

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 UTLK.

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**

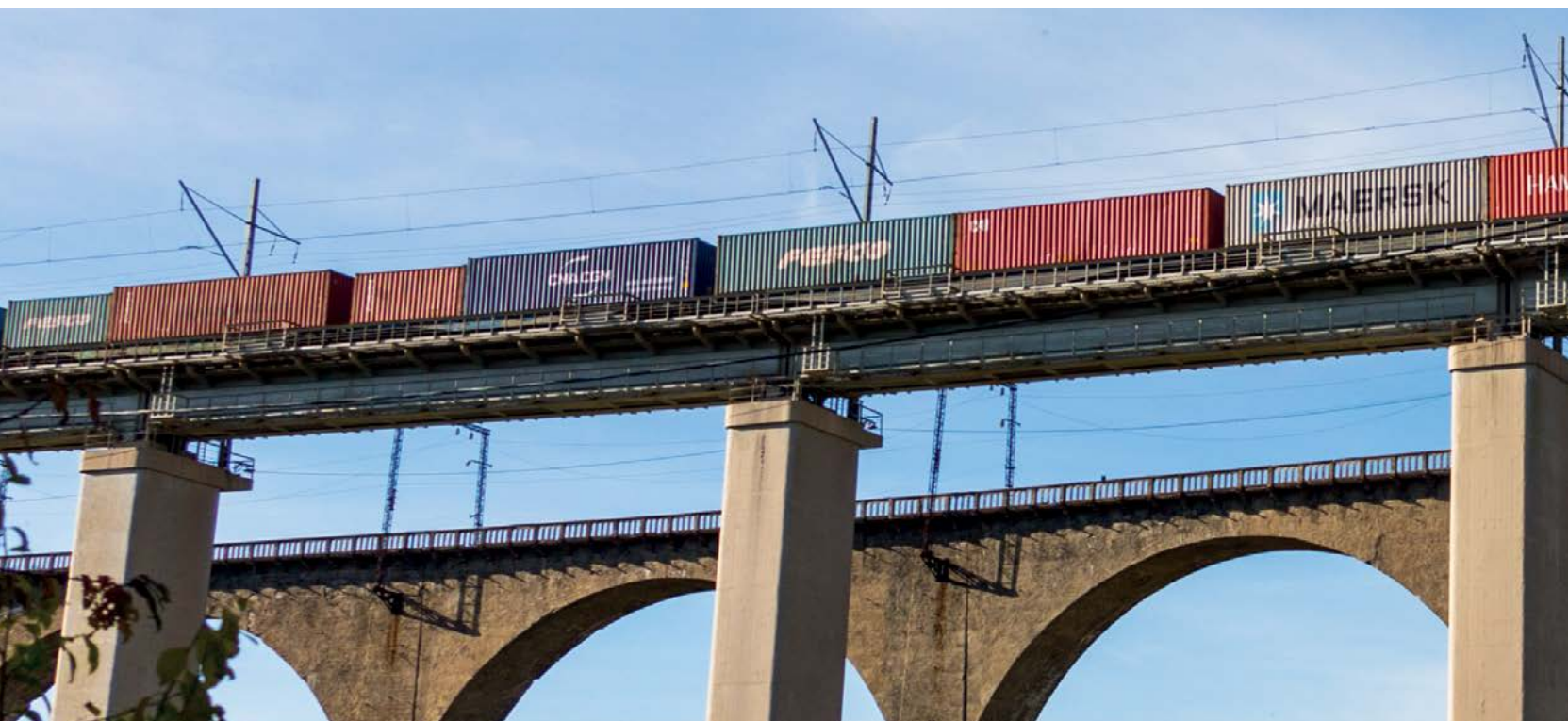
Tax and insurance contributions paid

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.

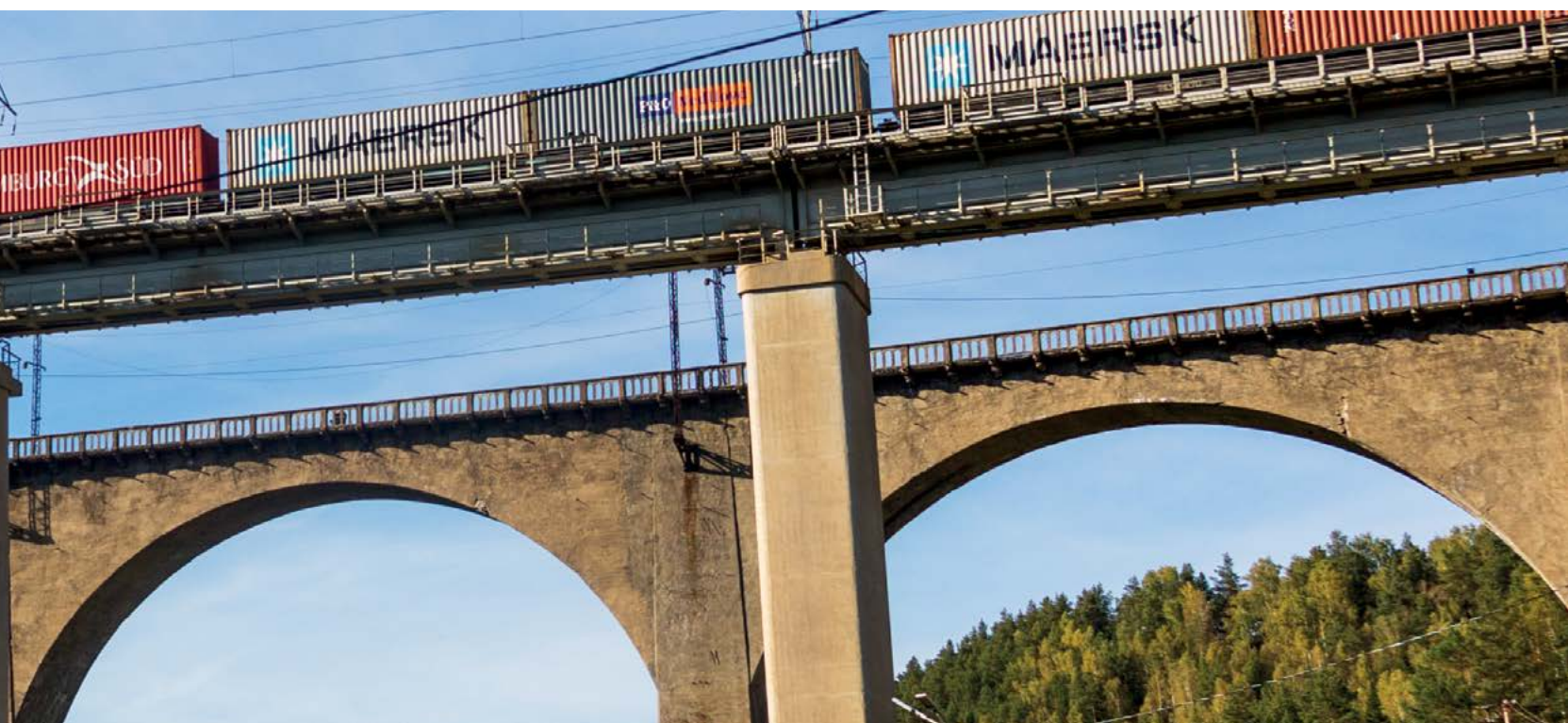
Income from infrastructure services

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	2019		Change y-o-y		2019 (actual) vs 2019 (plan)	
	(actual)	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

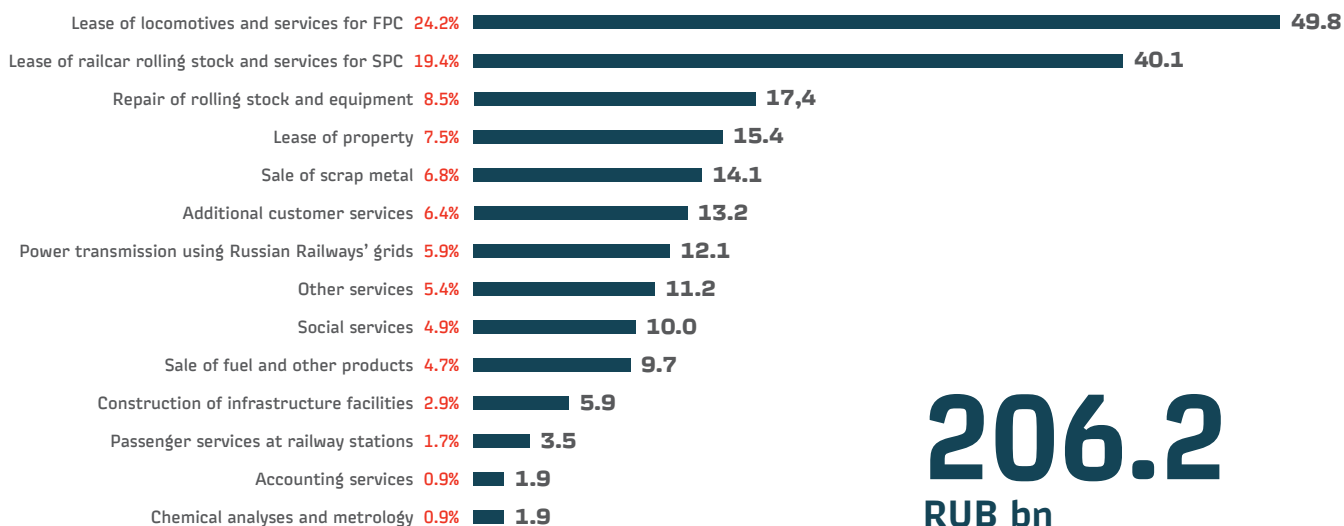
- Tax benefits
- Optimisation of travel and other expenses

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



206.2
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.