with cash inflows and outflows in foreign currencies offsetting each other.

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

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

The Company hedges revenue from transit shipments through the Russian Federation denominated in Swiss francs, as well as euro-denominated investments in GEFCO.

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

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

Each case of foreign currency exposure is analysed for applicability of hedge accounting under the Russian and international financial reporting standards. As at 31 December 2019, 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.

1,024 insurance claims were settled in the reporting year, with total insurance compensation exceeding RUB 896.5 m.

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

To ensure the highest level of insurance protection, the Company regularly reviews its insurance policies with a view to improving coverage and optimising costs. In 2019, a competitive process to procure insurance services enabled the Company to achieve a 37.3% cost saving on average for the next two years under the newly signed policies.

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.

APPENDICES

Disclaimer

Contact information



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 2019 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 2019 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;
- Bank of Russia Regulation No. 660-P, dated 16 November 2018, On General Meetings of Shareholders.

The Annual Report contains an overview of activities and performance results of Russian Railways for the year ended 31 December 2019 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.

In this report, the Russian Railways Group refers to a nominal group of entities that includes Russian Railways and its subsidiaries, affiliates and controlled companies in which the Company owns an interest.

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.

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