

# 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 Cbonds<sup>1</sup>). 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 GBP-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.

<sup>1</sup> 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.

### 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

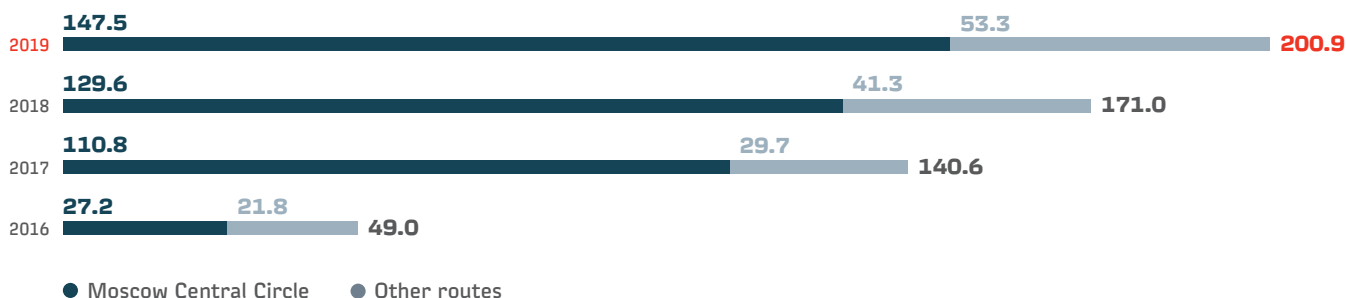
On 23 May 2019, Russian Railways successfully completed its international Green Eurobond offering, marking the first issue for this type of bonds in Russia and the CIS.

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 trains<sup>2</sup>, m people



<sup>2</sup> 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.

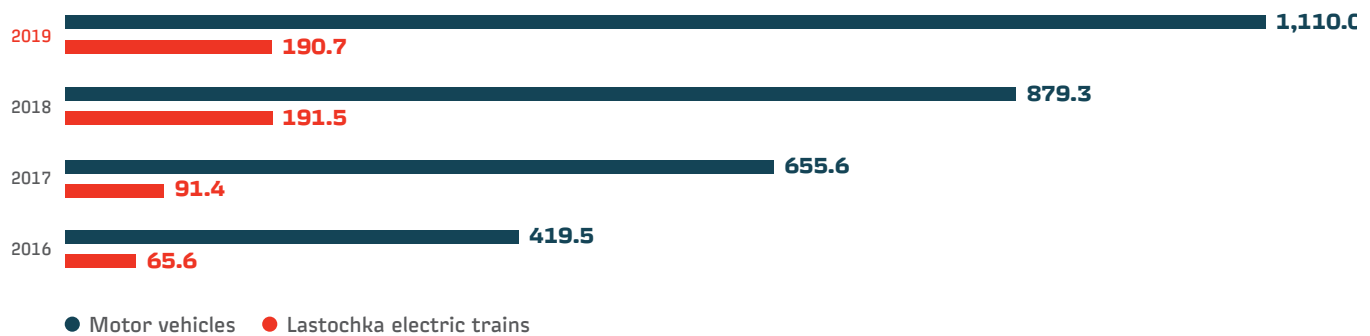
The purchase qualifies as a Clean Transportation Project in line with the Green Bond Principles.

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, CO<sub>2</sub> 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 CO<sub>2</sub> emissions from Lastochka electric trains vs motor vehicles<sup>1</sup>, kt CO<sub>2</sub>



<sup>1</sup> 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	0.045	0.302	5.147	8.755	13.364
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

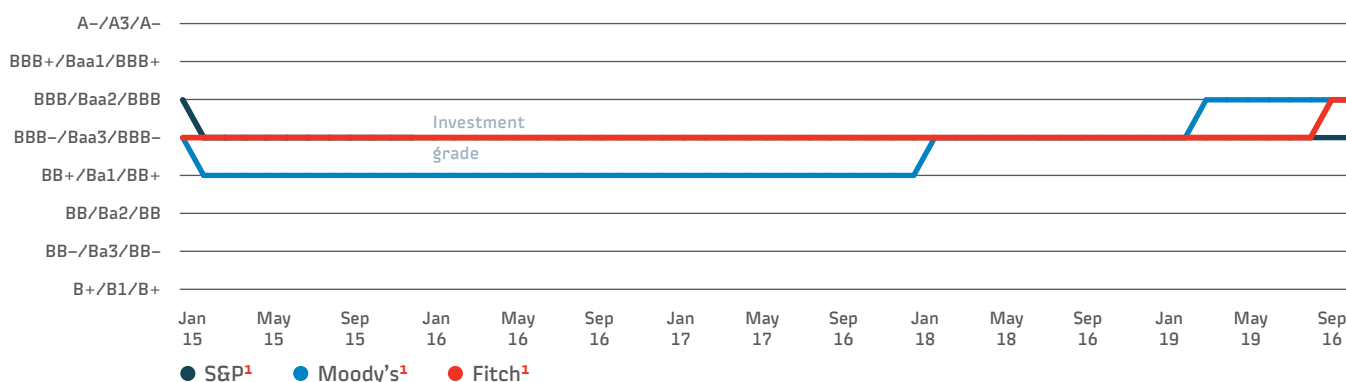
In 2019, global rating agencies took a number of positive actions on Russia's sovereign ratings on the back of the government's sound and consistent financial policy, improvements in macroeconomic conditions and the country's stronger resilience to external risks. Early in 2019, Moody's upgraded Russia's 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

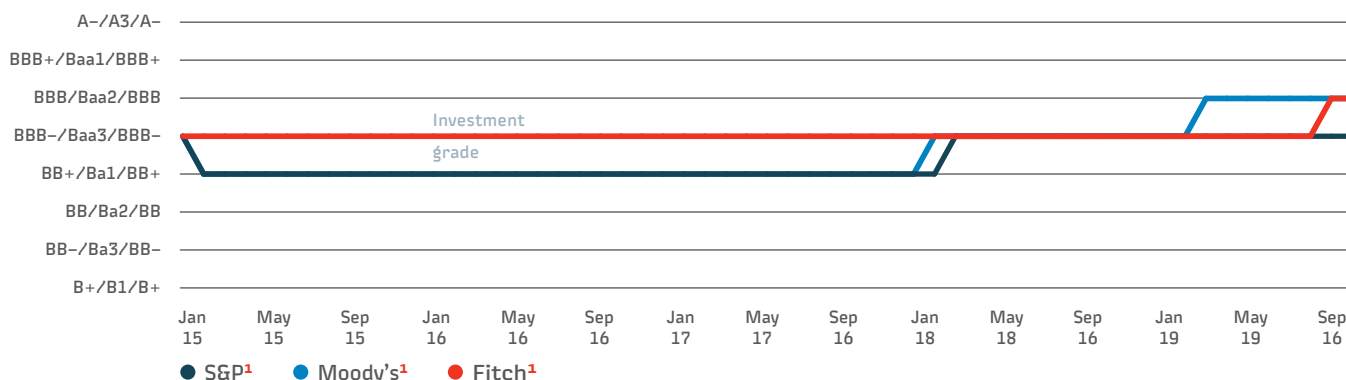
borrowing sources, and a comfortable leverage despite a massive investment programme.

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



<sup>1</sup> 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 11<sup>th</sup> 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